

THE PUBLIC SERVICE COMMISSION  
STATE OF MISSOURI

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TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

March 23, 2016

Jefferson City, Missouri

Volume 18

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In the Matter of Missouri-American )  
Water Company's Request for )  
Authority To Implement a General ) File No.  
Rate Increase for Water and Sewer ) WR-2015-0301  
Service Provided In Missouri )  
Service Areas. )

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STEPHEN M. STOLL,  
WILLIAM P. KENNEY,  
SCOTT T. RUPP,  
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1 JUDGE JONES: Let's go ahead and go on the  
2 record with WR-2015-0301. We are continuing Missouri  
3 American's request for a rate increase hearing. And  
4 we're now -- oh, Mr. Chairman, did you --

5 CHAIRMAN HALL: Yeah.

6 JUDGE JONES: -- have something you wanted to  
7 say before we --

8 CHAIRMAN HALL: Yeah, I have a couple  
9 requests for information -- couple of requests for  
10 information. And I guess I will -- well, first a  
11 question. Concerning the nonunanimous stip on the  
12 revenue requirement, I assume the parties -- is there an  
13 agreed -- is there an agreed -- is there some agreement  
14 amongst the parties as to consumption, either in the --  
15 in the -- in the historical test year?

16 Thank you.

17 Yes.

18 MR. ENGLAND: May I speak?

19 CHAIRMAN HALL: Please.

20 MR. ENGLAND: I believe we have an agreement,  
21 we, the Company and Staff and OPC, regarding what we call  
22 billing determinants, which would be the usage or the  
23 consumption for purposes of designing rates that result  
24 from this case. We've got a partial stipulation -- draft  
25 partial stipulation that addresses that out for comment,

1 and our hope is to get that finalized and filed certainly  
2 this week. I'm not aware of any objections so far, but  
3 we haven't heard from all parties.

4 CHAIRMAN HALL: Okay. Well, that's -- and is  
5 that -- is it by system or just for the -- or is it  
6 company wide?

7 MR. ENGLAND: It -- I believe it would be  
8 company wide by class, residential and then the  
9 nonresidential classes as well.

10 CHAIRMAN HALL: Okay. So if I wanted to  
11 compare the consumption amounts agreed to by the parties  
12 in this rate case to consumption over the last ten years,  
13 is that something I would be able to do?

14 MR. ENGLAND: I do not know the answer to  
15 that question.

16 CHAIRMAN HALL: Because what I would -- what  
17 I would like to see is -- well, I guess I'll wait to see  
18 what is it that the parties submit on this. But I'd like  
19 to get the last ten years so that -- so that -- so that I  
20 can compare them.

21 The next -- so when -- I'm sorry, when did  
22 you think that that might be submitted?

23 MR. ENGLAND: Our hope is this week. As I  
24 said, there's been a draft out for a day or so, and so  
25 far we haven't -- we haven't gotten complete agreement,

1 but we haven't had any objections either. So I think --

2 CHAIRMAN HALL: Well, I guess if -- if the  
3 hearing was no longer -- no longer going on, we could  
4 just ask the parties to submit a post-hearing exhibit.

5 MR. ENGLAND: Sure, we'd submit it as a  
6 late-filed exhibit.

7 CHAIRMAN HALL: Okay. The second category of  
8 interest for me is the revenue required -- the revenue  
9 requirement. And what I'd like to see -- and I guess  
10 I'll ask Staff to put this together -- is for the last  
11 ten years what the revenue requirement was for -- for the  
12 Company, and then the actual revenue received over those  
13 ten years -- over that ten-year time period. And then  
14 the third -- does that make sense?

15 MS. MYERS: Mr. Busch would like to ask a  
16 question.

17 CHAIRMAN HALL: No, the actual. Well, what  
18 the revenue requirement was as ordered by the Commission  
19 compared to actual.

20 MR. BUSCH: Yeah, Chairman, I just wanted to  
21 verify, you want to go back to the rate cases, like the  
22 2011 case, 2010 case, I think 2007 was a case, figure out  
23 what the Commission's ordered revenue requirement was on  
24 a district basis or just on a Company basis?

25 CHAIRMAN HALL: Company basis.

1 MR. BUSCH: And then go back and then  
2 determine what the actual revenues were for each year?

3 CHAIRMAN HALL: Yes.

4 MR. BUSCH: Okay. What would you like to do  
5 with the -- would interest be included in those  
6 calculations as well? So that would be above and beyond,  
7 I guess, the revenue that was allowed by the Commission.

8 CHAIRMAN HALL: Have that as a separate  
9 category. Thank you. That's important.

10 MR. ENGLAND: And, Commissioner --

11 CHAIRMAN HALL: Yes.

12 MR. ENGLAND: -- it could get complicated --

13 CHAIRMAN HALL: Of course.

14 MR. ENGLAND: You're right. Everything  
15 has -- it's like a water balloon; you push in on one  
16 side, and everything starts moving. There would also be  
17 acquisitions --

18 CHAIRMAN HALL: Yeah.

19 MR. ENGLAND: -- between rate cases that  
20 would affect the revenue.

21 CHAIRMAN HALL: I understand.

22 MR. ENGLAND: Okay.

23 CHAIRMAN HALL: Mr. Busch, does that make  
24 sense?

25 MR. BUSCH: I did not hear Mr. England. I'm

1 sorry.

2 CHAIRMAN HALL: Well, that -- okay. The  
3 third is I'd like to -- I'd like to see what the capital  
4 spend was of the Company over the last ten years over the  
5 annual depreciation expense; and I'd like to see that  
6 company wide, St. Louis County specific, and then the  
7 rest of the state.

8 And my preference would be on 2 and 3 -- and  
9 I guess we're going to hold on 1 for a moment -- but on 2  
10 and 3 if -- Staff, if you could put that together and  
11 then share it with other parties and make sure there's  
12 not major disagreements.

13 MR. BUSCH: You want Staff to do the capital  
14 expenditures?

15 CHAIRMAN HALL: I'd like --

16 MR. BUSCH: Because I don't know that -- I  
17 mean, we're going to have to get that information from  
18 the Company.

19 CHAIRMAN HALL: Okay. Well, then, is that  
20 something that -- Mr. England, that you could provide us  
21 with?

22 MR. ENGLAND: Let me -- let me restate what I  
23 understand. You wanted the --

24 CHAIRMAN HALL: Okay.

25 MR. ENGLAND: -- capital spend for the last



1 ten years versus the depreciation expense for those years  
2 company wide, which would be total state, if you will;  
3 St. Louis County -- may I clarify, are you talking  
4 St. Louis County or St. Louis Metro?

5 CHAIRMAN HALL: St. -- well, the ISRS -- the  
6 ISRS area; is that --

7 MR. ENGLAND: St. Louis County only.

8 CHAIRMAN HALL: Yeah.

9 MR. ENGLAND: Okay. And then -- and then the  
10 rest of the state?

11 CHAIRMAN HALL: Yeah.

12 MR. ENGLAND: I think we can get that for  
13 you.

14 CHAIRMAN HALL: Okay. Thank you.

15 MR. BEDNAR: Mr. Chairman?

16 CHAIRMAN HALL: Yes.

17 MR. BEDNAR: In going back to 2006, you're  
18 going to have also new -- St. Charles was combined with  
19 St. Louis Metro in 2007 or 2008, and Warren County was  
20 also consumed into St. Louis Metro. So I don't know if  
21 that affects the numbers you're looking for as well  
22 versus St. Louis County specific.

23 MR. ENGLAND: I believe, even though those  
24 districts were consolidated with the St. Louis County  
25 District for ratemaking/rate setting purposes, we can

1 segregate the capital spend, the amount of capital spend  
2 in those areas.

3 CHAIRMAN HALL: Okay. Thank you.

4 MR. CASSIDY: Mr. Chairman -- Chairman, would  
5 you like it broken out between ISRS capital expenditures  
6 and ISRS -- non-ISRS capital expenditures as well?

7 CHAIRMAN HALL: Do you think I would find  
8 that illuminating?

9 MR. CASSIDY: I don't know. I don't know.

10 CHAIRMAN HALL: I don't -- I don't think so.  
11 I think -- I think I've asked for enough.

12 MR. CASSIDY: Okay. And so the Company is  
13 committing to that, to provide that?

14 MR. ENGLAND: Yes.

15 MR. CASSIDY: Okay.

16 CHAIRMAN HALL: Okay. And I didn't mean to  
17 be rude. I mean, if you think that's something that's  
18 going to help me, you know, it probably will. But...

19 MR. CASSIDY: Okay.

20 CHAIRMAN HALL: Okay.

21 MR. POSTON: Chair, if I could just respond  
22 real quickly. On the first request about usage, I just  
23 wanted to point out we've had disagreements over the  
24 usage data.

25 CHAIRMAN HALL: Right.

1 MR. POSTON: And so that could be a factor,  
2 but hopefully -- we will work with them and try to see if  
3 we can come to an agreement on what that usage data is.

4 CHAIRMAN HALL: I appreciate that.

5 JUDGE JONES: Okay. Let's go ahead and get  
6 started with opening statements on rate design.

7 Missouri American Water Company.

8 MR. ENGLAND: Thank you, Your Honor. Good  
9 morning. May it please the Commission. My name is Trip  
10 England. I'm here on behalf of Missouri American Water  
11 Company.

12 I understand the issue to be heard today  
13 involves rate design. Briefly, the Company believes that  
14 any rates resulting from this case should be designed to  
15 recover the respective costs of service, as indicated in  
16 the Class Cost of Service Study prepared and submitted by  
17 our witness, doc -- or Paul Herbert. Mr. Herbert's study  
18 uses the base extra capacity method of cost allocation,  
19 and that's prescribed by the American Water Works  
20 Association. I think other folks in the case who have  
21 done any cost allocation, at least cost class allocation,  
22 have followed the same base extra capacity method as  
23 well. This is a widely recognized and accepted method of  
24 cost allocation.

25 Specifically in Mr. Herbert's study that he

1 submitted at the start of this case, his Class Cost of  
2 Service Study determined a customer charge for a  
3 five-inch (sic) meter of \$17.42. There were some  
4 questions yesterday. And, of course, as a result of the  
5 nonunanimous stipulation regarding revenue requirement in  
6 this case, the parties have agreed to an overall increase  
7 of approximately \$30 million, which is less than the  
8 Company's original request of a little over \$50 million.

9 So adjusting Mr. Herbert's Class Cost of  
10 Service Study for that reduction, if you will, his new  
11 customer charge for a five-inch (sic) meter -- and he'll  
12 be here to testify to this -- is \$16.90.

13 I believe you also heard yesterday that --  
14 from Mr. Herbert that the Company's fixed charges, those  
15 that do not vary with consumption, account for over  
16 90 percent of the Company's total cost of service. The  
17 proposed -- Company-proposed service charges -- or  
18 customer charges, excuse me, only recover approximately  
19 24 percent of its total revenues. So there is a wide  
20 disparity between the revenue that the fixed charge cover  
21 versus the total fixed charges of the Company.

22 We believe that establishing a customer  
23 charge below its indicated cost will result in more cost  
24 recovery coming from the variable rates, the rates that  
25 are charged based on usage. And this puts more of the

1 Company's revenues at risk of recovery, particularly  
2 since we believe we are experiencing a significant  
3 decline in customer usage.

4 I would point out that even Staff has  
5 suggested a higher customer charge in their testimony,  
6 particularly if the Company is not going to be allowed to  
7 implement its revenue stabilization mechanism, which, as  
8 we know, is a result of the stipulation that's off the  
9 table, at least for purposes of this case.

10 Finally, with respect to the customer charge,  
11 we urge the Commission to establish that on a uniform  
12 basis our proposal, even though we had three rate zones,  
13 was to establish a uniform customer charge statewide. At  
14 the very least, if the Commission decides to do some  
15 district consolidation, we would propose these customer  
16 charges be uniform for the consolidated areas or zones  
17 that the Commission may come up with.

18 And then, lastly, volumetric rates, as I  
19 mentioned a minute ago, should be recov-- should be  
20 established, rather, to recover that portion of the  
21 revenue requirement not recovered by the fixed customer  
22 charges. The Company is proposing in this case a one  
23 block uniform volumetric charge for each customer class  
24 for each consolidated rate zone.

25 Thank you. And I'll answer any questions or

1 turn the mic over to the next party.

2 CHAIRMAN HALL: I want to make sure I  
3 understood two things that you said; that the fixed  
4 charge -- the customer charge covers 24 percent of the  
5 Company's costs. Is that currently or is that with the  
6 increased customer charge?

7 MR. ENGLAND: I may have misspoken. I meant  
8 to say 24 percent of the total revenues. So it -- if you  
9 compare our -- the proposed revenues from our fixed  
10 customer charges to the total revenue, it's 24 -- roughly  
11 24 percent.

12 CHAIRMAN HALL: Currently or under the new  
13 proposed customer charge?

14 MR. ENGLAND: Under the new proposed --

15 CHAIRMAN HALL: New. Okay.

16 MR. ENGLAND: -- customer charge and  
17 including the 30 --

18 CHAIRMAN HALL: Right.

19 MR. ENGLAND: -- plus million in total  
20 revenue requirement.

21 CHAIRMAN HALL: So that would be an increase  
22 from 21, 22 percent to 24?

23 MR. ENGLAND: Correct.

24 CHAIRMAN HALL: Okay. And then you -- you're  
25 also advocating level volumetric rates?

1 MR. ENGLAND: Correct. By -- by zone --

2 CHAIRMAN HALL: Right.

3 MR. ENGLAND: -- depending on consolidation.

4 CHAIRMAN HALL: And that's for residential  
5 and commercial?

6 MR. ENGLAND: Yes.

7 CHAIRMAN HALL: Okay.

8 MR. ENGLAND: And I may -- I'm going to go  
9 out on a limb here, but I don't believe anybody is  
10 proposing volumetric rates for the residential class -- I  
11 mean, excuse me, declining block rates for the  
12 residential class. There is a -- there is a difference  
13 of opinion about whether we maintain some of those  
14 declining blocks for the nonresidential usage.

15 We heard some --

16 CHAIRMAN HALL: Right.

17 MR. ENGLAND: -- testimony or questions  
18 yesterday from the water district in St. Joe regarding  
19 that.

20 CHAIRMAN HALL: Thank you.

21 JUDGE JONES: Commissioner Stoll, did you  
22 have any questions?

23 COMMISSIONER STOLL: No questions. Thank  
24 you.

25 JUDGE JONES: Commissioner Kenney?

1 Okay. Thank you, Mr. England.

2 MR. ENGLAND: Thank you.

3 JUDGE JONES: And from the Staff of the  
4 Commi ssi on.

5 MS. MYERS: May it please the Commi ssi on. I  
6 am Jami e Myers wi th Staff counsel .

7 Staff' s rate design proposal is a two-prong  
8 approach. First, Staff assigned cost responsibility each  
9 of Staff' s proposed three water districts. Second, Staff  
10 assigned cost responsibility for each customer class  
11 wi thi n each di stri ct.

12 In designing rates Staff performed a Class  
13 Cost of Service Study and utilized the base extra  
14 capaci ty method. This method is a generally accepted  
15 industry standard. And as Mr. England just testified,  
16 Mi ssouri American Water Company also used -- utilized  
17 thi s base extra capaci ty method.

18 Staff is currently proposing, in light of the  
19 settlement agreement, customer charges for District 1 of  
20 \$16.46, customer charges for District 2 of \$14.83, and  
21 customer charges for District 3 of \$14.56. And those  
22 rates are for a five-eights meter.

23 Now, Staff is recommending that the  
24 Commi ssi on adopt Staff' s proposed di stri ct consol idati on,  
25 as well as Staff' s proposed rate design proposal , whi ch



1 is detailed in Staff's report on Class Cost of Service  
2 and Rate Design, which has been admitted as Staff  
3 Exhibit 3.

4 I'm keeping this brief because this is a very  
5 technical subject. But I encourage you to ask Mr. Busch,  
6 who will be sponsoring the testimony here, any questions  
7 you may have on rate design and customer charge  
8 proposals.

9 Thank you.

10 JUDGE JONES: Thank you.

11 Any questions?

12 CHAIRMAN HALL: No questions.

13 COMMISSIONER STOLL: No questions.

14 JUDGE JONES: Thank you.

15 MS. MYERS: Thank you.

16 JUDGE JONES: Office of Public Counsel.

17 MR. OPITZ: Good morning. May it please the  
18 Commission. My name is Tim Opitz, and I'm here on behalf  
19 of the Office of Public Counsel. Although we've  
20 separated them into two different issues, consolidation  
21 and then rate design and customer charge, they really are  
22 all a form of rate design, and one will impact how we do  
23 the other one. And so I would like you to keep that in  
24 mind.

25 For this issue, rate design and customer

1 charge, the parties are presenting the Commission with  
2 three subissues. And each of these points, the  
3 resolution will be impacted by the Commission's decision  
4 in consolidation, how to consolidate or whether to  
5 consolidate at all.

6 The first subissue is how should rates be  
7 designed. Ultimately, as you know, the Commission is  
8 charged with setting just and reasonable rates. And in  
9 this area the beginning of that analysis is there's a  
10 Class Cost of Service Study or multiple Class Cost of  
11 Service Studies performed. And although they are highly  
12 technical, these studies are ultimately a way to provide  
13 the Commission with information about the cost of  
14 providing service in a particular customer class. For  
15 Missouri American, this Company has various service  
16 territories, each with its own cost profile, as you heard  
17 yesterday. Water service is local, and these systems are  
18 noncontiguous.

19 So the next step, which is the heart of rate  
20 design, is to take these Class Cost of Service Studies  
21 and the results and to design rates for each customer  
22 class in each service territory that overall will give  
23 the Company an opportunity to collect its revenue  
24 requirement. Now, in this case the parties have agreed  
25 to a revenue requirement, and that stipulation agreement

1 is pending before the Commission.

2 Public Counsel prefiled testimony supporting  
3 the continuation of the current district-specific  
4 pricing. And I again -- I'll mention this again, because  
5 consolidation is tied to rate design. In large part  
6 Public Counsel's testimony focused on the absence of  
7 any -- absence of any compelling rationale for  
8 consolidation offered by the proponents of doing so,  
9 other than perhaps in this case is an appropriate time to  
10 do it because the immediate impact is minimal.

11 Now, the guiding principle, in Missouri  
12 anyway, for rate design has been set just and reasonable  
13 rates for the provision of service that corresponds to  
14 the cost of providing that service. However, from that  
15 starting point, when we're looking at rates for service,  
16 the Commission should also consider affordability, rate  
17 impact, rate continuity, and equity. You've heard other  
18 attorneys in various cases talk about the Bonbright  
19 principles. These are sort of similar issues there.

20 So although we supported keeping the status  
21 quo in this case for consolidation, as a compromise  
22 Public Counsel filed and now supports a stipulation that  
23 includes some level of consolidation.

24 Another aspect of rate design that we talk  
25 about within our nonunanimous stipulation is -- relates

1 to determining the portion of revenue requirement, the  
2 money that the Company is seeking, that will be collected  
3 through the volumetric rate, i.e., the amount of water  
4 that a customer uses, and the portion of money to be  
5 collected through the customer charge. Some parties here  
6 have called it a fixed charge. Really it's a customer  
7 charge, and that is a monthly minimum charge that  
8 customers will always pay.

9 As I mentioned, Public Counsel initially  
10 supported maintaining the current designations, but now  
11 we support the stipulation and agreement as a just and  
12 reasonable alternative to the consolidated districts  
13 proposed by the Company and Staff and departing from  
14 leaving the status quo that does make movement towards  
15 consolidation and attempts to address the inequities that  
16 the Commission has discussed that certain districts may  
17 face without unduly burdening other districts.

18 And I would ask that if the Commission does  
19 consider consolidating rates in some manner, Public  
20 Counsel points out that a higher customer charge, as  
21 requested by the Company here, inequitably impacts  
22 certain formerly independent districts. And so keeping  
23 that in mind, Public Counsel's nonunanimous stipulation  
24 keeps the customer charge as low as possible, while still  
25 extending that charge to all customers of the Company,

1 which is something that the Company, as you heard,  
2 suggests, at least by the same meter size.

3 Now, the second subpoint for rate design and  
4 customer charge does relate to that customer charge. And  
5 this is an area where Public Counsel, to a large extent,  
6 agrees with the Division of Energy. Customer charges  
7 should be set at a minimum level required to recover  
8 direct customer-related costs. These mandatory minimum  
9 charges that customers pay regardless of usage should not  
10 be set to recover all manner of fixed costs, as the  
11 Company seems to suggest.

12 One specific cost, for example, that should  
13 not be included in the customer charge pointed out in the  
14 testimony of Division of Energy is uncollectible  
15 accounts. So these accounts are not directly and  
16 exclusively related to the number of customers and,  
17 rather than through the customer charge, they should be  
18 recovered through volumetric charges.

19 It shouldn't be surprising that the Company  
20 should recover costs through the volumetric charge. As  
21 you all know, a huge number of businesses do so. The  
22 Company here suggested it needs this customer charge to  
23 recover these fixed charges that a lot of other  
24 businesses don't have. And it certainly seems  
25 additionally inequitable because the Company here is a

1 monopoly, whereas those other businesses that -- must  
2 recover all of their costs through basically selling  
3 their good or their product, their volumetric sales. But  
4 here the Company doesn't have to deal with competition.  
5 They're a monopoly.

6           Increased customer charges, especially if the  
7 districts are consolidated, raise equity concerns,  
8 conservation concerns and, importantly, they diminish the  
9 customers' ability to control their own bills. The  
10 equity concern is that an increase in customer charge  
11 shifts risk of revenue recovery away from the Company and  
12 onto the customers. These customers will pay this  
13 mandatory minimum charge whether they use a single drop  
14 of water the entire year.

15           Now, the conservation concern is probably  
16 going to be articulated better by the Division of Energy.  
17 But certainly an increase to the customer charge will  
18 diminish the price signal related to water usage. And I  
19 will note that this is a change to a price signal. And  
20 consolidation itself is something that changes the price  
21 signal that customers receive, you know, whether it's  
22 living in a higher cost to serve area is artificially  
23 made to seem like it doesn't cost as much to receive  
24 water or sewer service in that area or, if you're living  
25 in a low cost, it might seem artificially more expensive

1 or more costly to live in that area. So many of these  
2 changes will distort price signals.

3 And, lastly, a higher customer charge means  
4 that customers have less ability to manage and control  
5 their bills. Counsel for the Company talked about the  
6 customer charge covers 20 percent of the Company's total  
7 revenues. And certainly that mandatory minimum charge is  
8 going to be collected by the Company. The only thing  
9 that would change that is if they gain or lose customers.  
10 And that certainly benefits the Company, but I hadn't  
11 heard anything to suggest that that benefits the  
12 customers. And, particularly, it's concerning to Public  
13 Counsel that a higher customer charge hurts people that  
14 need the most protection.

15 It hurts low-usage and low-income customers,  
16 because they're paying this higher amount, regardless of  
17 their usage, and they lose that ability to control their  
18 own bills and manage their budgets, forcing them to make  
19 difficult choices in their purchases. You've heard at  
20 various public hearings that people struggle on the  
21 margins of society to get food, to pay for medicine. And  
22 that's not -- a higher customer charge certainly makes  
23 their life a little bit more difficult.

24 For these reasons, the Company -- the  
25 Commission should reject the Company's proposal to

1 significantly increase the customer charges. Instead,  
2 Public Counsel supports a customer charge consistent with  
3 the nonunanimous stipulation agreement filed yesterday.  
4 The five-eighths meter charge would be 14.42 a month, and  
5 that's what the Company is already charging the St. Louis  
6 Metro area. The three-fourth customer charge would be  
7 16.09 a month, which I believe is also what the Company  
8 is currently charging the St. Louis Metro area. And all  
9 other meter charges would receive an increase of  
10 approximate -- proportional to the overall revenue  
11 increase of 1.15 percent.

12 I would suggest that should the Commission  
13 adopt some consolidation similar to the Staff's proposal  
14 or a different proposal other than the nonunanimous  
15 stipulation that it should adopt the lowest customer  
16 charge as possible. And I think we've seen the lowest  
17 ones supported by testimony in this case were in Staff's  
18 Class Cost of Service Report.

19 The third subpoint on this issue is a very  
20 nuanced issue that's largely advocated for by one party  
21 in this case, and that is how should purchased power  
22 expense be allocated. When performing these Class Cost  
23 of Service Studies, one particular cost that needed to be  
24 allocated was the purchased power expense for pumping  
25 costs. And every party, except MIEC Witness Collins,



1 allocates this cost, I believe, using Factor 1. And  
2 Factor 1 is costs which vary based on the amount of water  
3 consumed. Now, Mr. Collins suggests that the Commission  
4 allocate this cost based on Factor 3, which utilizes peak  
5 demand. And I will point out that the impact of  
6 Mr. Collins' adjustment to a single category of water  
7 utility cost is to reallocate that cost away from  
8 customers falling within the J Rate, which is industrial  
9 and manufacturing customers, and place more costs on  
10 other customers.

11 I suggest that the Commission reject  
12 Mr. Collins' proposal to reallocate this one isolated  
13 cost from extensive Class Cost of Service Studies and  
14 instead allocate this expense using the factor proposed  
15 by all other parties, as Missouri -- as I understand it,  
16 Missouri American has done in this case and has done in  
17 the past.

18 Having addressed these three particular  
19 subissues of here, I will reiterate that the Commission's  
20 decision on whether to consolidate, how to consolidate,  
21 or whether to keep the districts as they are already  
22 consolidated now will impact how the ultimate rate design  
23 and customer charges affect customers. Public Counsel  
24 recommends that the Commission keep the ultimate impact  
25 on customers in mind when considering the level of

1 minimum customer charges.

2 Thank you for your time. And I'm happy to  
3 answer any questions you have.

4 CHAIRMAN HALL: No questions. Thank you.

5 JUDGE JONES: Commissioners?

6 COMMISSIONER STOLL: No questions.

7 COMMISSIONER RUPP: No questions.

8 MR. OPITZ: Thank you.

9 JUDGE JONES: Missouri Department of Energy.

10 MR. ANTAL: Good morning. May it please the  
11 Commission. I concur with my -- with the counsel from  
12 OPC on his statements regarding the customer charge.

13 Before I go into more detail about Division  
14 of Energy's position on rate design and customer charge,  
15 I wanted to spend a moment discussing the Division's  
16 interest in this case.

17 Some of you may be -- may have thought why is  
18 the Division of Energy interested in a water and sewer  
19 case. Well, some of you may be aware that there have  
20 been reports and studies done recently within the  
21 regulatory field discussing what has been dubbed the  
22 water-energy nexus. The U. S. Department of Energy  
23 conducted a -- or published a report in June of 2014  
24 entitled The Water-Energy Nexus: Challenges and  
25 Opportunities. In that report the U. S. DOE highlighted

1 six pillars that it was going to study. I'd like to  
2 share three of those with you, as they are relevant to  
3 the proceedings here today.

4 The interdependence of energy and water  
5 systems, our energy systems, coal plants, gas plants,  
6 nuclear plants, use a lot of water. Also, our water  
7 systems use a lot of energy, pumping and, you know,  
8 treatments. Getting water to and from places, treating  
9 the water both on the front end and the back end uses  
10 energy. Water scarcity and variability are becoming more  
11 prominent.

12 Now, you know, Missouri is not California.  
13 We do not have multiyear droughts, but we do have  
14 variability in our water. You know, we had floods in  
15 this past December that had not been seen for some time,  
16 if ever. We've also experienced within a few years  
17 droughts where barge traffic on major waterways was  
18 impeded, and our electric utility companies had to  
19 monitor water levels -- the river levels to make sure  
20 that they were able to access enough water to run their  
21 plants the way that they're appropriately supposed to be  
22 running. So water variability is very much a concern  
23 that the State of Missouri should have and should be  
24 looking at.

25 And aging infrastructure brings

1 opportunities. These things, we've discussed them the  
2 last -- the past day, you know, there are going to have  
3 to be upgrades. We've made -- the investments that were  
4 made a hundred years ago are coming to the end of their  
5 useful life. And, you know, when you have to replace  
6 something, you have options; and we should look at all  
7 the options that are available to us. Replacing things  
8 in kind may not be the right re-- might not meet the  
9 challenges of tomorrow.

10           Additionally, our own Missouri Comprehensive  
11 State Energy Report or plan also discussed the  
12 water-energy nexus. That report stated: End use water  
13 efficiency is also seen as a way to capture energy  
14 savings. Promoting the efficient use of water by  
15 consumers, including water for domestic uses such as  
16 showering, laundry, and water for watering outdoor --  
17 outdoor purposes, is critical to ensuring that end use is  
18 appropriate. Water that is wasted is not only an  
19 ill-spent resource, but is also a waste of significant  
20 resources in the form of the energy used to treat and  
21 pump the water, as well as a waste of water treatment  
22 chemicals and products to make water potable.

23           So turning now to the Division of Energy's  
24 position on ratemaking and customer charge. The Division  
25 of Energy is opposed to the Company's increases to the

1 residential customer charge, particularly where it does  
2 not -- where it's not based on cost of service allocation  
3 principles. Generally, higher customer charges decrease  
4 a customer's incentive to use water more efficiently  
5 compared to higher variable charges, since the customer  
6 charge does not change with the amount of water used.

7           What does that mean? We talk a lot about  
8 average impacts or average increases. Well, if a  
9 customer charge goes up, that low-use customer, the  
10 customer who is trying to conserve, who is trying to use  
11 water efficiently, is going to see a higher bill impact.  
12 Additionally, when customer charges go up, the customer  
13 who uses more of the commodity is going to see less of an  
14 impact on their bills. If the Commission is concerned  
15 about promoting efficiency of use in water, then lower  
16 customer charges make sense.

17           There's also been some discussion of the  
18 American Water Works Association's manual called The  
19 Principles of Water Rates, Fees and Charges. Division of  
20 Energy's witness Mr. Hyman cites to this manual multiple  
21 times in his testimony in coming up with what he believes  
22 are appropriate principles for setting the customer  
23 charge.

24           The AWW's manual lists meter reading,  
25 billing, meter, and service line related costs as typical

1 costs included in customer charges. Now, given the  
2 AWWA's manual definition of customer costs and cost of  
3 service rate setting, a movement towards cost of service  
4 base rates should not be conflated with a movement  
5 towards the recovery of fixed accounting costs through a  
6 customer charge.

7 Now, we heard from Mr. England this morning  
8 and from Mr. Herbert yesterday that approximately  
9 90 percent of the Company's fixed accounting costs are  
10 fixed and -- but this should not be conflated with  
11 customer costs. These are not directly assignable costs  
12 that can be attributed to a particular customer. A meter  
13 can. The cost of replacing a five-eighths-inch meter at  
14 a customer in St. Louis and in Jeff City or in Joplin is  
15 relatively the same for the Company.

16 Billing is also one of the components that is  
17 appropriate for a customer charge. As was discussed in  
18 Mr. Hyman's testimony and discussed here this morning by  
19 Mr. Opitz, the inclusion of uncollectible accounts is an  
20 inappropriate cost to be allocated to a customer charge.  
21 And I -- I encourage you to ask Mr. Hyman to expound upon  
22 why allocating those costs are inappropriate for a  
23 customer charge.

24 So -- and I'll also mention this: We heard  
25 from Mr. Busch yesterday, rate design. In general he

1 says it's -- both in his testimony and in his live  
2 testimony yesterday he said that rate design is more of  
3 an art than it is a science. And I would agree with that  
4 statement. But let's take that analogy a few steps  
5 further. You're going to hear from the artists later  
6 today as they take the stand. They have different styles  
7 of art. They all have particular merits, you know.

8 I was lucky enough to visit the Louvre last  
9 year, and I saw a lot of beautiful art. And it's a  
10 lot -- there are lots of different styles of art, and  
11 they all have their own individual merits. But you as a  
12 person have to decide, well, what type of art do I  
13 particularly like and what -- you know, what do I want to  
14 go see. Because the Louvre is huge. You can't -- you  
15 can't see it all, certainly not in one day.

16 The Commission has to look at the artwork  
17 that has been presented to it, it has to interview the  
18 artists, weigh the merits of their individual designs,  
19 and decide which one serves the public interests in  
20 Missouri.

21 So the specific proposals on the customer  
22 charges in this case. Now, I heard Mr. Poston from OPC  
23 and Mr. Opitz this morning state, I believe, that if  
24 the -- if the Commission is to decide on Staff's  
25 consolidation, then it should stay with the customer

1 charges that Staff calculated in its original cost --  
2 Class Cost of Service Reports. Those were respectively,  
3 as I understand, \$11.06 for Zone 1, 10 cen-- or \$10.57  
4 for Zone 2, and 9 cents and 32 -- \$9.32 for Zone 3. Now,  
5 without going into the merits of the Staff's Class Cost  
6 of Service Study, those rates would give a decrease in  
7 the customer charge to all of -- virtually all of the  
8 customers of the Company. And we think that's a good  
9 thing. That promotes efficiency of use. It gives  
10 customers more control over their usage and their bills.  
11 It's more equitable for low-income customers. And it  
12 also addresses issues of gradualism. Because rates are  
13 going up. But if you can give the customers relief on  
14 the customer charge, give them more control over the  
15 bills, that makes sense.

16 Additionally, the Office of Public Counsel,  
17 MIEC, and other parties have proposed a nonunanimous  
18 stipulation agreement that proposes a \$14.42 customer  
19 charge across the state. If the Commission believes that  
20 a uniform customer charge is appropriate, \$14.42 is  
21 reasonable. It recognizes, you know, that -- some of the  
22 Company's concerns, while still promoting efficiency of  
23 use, as opposed to what the Company has proposed, a  
24 \$16.90 customer charge.

25 The Division of Energy also supports the



1 comp-- well, supports the Company's proposal to  
2 transition to -- from declining block water rates to  
3 uniform water rates. I don't think there's any -- at  
4 least for residential customers, I don't think there's  
5 any party here that opposes that.

6           There has been some testimony prefiled  
7 discussing the appropriateness of looking at inclining  
8 block rates some time in the future. The Division of  
9 Energy believes it would be appropriate for the  
10 Commission to look at inclining block rates in future  
11 rate cases, that inclining block rates also supports and  
12 promotes efficiency of use. It doesn't have to be today.  
13 It doesn't have to be done in the next rate case. But  
14 it's something that's worth looking into.

15           There was some discussion -- discussion of  
16 this, I believe it was yesterday. Commissioner Stoll  
17 asked a question about inclining block rates in  
18 Missouri -- or in American Water's other jurisdictions.  
19 California has inclining block rates; but also New York,  
20 a state that has a climate probably more similar to  
21 Missouri than California does in many respects, has  
22 inclining block rates during the summer. That is  
23 something that the Commission should probably -- you  
24 know, it would be a good idea for the Commission to look  
25 into if that's appropriate for Missouri.

1                   So, with that, I will field any questions  
2 that you may have.

3                   JUDGE JONES: I don't see -- I don't see any  
4 questions.

5                   Thank you, Mr. Antal.

6                   COMMISSIONER STOLL: Thank you.

7                   MR. ANTAL: Thank you.

8                   JUDGE JONES: Missouri Industrial Energy  
9 Consumers.

10                  MR. DOWNEY: Good morning. May it please of  
11 Commission.

12                  JUDGE JONES: Morning.

13                  MR. DOWNEY: My name is Ed Downey. I  
14 represent the Missouri Industrial Energy Consumers. Our  
15 witness on this issue is Brian Collins. He'll be  
16 testifying today. And we tried to weigh in on only  
17 issues that affect our clients. So his testimony accepts  
18 the Company's class cost of service calculations, and  
19 then he looks at that for the St. Louis Metro District,  
20 and particularly Rate J. That's where my clients take  
21 their service.

22                  If you look in the -- in the back of his  
23 direct testimony, Schedules BCC-3 and BCC-4, that's where  
24 he presents his cost of service for Rate J. What he  
25 recommends is an equal percentage increase on all the

1 components that go into rates for Rate J, and that's on  
2 BCC-4.

3 As far as the customer charge, the only  
4 testimony he has on that you're going to find in BCC-4.  
5 And he has an across-the-board percentage increase,  
6 depending on the size of the line. And it's the same  
7 percentage increase for each component.

8 As far as purchased power expense, as has  
9 been indicated, Mr. Collins differs from the other  
10 parties on how that should be allocated. If you look at  
11 page 9, 10, and 11 of his direct testimony, you'll see he  
12 also relies on the American Water Works Association's  
13 Manual M1. And he specifically refers you to page 65 of  
14 that manual, and on that page it tells you that you  
15 should not be allocating power -- this purchased power  
16 according to Factor 1, but something comparable to Factor  
17 3. And the reason Factor 3 is more appropriate here is  
18 because it takes into account not just the average usage,  
19 but also the peak usage. And for water the peak usage is  
20 in the summer. That's when the highest electric rates  
21 are. Some customers have peaks in the summer. Some  
22 don't. My clients don't have peaks in their usage in the  
23 summer.

24 That's all I have.

25 Any questions?

1 CHAIRMAN HALL: No questions. Thank you.

2 COMMISSIONER STOLL: No. Thank you.

3 COMMISSIONER RUPP: No. Thank you.

4 JUDGE JONES: No questions. Thank you.

5 City of Brunswick.

6 MR. DRAG: City of Brunswick will waive its  
7 opening statement.

8 JUDGE JONES: City of Joplin.

9 MS. BELL: May it please the Commission. My  
10 name is Stephanie Bell, and I'm here on behalf of the  
11 City of Joplin.

12 Joplin would just like to echo what OPC has  
13 already stated this morning, that it believes rates  
14 should be designed in a way that is just, reasonable, and  
15 fair to the Company's customers.

16 Joplin would also echo OPC in that it  
17 believes the issue of rate design is intertwined with  
18 district consolidation. As you heard from me yesterday,  
19 Joplin's customers pay currently 18.53 for their customer  
20 charge at a five-eighths meter, which is higher than  
21 approximately 95 percent of Missouri American's other  
22 customers. Joplin believes that the customer charge  
23 should be set at minimum levels, consistent with  
24 achieving a reasonable level of stability for the  
25 Company.

1           And, again, Joplin supports the customer  
2 charges set forth in the nonunanimous stipulation filed  
3 yesterday.

4           Thank you.

5           JUDGE JONES: City of Riverside.

6           I don't believe they have any questions.

7           Thank you.

8           MR. BEDNAR: May it please the Commission.

9           My name is Joe Bednar. I represent the City of  
10 Riverside, a member of the Platte County Water District.

11           And the City of Riverside shares OPC and  
12 Joplin's realization that consolidation and rate design  
13 are intertwined. And the fact of the matter is with  
14 consolidation you can give relief to rate design and the  
15 residential customer. And that's been most important to  
16 the people of Platte County, given the issues that they  
17 face and the characteristics and nature of that county,  
18 that the rate design can be designed in such a way that  
19 the cost of service can be allocated in a fair manner to  
20 protect those low-income residents and retirees and the  
21 elderly to make sure that you remove volatility from  
22 their lives, given their fixed incomes, and also  
23 predictability and certainty to businesses.

24           I think that's one of the things that  
25 consolidation can bring, and that is a good policy goal

1 that's been adopted by other regulator-- regulatory  
2 agencies, and that is to reduce volatility, give  
3 businesses certainty, give residents certainties so that  
4 they can plan their budget and live accordingly.

5 There's been a lot of talk about the lack of  
6 connection to districts, and yet I really appreciated  
7 Mr. Antal's discussion about the interrelation of water  
8 and energy. And that alone connects all the districts  
9 together, given the energy districts out there between  
10 gas and electricity that in the end, as we stated in our  
11 opening statement, the residential ratepayer is the only  
12 ratepayer that cannot recover their costs.

13 And Riverside's position has evolved over the  
14 years. And as has been discussed with the parties  
15 before, Riverside hopes that the rate design internally,  
16 in whatever district they end up, is reflective of all  
17 the other districts historically and that our  
18 interdistrict design is changed to give greater relief to  
19 the residents.

20 Thank you.

21 JUDGE JONES: Thank you, Mr. Bednar.

22 City of St. Joseph.

23 MR. LAWYER: Morning. May it please the  
24 Commission. I'm Jeff Lawyer representing the City of  
25 St. Joseph.

1 I too would like to echo the statements of  
2 OPC and Joplin, that consolidation in rate design are  
3 intertwined. The Commission should determine appropriate  
4 rate design which is just and reasonable and not -- and  
5 does not unduly burden any particular class or locality.  
6 We believe that this is best done through using the  
7 principles of cost causation. The rate should be  
8 designed to allow the Company to recover its costs in  
9 such a way to send appropriate price signals to its  
10 customers and to do so at the least burdensome impact on  
11 its customers.

12 Thank you.

13 JUDGE JONES: Thank you.

14 City of Warrensburg.

15 MR. CURTIS: May it please the Commission.

16 My name is Leland Curtis, representing the City of  
17 Warrensburg.

18 The City of Warrensburg supports Staff's  
19 proposed consolidation into the three hybrid districts.  
20 We believe this is, as we said before, an appropriate  
21 step in that direction that will -- that will help. It's  
22 not a radical step. It is a step, we believe, born of  
23 some wisdom from the Staff and experience from the Staff  
24 and proceeding in a gradual fashion, as opposed to a  
25 radical fashion, which the Company is proposing and

1 others maybe even are considering a full step to a  
2 single-tariff pricing scheme, which we think would be  
3 disastrous.

4 We support the Staff's Class Cost of Service  
5 Study and rate design proposal, as they have proposed. I  
6 would point out that an important thing for Warrensburg,  
7 in particular, in Missouri American's Exhibit Number 52,  
8 which was prepared by Staff, which is a Cost of Service  
9 Study, based on the proposed roughly \$30 million  
10 increase, 55,000, roughly, would be attributable to  
11 Warrensburg, to the Warrensburg District, and that would  
12 be an increase of 1.37 percent from this proposed revenue  
13 requirement, at least as nonunanimously agreed and  
14 proposed to this Commission.

15 We think, in looking at Staff's Exhibit  
16 Number 34, where you show -- where the districts class  
17 cost of service under the proposed rates as proposed by  
18 Staff, shows for Warrensburg -- at least District Number  
19 3, which is Warrensburg's district, an increase of about  
20 4 percent. 1.37 percent to 4 percent is not  
21 unconscionable. We don't think that's unreasonable.  
22 It's a little bit more. We've always loved -- we've  
23 always preached district-specific pricing, in which case  
24 it would be a 1.37 increase. But certainly that's within  
25 the zone of reasonableness.



1 I would also point out that while we are not  
2 a signatory party to the nonunan-- OPC's nonunanimous  
3 rate design stipulation, we do not oppose it and we do  
4 not find those as, you know, particularly shocking. What  
5 we do find shocking and unreasonable and, we would  
6 contend, unlawful is the Company's proposal. And we saw  
7 just a little bit yesterday from Missouri American's  
8 Exhibit Number 48, Mr. Herbert, if we look at  
9 Warrensburg, the residential -- which would in zone --  
10 Warrensburg would be in Zone 1, the residential rates  
11 would go -- would increase by 24 to 29 percent, in that  
12 range. Cost of Service Study shows an increase for the  
13 Warrensburg District in toto of 1.37 percent. The  
14 Company is proposing residential rates under its Zone 1  
15 for Warrensburg 24 to 29 percent. We think that is  
16 unconscionable, and the evidence will show that.

17 And I would remind again the Commission,  
18 we've heard it before, but under Section 393.130,  
19 rates -- I'm quoting -- cannot subject any particular  
20 person, corporation, or locality or any particular  
21 description of service to any undue or unreasonable  
22 prejudice or disadvantage in any respect whatsoever.  
23 That's strong language. I would suggest that rates that  
24 raise residential rates in Warrensburg in the 24 to  
25 29 percent are unconscionable when you look at the Cost

1 of Service Study showing that Warrensburg should be only  
2 paying overall a 1.37 percent increase.

3 Thank you.

4 JUDGE JONES: Public Water Supply Districts.

5 MR. DORITY: Good morning, Judge Jones.

6 Larry Dori ty appearing on behal f of the Public Water  
7 Supply Di stricts 1 and 2 of Andrew County.

8 During my opening statement yesterday  
9 afternoon, I actually touched on two subjects regarding  
10 rate design that are important to my clients. One being  
11 the transmission and distribution mains adjustment, which  
12 is embedded in the Company's Class of Service Study and  
13 endorsed by the Staff. It was approved last -- in the  
14 last rate case by the Commission in its report and order.  
15 We're supportive of that. And I also touched upon the  
16 declining block rates that are presently approved for the  
17 sale for resale class and supported by the Staff, and we  
18 support that as well.

19 Other than that, I will stand on my opening  
20 statement from yesterday and waive a formal opening  
21 today.

22 Thank you.

23 JUDGE JONES: Thank you, Mr. Dori ty.

24 Stonebri dge.

25 And Tri umph.

1 MR. HARDEN: Thank you. May it please the  
2 Commission. Joshua Harden appearing on behalf of Triumph  
3 Foods. I don't plan on taking very long today. I just  
4 want to introduce the Commission -- this Commission to my  
5 client, Triumph Foods, and explain why we intervened and  
6 are participating in this case.

7 Triumph Foods is the largest industrial  
8 consumer of water in Missouri American Water's service  
9 territory. We're in St. Joe. And they employ over 1,500  
10 employees in that community. I actually think it's  
11 somewhere between 1,600 and 1,700, but I don't have the  
12 exact number. So I'll be safe and say it's over 1,500  
13 employees.

14 In 2003 Missouri American Water offered  
15 Triumph, which was then Premium Pork -- there was a  
16 subsequent name change -- a special service contract  
17 under its St. Joseph Economic Development Rider. That  
18 contract was entered into and approved by the Commission.

19 Subsequently, in 2010 there was an Addendum  
20 2 to that special service contract, which redefined a  
21 commodity charge. And, again, that Addendum 2 was  
22 approved by the Commission in 2011, and there was a rate  
23 adjustment under that Addendum 2.

24 In this case there has been no opposition  
25 whatsoever from any party to the current rate that

1 Triumph pays for water. Both Staff and OPC have  
2 expressed an interest in the next Missouri American Water  
3 general rate case for the contract to be reviewed at that  
4 time. But, again, there's been no opposition to the  
5 current rate in this partic-- in this rate case, which,  
6 by the way, that is a right that both Staff, OPC, and the  
7 Commission itself has under both the existing contract as  
8 well as under the Economic Development Rider.

9 So why are we here? Why is Triumph -- why  
10 did we intervene? There's a provision in Addendum 2  
11 which expired on December 31st of 2015 which necessitates  
12 an extension of that addendum. And so the parties are in  
13 the midst of executing an Addendum 3, which merely sets  
14 the rate at what it currently is and then extends the  
15 provisions of that Addendum 2 on a going-forward basis.  
16 And that Addendum 3 will be the subject of a forthcoming  
17 joint motion for approval by the Commission by Missouri  
18 American Water and Triumph Foods.

19 So, with that, that's who Triumph is, and  
20 that's why we are participating and intervening in this  
21 case.

22 CHAIRMAN HALL: Good morning, Mr. Harden. Is  
23 this your first opportunity to present to the Commission?

24 MR. HARDEN: I have been anxiously waiting  
25 for over a year, Chairman, to stand before this fine

1 tribunal.

2 CHAIRMAN HALL: Well, was it worth it?

3 MR. HARDEN: Absolutely.

4 CHAIRMAN HALL: Does -- does the Commission  
5 need to do anything vis-à-vis your client in the order  
6 resolving this rate case or do we just need to take up  
7 and from your perspective, hopefully approve a joint  
8 motion at a subsequent date?

9 MR. HARDEN: I think the latter would be  
10 sufficient, as long as there's something by the  
11 Commission which approves the rate and the terms going  
12 forward.

13 CHAIRMAN HALL: Do you know what the -- what  
14 the current agreement sets forth for the -- for the  
15 customer charge, the volumetric charge?

16 MR. HARDEN: Yes.

17 CHAIRMAN HALL: And is that -- what is that?

18 MR. HARDEN: It's -- it would be highly  
19 confidential, but -- but we can certainly provide and  
20 when we file the motion that rate would obviously be part  
21 of that. But as a matter of fact, the rate itself, it's  
22 all contained in Addendum 2, which you --

23 CHAIRMAN HALL: And that's highly  
24 confidential?

25 MR. HARDEN: Yes.

1 CHAIRMAN HALL: What's the public policy  
2 rationale for having that be highly confidential?

3 MR. HARDEN: Triumph is a private company and  
4 the rate that we pay for a very important and very large  
5 variable cost is not something that we would want to  
6 broadcast to our competitors at large.

7 CHAIRMAN HALL: So is that comparable to, in  
8 the electricity specter, a load retention rate?

9 MR. HARDEN: I don't know.

10 CHAIRMAN HALL: The -- the reduced rate that  
11 your -- your client pays, do the rest of the customers in  
12 the state, in taking service from the company, do they  
13 pay an additional amount to cover that difference?

14 MR. HARDEN: There's -- there has been no  
15 suggestion of that in this rate case, and there's been  
16 no -- that has not been argued, Missouri American Water.

17 CHAIRMAN HALL: Whether it's been argued or  
18 not, is it factually accurate, from your perspective?

19 MR. HARDEN: I could not answer that.

20 CHAIRMAN HALL: Okay. All right.

21 MR. HARDEN: I do believe that we cover our  
22 costs. But beyond that, I don't...

23 CHAIRMAN HALL: Okay. Thank you.

24 JUDGE JONES: Thank you. That's it.

25 Okay. Let's call Missouri American's

1 witness.

2 MR. ENGLAND: Your Honor, while the witness  
3 is making his way to the witness stand, we have a  
4 response to Commissioner Rupp's request for fill analysis  
5 on single-tariff pricing. Since Mr. Herbert's group  
6 prepared that, can I go ahead and have that marked?

7 JUDGE JONES: Yes.

8 MR. ENGLAND: We'll have that identified -- I  
9 think it's 53.

10 JUDGE JONES: I'm pretty sure it is 53.

11 This is Missouri American Water 53.

12 (MAWC Exhibit 53 marked for identification.)

13 JUDGE JONES: Mr. Herbert, I'll just remind  
14 you that you remain under oath.

15 THE WITNESS: Yes, sir.

16 PAUL R. HERBERT,  
17 after having been previously duly sworn, was  
18 examined and testified on his oath as follows:

19 MR. ENGLAND: Judge, are we ready to proceed?

20 JUDGE JONES: Yes.

21 MR. ENGLAND: Thank you.

22 JUDGE JONES: Please.

23 DIRECT EXAMINATION BY MR. ENGLAND:

24 Q. State your name for the record, please.

25 A. Paul R. Herbert.

1           **Q.       And you've previously appeared and testified**  
2 **in this proceeding, Mr. Herbert?**

3           A.       Yes, I have.

4           **Q.       I've handed you an exhibit that's been marked**  
5 **for purposes of identification as MAWC Exhibit 53. Do**  
6 **you have that in front of you?**

7           A.       I do.

8           **Q.       And can you describe that exhibit, please,**  
9 **and what it purports to show?**

10          A.       Yes. In response to Mr. Rupp's request, we  
11 have prepared a single-tariff pricing across all  
12 districts based on the agreed to 30.6 million increase in  
13 overall revenue and using the billing determinants that  
14 we have determined to be agreeable to most all the  
15 parties.

16                   This includes a -- the revised customer  
17 charge of \$16.90 for a five-eighth-inch meter. Costs for  
18 the meter sizes larger than that were increased at the  
19 same percentage increase as the 16.90 rate. And then  
20 there's a single volumetric charge of .40410 per thousand  
21 gallons for Rate A customers, .170 for Rate J customers,  
22 and .21049 for Rate B or sales for resale customers,  
23 single block for each of those classes.

24           **Q.       Does this exhibit essentially follow sort of**  
25 **the same format as the Exhibits, I believe, 48 through 51**



1 **that you sponsored yesterday?**

2 A. They do. It does.

3 **Q. Was it -- was the new Exhibit 53 prepared by**  
4 **you or under your direct supervision?**

5 A. It was.

6 **Q. And is it true and correct, to the best of**  
7 **your knowledge, information, and belief?**

8 A. It is.

9 MR. ENGLAND: Thank you, sir.

10 I'd offer Exhibit 53, Missouri American  
11 Exhibit 53, subject to cross-examination. And I believe  
12 the subject matter of Mr. Herbert's testimony, in  
13 addition to this exhibit, is the rate design issue in the  
14 amended list of issues.

15 JUDGE JONES: That's correct. I'll ask,  
16 rather than are there any objections to this exhibit, are  
17 there any concerns about this exhibit?

18 MR. POSTON: Yes, Judge. Again, we're just  
19 getting this today. The Company has told us that they  
20 will send us Excel files that will allow us to, I guess,  
21 see, hopefully, how they've come up with some of these.  
22 But at this point we haven't seen that. So we -- yeah,  
23 we just have not had any opportunity to verify any of  
24 these numbers. So I'll just put that qualifier on this  
25 exhibit.

1 JUDGE JONES: Okay.

2 MR. DORITY: Your Honor, if I may. I don't  
3 want to belabor this, but I believe this has the same  
4 issue that I raised with Mr. Herbert yesterday regarding  
5 that it's not reflective of the existing rate structure  
6 for the sale for resale class.

7 I understand that there is a single  
8 volumetric rate for Rate B for the St. Louis area; but in  
9 the rest of the state, particularly in St. Joe, it is a  
10 declining block rate for the sale for resale class. So I  
11 would -- I understand they're going to rerun the  
12 schedules. I don't know if the same could be done for  
13 this Exhibit 3 -- or Schedule 3 -- 53.

14 THE WITNESS: We are proposing a single block  
15 for sales for resale in this scenario. So I would not  
16 be --

17 MR. DORITY: Okay.

18 THE WITNESS: -- planning --

19 MR. DORITY: So this is the Company's  
20 proposal; correct?

21 THE WITNESS: Company's proposal for a  
22 single-tariff pricing.

23 MR. DORITY: Understood.

24 MR. ENGLAND: And let me follow up on  
25 Mr. Dori ty's point. We are -- or we will be making the

1 change that he pointed out on one or the other of the  
2 exhibits -- I can't recall the numbers right now -- as  
3 well as making other corrections that were pointed out.  
4 Unfortunately, when we got back to the office last night  
5 after the hearing, Mr. Herbert's associate that's running  
6 these schedules back at Gannett Fleming has left for a  
7 couple of days. So once Mr. Herbert gets back in the  
8 office, we're hopeful we can have those revised/corrected  
9 versions out by the end of the week, no later than the  
10 first of next week.

11 JUDGE JONES: Okay. And Joplin?

12 MS. BELL: Yeah, Joplin would also raise the  
13 concern that we raised yesterday in that, according to  
14 the Company, their proposal is to shift the 1.3 million  
15 from sewer on to water; and it's unclear from this  
16 document whether that's been taken -- it's unclear from  
17 the numbers whether the sewer shift is contained in these  
18 numbers or not.

19 THE WITNESS: I can answer that. It is not.  
20 It is not included.

21 JUDGE JONES: Commissioner Rupp, did you want  
22 to talk about that?

23 COMMISSIONER RUPP: Thank you for running  
24 these. So when you're doing all the new calculations  
25 that everybody wants to have, would this be an

1 apples-to-apples comparison when you get your new  
2 documents in that we could compare exhibit -- you know,  
3 the newly-updated that's soon to be provided Exhibit 48,  
4 49, 50 and 51 and 53? Will that be an apples-to-apples  
5 comparison or will -- or will there be differences  
6 between them?

7 THE WITNESS: Yes, they use all the same  
8 billing determinants. I think the only difference, it  
9 would be that one scenario where 565,000 of the sewer is  
10 included, and it's not in the other --

11 COMMISSIONER RUPP: Okay.

12 THE WITNESS: -- in the other one.

13 COMMISSIONER RUPP: So I would be able to  
14 make a pretty darn close apples-to-apples comparison when  
15 the new numbers --

16 THE WITNESS: Yes, sir.

17 COMMISSIONER RUPP: -- come in? Okay. Thank  
18 you very much.

19 JUDGE JONES: Okay. Let's move into  
20 cross-examination of Mr. Herbert, beginning with Missouri  
21 Department of Energy.

22 CROSS-EXAMINATION BY MR. ANTAL:

23 **Q. Good morning, Mr. Herbert.**

24 **A. Good morning.**

25 **Q. Again, my name is Alex Antal. I represent**

1 **the Missouri Division of Energy. I've got some questions**  
2 **for you.**

3 **You performed the Company's Class Cost of**  
4 **Service Study; is that correct?**

5 A. I did.

6 **Q. Okay. Are you familiar with the term**  
7 **directly assignable, as it relates to class cost of**  
8 **service?**

9 A. Yes.

10 **Q. Could you describe that term for me?**

11 A. Directly assignable costs would be those that  
12 you could pinpoint to a specific class of users. And if  
13 it was only, you know, specifically for that class, you  
14 could just simply, instead of doing an allocation factor,  
15 just send 100 percent of that cost to that class.

16 **Q. What are some costs that are examples of**  
17 **directly assignable?**

18 A. Well, they're not -- that would be unusual.  
19 There's not that many in a -- in a water system that you  
20 could directly assign. I'm trying to think of an  
21 example. If a certain customer, like a large customer,  
22 had some unique or special facilities that -- that served  
23 only that customer, you could break that cost out and  
24 assign it directly. I can't think of any other pertinent  
25 examples at the moment.

1           **Q.       Okay. Let's -- for example, let's take the**  
2 **five-eighths-inch meter. Does the cost of that meter**  
3 **vary customer to customer?**

4           A.       Well, not in our cost allocation. We treat  
5 all five-eighth-inch meters the same. But, of course, an  
6 older meter would have less rate base than a newer meter.  
7 So there -- there could be -- you know, if you're  
8 comparing one meter to the next, there could be actual  
9 cost -- actual cost differences. But we don't make that  
10 distinction when we do cost allocation.

11           **Q.       Does the cost to the Company of replacing a**  
12 **particular meter vary customer to customer?**

13           A.       If -- sure. I mean, if a certain meter takes  
14 longer to install for some reason --

15           **Q.       The actual cost of the meter, not the labor?**

16           A.       They shouldn't, no. They buy them in bulk,  
17 you know. They buy several thousand meters at a time and  
18 have them in stock so that one meter is the same cost as  
19 the next at that --

20           **Q.       Okay.**

21           A.       -- at that particular time of purchase.

22           **Q.       Okay. What about meter reading, does --**  
23 **Staff has -- Staff's proposed consolidation is based off,**  
24 **in part, by the operation characteristics of the various**  
25 **ar-- service areas of the Company. Does the cost to the**

1 **Company of reading someone's meter, say, at the**  
2 **five-eighths inch vary within those districts?**

3 A. I wouldn't think so.

4 **Q. Okay. You mentioned allocation factors. Are**  
5 **there allocated costs in your calculated customer charge?**

6 A. Yes.

7 **Q. Okay. And those would include administrative**  
8 **and general expenses, payroll-related expenses?**

9 A. Yes. The AWWA manual shows that when you  
10 allocate costs to functions and customer classes that a  
11 portion of the A & G costs, administrative and general  
12 costs, get allocated to all functions, including customer  
13 costs.

14 **Q. Okay. But -- and it's my understanding that**  
15 **Staff also -- has also done a Class Cost of Service**  
16 **Study; is that correct?**

17 A. They have.

18 **Q. Do you believe that Staff incorrectly**  
19 **allocated costs?**

20 A. Yes.

21 **Q. Okay. Is it because they mis-- they did**  
22 **inappropriate allocations?**

23 A. Yes.

24 **Q. Okay.**

25 A. And that's spelled out in my rebuttal

1 testimony, in particular to customer costs on page 4 of  
2 my rebuttal.

3 **Q. Turning -- I would like to turn to page 9 of**  
4 **your rebuttal testimony. There you discuss uncollectible**  
5 **accounts?**

6 A. Yes.

7 **Q. Okay. And it's your testimony that**  
8 **uncollectibles vary with the number of customers?**

9 A. Primarily, yes.

10 **Q. Okay. So then based off that logic, a**  
11 **district like St. Louis would have a higher per customer**  
12 **uncollectibles than, say, Jefferson City?**

13 A. Not per customer, necessarily. But more --  
14 more so -- more total dollars of uncollectibles because  
15 they have more customers.

16 **Q. So on a per-customer basis larger districts**  
17 **don't have more uncollectibles than smaller districts?**

18 A. I -- I didn't do a study of uncollectibles by  
19 district, so I can't particularly answer that. But  
20 certainly larger districts with more customers have more  
21 uncollectible accounts than smaller districts because of  
22 the number of customers.

23 **Q. Okay. But you assign uncollectibles to -- or**  
24 **allocated them to the customer charge on a per-customer**  
25 **basis?**



1           A.       Yes, on a -- on an equal -- on an equal  
2 basis, because I believe each customer should contribute  
3 towards uncollectible accounts on an equal basis. I see  
4 no reason why a larger -- say a larger family of four  
5 that uses 6,000 gallons a month, as opposed to a smaller  
6 family at 3,000 gallons a month, why that larger family  
7 should pay double the uncollectible account contribution  
8 than the 3,000 gallon a month customer. I think they  
9 should pay about the same. So if you have uncollectible  
10 accounts in the vol -- exclusively in the volumetric  
11 account, that's what would happen.

12           **Q.       Okay. You mentioned that you don't think**  
13 **that a smaller household should have to pay -- or should**  
14 **have to pay the same portion of uncollectibles as a**  
15 **larger family?**

16           A.       I think they should pay the same, yes.

17           **Q.       They should pay the same. Okay. And that's**  
18 **going to increase the customer charge for all families?**

19           A.       It's -- it's included in -- in the customer  
20 cost analysis and will be allocated to all customers, not  
21 just families.

22           **Q.       Would you agree that a higher customer charge**  
23 **will result in a higher than average increase to low-use**  
24 **customers?**

25           A.       Than a lower customer charge?

1           **Q.       Yes, than a lower customer charge.**

2           A.       Of course.

3           **Q.       Okay.**

4           A.       That's simply arithmetic.

5           **Q.       Do you agree that it's important for**  
6 **customers to have an incentive to conserve through a**  
7 **proper price signal?**

8           A.       I think -- I think customers do have an  
9 incentive to conserve. I think \$4 per thousand gallons,  
10 all customers have the opportunity to -- to conserve and  
11 save on their bill. If they consume a thousand gallons  
12 less a month than they -- than they were the previous  
13 month, they'd save -- they'd serve -- based on  
14 4,000 gallons a month, they'd save \$4, which is over  
15 10 percent of their bill. I think that's -- that's a  
16 significant savings and incentive for everyone to  
17 conserve.

18           **Q.       But a higher customer charge relative to a**  
19 **lower customer charge gives the consumer less control**  
20 **over their bill?**

21           A.       No, I disagree. I think they have full  
22 control over their bill, regardless of the customer  
23 charge.

24           **Q.       Okay. But as you just stated, just to**  
25 **clarify, a higher customer charge relative to a lower**

1 **customer charge would result in a lower than average --**  
2 **or I should say a higher than average increase to a**  
3 **low-use customer?**

4 A. For a low-use customer, sure.

5 **Q. Okay.**

6 A. But only slightly more.

7 MR. ANTAL: No further questions. Thank you.

8 JUDGE JONES: Questions from MIEC?

9 MR. DOWNEY: Yes. Thank you, Judge.

10 CROSS-EXAMINATION BY MR. DOWNEY:

11 **Q. Good morning.**

12 A. Good morning.

13 **Q. Looking at your Exhibit 53 --**

14 A. Yes.

15 **Q. -- how hard would it be for you to prepare an**  
16 **exhibit using the same data that had one district as**  
17 **St. Louis Metro, another district as Joplin, a third**  
18 **district as St. Joe, and a fourth district which included**  
19 **everyone else? Is that something you could do readily?**

20 A. Well, not today or probably not until next  
21 week, but we can -- we can do it. But I'd have to defer  
22 to the Company whether they want me to do -- I mean, we  
23 could do a million different combinations here, just so  
24 that everyone knows that. I don't know if there's a  
25 certain limit that the Company would want to put on it,

1 but -- so I can't make that decision. But to answer your  
2 question whether it can be done, of course.

3 **Q. And if that were done, you would have more**  
4 **customers in -- the minimum number of customers in a**  
5 **district would increase, wouldn't it?**

6 A. Than -- than what?

7 **Q. Than any of the other proposals.**

8 A. Not in one.

9 **Q. Well, okay. Other than that proposal, 53.**  
10 **You'd be moving customers out of the St. Louis Metro**  
11 **District; right? And someone's already proposed St. Joe**  
12 **on its own and Joplin on its own. So the remaining**  
13 **district would obviously have more customers?**

14 A. Was there another one that you said to be on  
15 its own?

16 **Q. St. Louis Metro, Joplin, St. Joe and everyone**  
17 **else --**

18 A. And everyone else.

19 **Q. -- in their own district. So that**  
20 **everyone-else district would have way more customers,**  
21 **wouldn't it, than it has under any proposal other than**  
22 **53?**

23 A. Well, I don't -- I don't know. I'd have  
24 to -- I'd have to look at the number of customers and the  
25 different --

1           **Q.       All right.**

2           A.       -- consolidations that we have here. I just  
3 can't flat out answer your question.

4           **Q.       Why don't you pull up your Schedule PRH-6.**

5           A.       Okay. I have it.

6           **Q.       Okay. I'm going to try and help with the**  
7 **math here.**

8                   JUDGE JONES: You may need to turn it on like  
9 yesterday.

10          BY MR. DOWNEY:

11           **Q.       And I'll ask you to turn to page 2.**

12                   JUDGE JONES: Is the -- is the computer on  
13 over here in front of the witness? All I know how to  
14 work is this. You guys need to know how to work that, if  
15 you have something you --

16                   MR. DOWNEY: Judge, are you able to put it on  
17 this screen?

18                   JUDGE JONES: That's what I'm saying. If you  
19 have it -- if you're doing what you're supposed to be  
20 doing, then it will be on that screen. So you're not  
21 doing what you're supposed to be doing, because it's not.  
22 I can get IT down here and see what's going on.

23          BY MR. DOWNEY:

24           **Q.       Well, I'll try and muddle through the**  
25 **numbers. I'd like you to turn to page 2 of that**

1 **schedul e.**

2 JUDGE JONES: Well, let me ask you this:  
3 What you have is what everyone in the room has; right?

4 MR. DOWNEY: Except I was try -- I've done  
5 the math already, and I was going to try and make it less  
6 cumbersome.

7 THE WITNESS: I'm doing the math right now.

8 MR. DOWNEY: Okay. So hopefully everyone has  
9 that schedule handy.

10 CHAIRMAN HALL: Which schedule are we on now?

11 MR. DOWNEY: Schedule PRH-6. It was a  
12 stand-alone document yesterday, and it's also attached to  
13 Mr. Herbert's testimony.

14 COMMISSIONER KENNEY: You're looking at page  
15 2 of that?

16 MR. DOWNEY: Page 2. I don't know how to  
17 operate that.

18 THE WITNESS: Okay. I think I can answer  
19 your questions now, if you ask --

20 MR. DOWNEY: Okay.

21 THE WITNESS: Could ask them again?

22 BY MR. DOWNEY:

23 **Q. So -- so what I'm wondering is, if you move**  
24 **Mexico and Jefferson City into a new district, which**  
25 **we're calling District 4, okay, and you move Platte**

1 County and Brunswick into District 4 and you move  
2 everyone that's currently in District 3, except Joplin  
3 into District 4, then wouldn't you have 355,437 customers  
4 in District 1, first of all?

5 A. Yes.

6 Q. Which is actually St. Louis Metro. And  
7 District 2 you'd only have St. Joseph, which is 28,813  
8 customers; right?

9 A. Correct.

10 Q. And currently District 3 you'd only have  
11 Joplin, which is 20,653 customers; right?

12 A. Correct.

13 Q. And then everyone else, that would be 27,207  
14 customers; right? And I'm going to defer to you if I'm  
15 off a little bit on the math.

16 A. I didn't get that, but...

17 Q. So basically you add 4,288, 9,019, 5,335,  
18 330, 6,613, 1,702, 2,925, add 134, add 499, add 222.  
19 That doesn't come out to 27,207?

20 A. I get 31,067.

21 Q. Okay.

22 MR. BUSCH: That's what I got.

23 BY MR. DOWNEY:

24 Q. Okay. That's fine. I'll defer to you on  
25 that. So every district then would be above 20,000

1 **customers; right?**

2 A. Correct. Let me -- let me just put a caveat.  
3 This is just residential, just so you know.

4 **Q. Okay.**

5 A. All right.

6 **Q. For residential?**

7 A. It doesn't include Rate J or industrials,  
8 you know.

9 **Q. And under one of the proposals yesterday,**  
10 **which was Staff's proposal with St. Joseph and Joplin**  
11 **standing alone, you would have had this District 3 with**  
12 **very few customers; right? It would be whatever your**  
13 **total was -- well, it'd be --**

14 A. No, that -- that scenario was -- had  
15 St. Louis with everybody else. It was St. Joe and Joplin  
16 on their own and everybody else.

17 **Q. Okay. Well, if you had -- let me just say**  
18 **this: If you had St. Louis as a stand-alone district,**  
19 **you have the most customers in one district?**

20 A. Yes.

21 **Q. So you don't really need to add other**  
22 **districts to St. Louis to spread out the costs incurred**  
23 **by that district; it's already your largest district?**

24 A. Yeah, but the --

25 **Q. I mean, isn't that right?**



1           A.       But having St. Louis and all those customers  
2 makes it easier for rate consolidation so that those --  
3 some of the higher -- higher-priced areas can -- can  
4 spread some of that cost to more -- a larger customer  
5 base.

6           **Q.       Well --**

7           A.       That's the advantage.

8           **Q.       But if you move some of the districts you're**  
9 **consolidating into St. Louis into some of the districts**  
10 **that have fewer customers, aren't you then creating a**  
11 **situation where in those other districts you're spreading**  
12 **the costs out over more customers?**

13          A.       More customers than if they were stand-alone,  
14 sure.

15          **Q.       Well, more customers than as proposed here on**  
16 **page 2 of 2?**

17          A.       Well, on page 2 of 2 we have three districts.

18          **Q.       Right.**

19          A.       One would -- one would be 368,744. The other  
20 ones -- the other two would be 34,478, and the third one  
21 would be 32,748.

22          **Q.       Let me try this again. You move Mexico and**  
23 **Jefferson City --**

24                 JUDGE JONES: Let me -- let me interrupt you  
25 for a moment. Are we talking about consolidation?

1 THE WITNESS: Sounds like it.

2 MR. DOWNEY: Well, what we're doing is we're  
3 talking about the exhibit that was just introduced. And  
4 I'm trying to get at the question of can they prepare  
5 another one like that exhibit that would reflect  
6 St. Louis Metro as a stand-alone and assigning the  
7 districts currently proposed for consolidation into  
8 St. Louis Metro into one of the smaller districts.

9 JUDGE JONES: Well, the answer to any  
10 combination of consolidating any districts is yes, it can  
11 be done. And it's a matter of whether and when. But the  
12 answer is yes, it can be done.

13 MR. DOWNEY: Will the Company do it?

14 JUDGE JONES: And then he said it depends.  
15 So let's go on and go to rate design.

16 MR. DOWNEY: I'll ask the next Company  
17 witness that testifies on rate -- consolidation then.

18 JUDGE JONES: Okay.

19 BY MR. DOWNEY:

20 **Q. Another question for you: The Company**  
21 **doesn't automatically get to recover increased costs from**  
22 **its customers; right?**

23 A. Say that again.

24 **Q. Yeah. Your Company, when it incurs increased**  
25 **costs, can't automatically pass those through to its**

1 **customers? That's a given, isn't it?**

2 A. They can't pass it through until the next  
3 rate case.

4 **Q. Okay. And are you aware of other businesses**  
5 **that are in situations -- maybe not even regulated**  
6 **businesses, where they are not in a position where they**  
7 **can automatically increase -- pass through increased**  
8 **costs to their customers?**

9 A. Sure. Companies increase costs all the time.

10 **Q. Okay. And -- but they're not always able to**  
11 **pass those increased costs through to their customers?**

12 A. They can if they want to.

13 **Q. And they may go out of business?**

14 A. I don't know.

15 **Q. Are you aware of any businesses that compete**  
16 **in multiple jurisdictions with, you know, for instance,**  
17 **businesses in other states and a cost increase in this**  
18 **state may not be the same cost increase in another state**  
19 **that their competitor incurs?**

20 A. I don't know. I suppose.

21 **Q. Are you aware of a very large electric**  
22 **customer in Missouri that just shut its doors in**  
23 **southeast Missouri?**

24 A. No.

25 **Q. Okay. I guess my point here is businesses**

1 **don't automatically have the ability to pass through all**  
2 **costs to their customers?**

3 A. Well, some utilities do. Some -- some  
4 utilities have automatic cost recovery. Like for -- some  
5 water utilities have if their power costs go up, they  
6 have an automatic power surcharge to recover certain  
7 costs. Gas companies, when they -- when they have higher  
8 cost of gas, they have an automatic -- or an annual -- in  
9 Pennsylvania we call it the PGC, Purchase Gas Clause,  
10 that they increase their recovery of their gas costs  
11 on --

12 **Q. Mr. Herbert, I'm really talking broader than**  
13 **this, all businesses, not just regulated businesses.**  
14 **It's been stated a number of times by counsel during oral**  
15 **argument that residential customers are the only**  
16 **customers that are unable to pass through rate increases.**  
17 **Are you aware of businesses that are unable to pass**  
18 **through rate increases by just increasing the price of**  
19 **their product?**

20 A. Well, they -- they could look into conserving  
21 whatever, you know, they're -- a lot of -- a lot of  
22 industries have looked into recycling or reuse water to  
23 cut down on the amount of water they use. And that's  
24 happening all over. So they can manage their overall  
25 cost of water by conserving.

1 MR. DOWNEY: That's okay. Thank you. No  
2 further questions.

3 JUDGE JONES: City of Brunswick?

4 MR. DRAG: No questions, Your Honor.

5 JUDGE JONES: City of Joplin?

6 MS. BELL: No questions, Your Honor.

7 JUDGE JONES: City of Riverside?

8 MR. BEDNAR: Just a couple.

9 CROSS-EXAMINATION BY MR. BEDNAR:

10 **Q. Mr. Herbert, when you look at any of the**  
11 **exhibits, 48 through 53, where you've done your class**  
12 **cost of service, do you know what the volume -- actual**  
13 **volume of gallons used by those classes are by district?**  
14 **Do you have it available today with you right now?**

15 A. For each district, a total volume of water?

16 **Q. Yeah. For instance, what's the difference in**  
17 **volume used by Rate A versus Rate J for a particular**  
18 **district? Do you know the volume of water used?**

19 A. Well, we know it in total.

20 **Q. Do you have it broken out by -- do you have**  
21 **it broken out by class?**

22 A. Yes.

23 **Q. And in Rate A, five-eighths-inch meter, how**  
24 **many of those are true residential customers? Is it**  
25 **possible for -- in other words, is it possible for a**

1 **commercial user to use a five-eighths-inch --**

2 A. Yes.

3 **Q. Is that reflected in any of these exhibits?**

4 A. They would have -- if they're under Rate A --  
5 commercial customer would be under Rate A. They would  
6 have the same bill as a residential customer under Rate A  
7 with the same size meter --

8 **Q. Okay.**

9 A. -- at the same consumption level.

10 **Q. Is it possible to break out true residential**  
11 **customers from all other commercial or industrial**  
12 **customers, given the information we have right now?**

13 A. I believe it is.

14 **Q. Has that been submitted in anybody's**  
15 **testimony that you're aware?**

16 A. I'm not -- I'm not certain of that. But I'm  
17 sure we have it somewhere. St. Louis would be the one  
18 that would have to be broken down, because that's Rate A.  
19 That includes residential, commercial, industrial. And I  
20 think we do have that breakdown somewhere.

21 **Q. And so when we look at the impact of a single**  
22 **tariff, the Exhibit 53, there is actually rate**  
23 **reductions, cost reductions even in Warrensburg as you**  
24 **move out of Rate A, out of five-inch -- as soon as you**  
25 **exceed five-eighths-inch meter, even Warrensburg begins**

1 **to see reductions per class; correct?**

2 A. That's right.

3 **Q. Or maybe one -- maybe you have to get past to**  
4 **two-inch meter. And then the St. Louis numbers reflect**  
5 **the ISRS number as well; correct?**

6 A. What was your last question?

7 **Q. The St. Louis numbers reflect ISRS?**

8 A. Yes.

9 MR. BEDNAR: Thank you. No further  
10 questions.

11 JUDGE JONES: City of St. Joseph?

12 MR. LAWYER: No questions.

13 JUDGE JONES: City of Warrensburg?

14 CROSS-EXAMINATION BY MR. CURTIS:

15 **Q. Good morning, Mr. Herbert.**

16 A. Good morning.

17 **Q. Looking at your Exhibit Number 53 that you**  
18 **just have introduced and looking at Warrensburg's column,**  
19 **what would be the overall revenue requirement assigned to**  
20 **Warrensburg for the proposed \$30.6 million increase?**

21 A. Overall it would be 11.91 percent increase.

22 **Q. And I'm looking at page 3, the \$405,000**  
23 **figure. Is that the overall revenue requirement**  
24 **increase?**

25 A. No, that's just the fixed charge increase.

1           **Q.       Okay. What would be the overall revenue**  
2 **number?**

3           A.       I don't have that in front of me. All I --  
4 all I have is the percentage increase for the total  
5 district would be 11.91 in total revenue percent.

6           **Q.       If we applied that to existing revenues --**

7           A.       Yes.

8           **Q.       -- what number would that yield?**

9           A.       Approximately -- and this is just from the  
10 information I have here --

11          **Q.       Right.**

12          A.       -- \$485,000.

13          **Q.       485,000 --**

14          A.       Yes.

15          **Q.       -- additional revenue overall for**  
16 **Warrensburg?**

17          A.       That's what I'm seeing here.

18          **Q.       I would like you to take a look at your**  
19 **Missouri American Exhibit Number 52 that was introduced,**  
20 **I believe, yesterday.**

21          A.       I think I have it, but mine's not marked.  
22 Can you show it to me so I know that I have it?

23                   MR. CURTIS: Do you have an extra copy, Trip?

24                   Thank you.

25                   MR. ENGLAND: To be clear, this was Staff's



1 exhibit that they provided to the Commission on Monday.

2 MR. CURTIS: Right. Right.

3 MR. ENGLAND: He has it.

4 BY MR. CURTIS:

5 Q. Do you have Exhibit Number 52 in front of you  
6 of Missouri American's?

7 A. I do.

8 Q. You do. Do you see the -- under Water the  
9 Warrensburg line?

10 A. Yes.

11 Q. And the overall revenue requirement under  
12 this for Warrensburg would be \$55,828; is that correct?

13 A. That would be the increase required for that  
14 district.

15 Q. For that district?

16 A. Alone.

17 Q. Okay. And your single-tariff pricing,  
18 Exhibit Number 53, would call for an increase for  
19 Warrensburg of about four -- you have calculated roughly  
20 about \$483,000?

21 A. I -- I believe I said \$485,000.

22 Q. Excuse me.

23 A. And I got that by taking 11.91 percent times  
24 the 4,074,407 on that Exhibit 52, which is the present --

25 Q. Would you calculate for me what percentage

1 **increase off of the \$55,828 on exhibit -- on Missouri**  
2 **American's Exhibit Number 52 for Warrensburg's increase,**  
3 **what percentage increase would that -- would it be to get**  
4 **to your \$485,000?**

5 A. 11.91 percent.

6 **Q. I'm sorry?**

7 A. 11.91 percent.

8 **Q. No, that's not correct. Going -- going from**  
9 **\$55,000 total revenue requirement under Exhibit 52 to**  
10 **your overall revenue requirement under your proposed**  
11 **Exhibit Number 53 of full SDP of 485,000, it's simple**  
12 **math, isn't it? What is that percentage increase?**

13 A. Well, the 55,828 represents a 1.37 percent  
14 increase, as you see there --

15 **Q. Yes.**

16 A. -- on the schedule.

17 **Q. Yes.**

18 A. And I told you the \$485,000 increase  
19 represents an 11.91 percent increase.

20 **Q. And what is the overall percentage increase**  
21 **from \$55,000 revenue, roughly, to your 485,000?**

22 A. Your --

23 **Q. Can you do that math for me?**

24 A. Well, I can say that 485 divided by 55 is 8.8  
25 times.

1           **Q.       Okay. And an eight -- an over 800 percent**  
2 **increase in revenue --**

3           A.       No.

4           **Q.       -- for Warrensburg?**

5           A.       No.

6           JUDGE JONES: I'm not -- maybe I don't know  
7 what's going on or something. But what are we talking  
8 about? Are we talking about rate design or are we  
9 talking about consolidation?

10          MR. CURTIS: We're talking about overall  
11 revenue increase under his proposed SDP for Warrensburg.

12          JUDGE JONES: Which is under rate design or  
13 consolidation?

14          MR. CURTIS: It is under rate design, I  
15 believe. I'm looking at his Exhibit Number 53.

16          THE WITNESS: Which is a consolidation.

17          JUDGE JONES: This exhibit was created while  
18 discussing consolidation.

19          MR. CURTIS: Yeah.

20          JUDGE JONES: So let's stop talking about  
21 consolidation and start talking about rate design. We're  
22 going to talk about consolidation again this afternoon.

23          MR. CURTIS: Well, I'm merely trying to show  
24 the math increase would be an over 800 percent increase  
25 for Warrensburg from the --

1 THE WITNESS: That's not correct, sir.

2 MR. CURTIS: It is.

3 MR. POSTON: Judge, could I just point out,  
4 since we did just get this schedule, this is really our  
5 only opportunity to cross-examine him on this, even on  
6 issues of consolidation.

7 JUDGE JONES: That's a good point, because  
8 you have to leave today, don't you?

9 THE WITNESS: I do.

10 JUDGE JONES: That being so, in all fairness,  
11 we need to go back to MIEC and let him finish talking  
12 about it then. I mean...

13 MR. DOWNEY: Judge, I was willing to take  
14 this up with the next Missouri American witness, but --

15 JUDGE JONES: You're able to -- you're able  
16 to cross the next Missouri American witness on that?

17 MR. DOWNEY: But Mr. Herbert is the one that  
18 I understood was in control of running the calculations.  
19 And that's why I was asking him the questions, you know,  
20 since we have this one out here, which is Exhibit 53, can  
21 he prepare another one with another scenario that  
22 increases the number of customers in -- well, the minimum  
23 number of customers in the other district?

24 JUDGE JONES: Who's the other witness?

25 MR. DOWNEY: McDermott.

1 MR. ENGLAND: Your Honor --

2 JUDGE JONES: Can McDermott answer these  
3 questions?

4 MR. ENGLAND: No, he cannot. He's our policy  
5 witness on consolidated pricing. If Mr. Downey has  
6 questions regarding the exhibit, they're best directed to  
7 Mr. Herbert.

8 JUDGE JONES: Okay. You guys are really  
9 screwing up my transcript, you know that.

10 MR. ENGLAND: But let me -- let me clarify,  
11 if I -- what Mr. Downey wants Mr. Herbert to do and who  
12 is reluctant to do it because it costs the Company  
13 money --

14 JUDGE JONES: Right.

15 MR. ENGLAND: -- is to present -- create a  
16 sixth scenario. And we'll do what the Commission orders  
17 us to do, if they think that information is valuable. I  
18 think Mr. Herbert has indicated he can do that. Where we  
19 go from here is up to the Commission.

20 JUDGE JONES: I don't have any particular  
21 reason to want to see any more numbers and different  
22 scenarios.

23 It sounds like, Mr. Downey, what you have is  
24 an argument to be presented in post-briefing,  
25 post-hearing briefs.

1 MR. DOWNEY: Except for the fact that the  
2 witness who is preparing all these different scenarios is  
3 not going to prepare a scenario that I can show the  
4 Commission or the Commission can consider.

5 JUDGE JONES: Why would he? He's getting  
6 paid by Missouri American, not you guys. Why would he  
7 work for you?

8 MR. DOWNEY: Well, apparently he had no  
9 trouble preparing an exhibit that was the Staff  
10 consolidation, excluding Joplin and St. Joe -- or the  
11 Riverside, I'm sorry, the Riverside. It was the Staff  
12 consolidation modified to have separate tariff pricing  
13 for -- district tariff pricing for St. Joe and Joplin.  
14 And then he prepared -- at Commissioner Rupp's request  
15 prepared Exhibit 53.

16 And so I was just -- it seems like we ought  
17 to have an exhibit that shows this Commission what it  
18 would look like if we had a stand-alone with St. Louis  
19 Metro, which has, by the way, already been paying rate  
20 increases since the last rate case because of the ISRS  
21 surcharge.

22 JUDGE JONES: I'm inclined to encourage you  
23 to create your own evidence. I mean, I don't know how  
24 the commissioners feel about that, but...

25 MR. DOWNEY: Well --

1 JUDGE JONES: Because if he does that, if  
2 he -- he won't be able to be cross-examined on whatever  
3 he creates, because the hearing's not going to go into  
4 next week.

5 MR. DOWNEY: Then -- then may I suggest I  
6 have some more questions for him? And he can perform the  
7 calculations on the stand. But what I'd like to see is  
8 exactly the type of analysis that Warrensburg is asking  
9 for for all of the districts, including St. Louis Metro.  
10 Because what this -- as I understand it, what Mr. Curtis  
11 is bringing out is the Warrensburg rate increase is going  
12 to be eight times what -- what Exhibit 52 shows that it  
13 should be under Exhibit 53. And it's probably more like  
14 nine times.

15 JUDGE JONES: Well --

16 MR. DOWNEY: And I'd like to know the same  
17 type of information for the other districts so that -- so  
18 that we as the consumers can see how this is impacting us  
19 because, unfortunately, this exhibit does not give us  
20 that information. What is your -- what is your increase  
21 in revenue requirement attributed to your class if we had  
22 single-tariff pricing?

23 JUDGE JONES: Well, to the extent that he's  
24 able to answer that question on the stand, in light of  
25 not being able to actually create a document reflecting

1 the answers to those questions until next week, sure, ask  
2 them.

3 MR. ENGLAND: Your Honor.

4 JUDGE JONES: Yes, Mr. England.

5 MR. ENGLAND: I'm sorry, but I need to inject  
6 myself into this.

7 JUDGE JONES: Go ahead.

8 MR. ENGLAND: The simple calculation of  
9 comparing, as Mr. Curtis suggests, the percentage  
10 increase from 55,000 to 485,000 is a mathematical  
11 exercise that can be done, as you pointed out, in a  
12 post-hearing brief. The problem is Mr. Curtis is trying  
13 to get this witness to agree that that's an 800 or  
14 900 percent increase in the revenue requirement assigned  
15 to Warrensburg. That's incorrect. It's either a  
16 1.3 percent -- 3.7 percent increase under district  
17 specific or it's an 11.9 percent increase under single  
18 tariff.

19 The way he's trying to characterize that is  
20 something the witness is not willing to agree to. The  
21 math exercise Mr. Curtis can do, Mr. Downey can do,  
22 everyone in this room can do. The numbers are here in  
23 the record.

24 MR. DOWNEY: Judge, before you rule, one of  
25 the numbers that's not in the record for each class is



1 the percentage increase. As I understood it,  
2 Mr. Herbert, you had to calculate that on the stand for  
3 Warrensburg?

4 THE WITNESS: No, that was the overall  
5 percentage increase for the total Warrensburg District --

6 MR. DOWNEY: And where did you --

7 THE WITNESS: -- not by class.

8 MR. DOWNEY: Is that on this exhibit?

9 THE WITNESS: It is. On the fourth page of  
10 the packet at the top shows the overall revenue increase  
11 for each district percentage wise.

12 MR. DOWNEY: Okay. Well, then, Judge, I'll  
13 have just a few more questions.

14 JUDGE JONES: Of Mr. Herbert?

15 MR. DOWNEY: Yes.

16 COMMISSIONER KENNEY: Could I ask a question?

17 JUDGE JONES: Yes, Commissioner Kenney.

18 COMMISSIONER KENNEY: Mr. Herbert, you took  
19 that 11.91 percent and multiplied it times the 4,074,407  
20 annualized revenue to come up with the increase?

21 THE WITNESS: I did.

22 COMMISSIONER KENNEY: 485? That's how you do  
23 it; right?

24 THE WITNESS: That's how I did it.

25 COMMISSIONER KENNEY: So everybody can do the

1 same thing on --

2 THE WITNESS: They can.

3 COMMISSIONER KENNEY: Okay. So if you take  
4 all those on page 4, take the revenue requirement,  
5 multiply it, they'll get that increase, that amount;  
6 correct?

7 THE WITNESS: They take their percentage  
8 increase for the district on the fourth page of this --  
9 of Exhibit 53 and take Exhibit 52, the middle column,  
10 which is the present annualized revenue for each  
11 district, they can calculate their -- the increase under  
12 the single-tariff pricing.

13 COMMISSIONER KENNEY: That seems pretty  
14 simple. Thank you.

15 JUDGE JONES: Okay. Mr. Downey, ask three  
16 questions and not compound questions.

17 FURTHER CROSS-EXAMINATION BY MR. DOWNEY:

18 **Q. All right. Mr. Herbert, what is 188,000 --**  
19 **excuse me, 188 million multiplied by 19.53 percent --**  
20 **excuse me, 1.1953. Not 19.53 percent, 1.1953.**

21 JUDGE JONES: You say 1.1539?

22 MR. DOWNEY: 1.1953.

23 JUDGE JONES: Why don't I just do it right  
24 here on my computer?

25 THE WITNESS: I got 224,925,000.

1 BY MR. DOWNEY:

2 Q. 224 -- give me that number again.

3 A. 224,925,000.

4 Q. And that's versus what is shown on MAWC 52,  
5 which is 26,722,000?

6 A. No, that's -- you're comparing apples and  
7 oranges. You asked me to multiply by 1.1953, and that's  
8 what I did, to come up with the total revenue. The 26  
9 million is the increase.

10 Q. All right. So it should have been  
11 19.53 percent?

12 A. That turns out to be about 36 million,  
13 just...

14 MR. DOWNEY: No further questions, Judge.

15 JUDGE JONES: All right. And back to  
16 Warrensburg.

17 MR. CURTIS: Judge, I have no further  
18 questions. Thank you.

19 JUDGE JONES: Public Water Supply Districts?

20 MR. DORITY: Judge, may I sell my three  
21 questions? I have no questions. I'm sorry.

22 JUDGE JONES: If I had to buy them...

23 Stonebridge?

24 Looks like Triumph is gone.

25 OPC?

1 MR. OPITZ: Just a few, Judge. May I have  
2 permission to cross from my seat?

3 JUDGE JONES: Yes. Yes.

4 MR. OPITZ: Thank you.

5 CROSS-EXAMINATION BY MR. OPITZ:

6 Q. Good morning, Mr. Herbert.

7 A. Good morni ng.

8 Q. You performed the Class Cost of Service Study  
9 and rate design for the Company; correct?

10 A. I did.

11 Q. And in your Class Cost of Service Study you  
12 used a factor to allocate the purchased power expense;  
13 right?

14 A. I did.

15 Q. And can you tell me what factor you used to  
16 allocate that expense?

17 A. Factor 1 based on average daily use.

18 Q. And is this method what has been used by  
19 Missouri American Water in the past for allocating that  
20 cost?

21 A. It has.

22 Q. Thank you. I've got a couple questions about  
23 some of your exhibits here. Can you tell me what the --  
24 and I believe -- do you have a copy of Exhibit 48 from  
25 yesterday with you?

1 A. I do.

2 Q. I believe this was the Company's proposal  
3 with their three consolidated districts; is that right?

4 A. This would -- is the original Company's  
5 districts with -- at the settlement level of revenue  
6 increase.

7 Q. Thank you. And I -- is there somewhere on  
8 there where I can find the overall revenue requirement  
9 recovered from the St. Louis Metro area?

10 A. I can only do the same exercise that I was  
11 doing before with the representative from Warrensburg. I  
12 can take the 17.11 percent times the existing revenue.

13 Q. And so can you tell me what that dollar  
14 amount would be?

15 A. \$32,197,000, approximately.

16 Q. And how much of that is related to ISRS  
17 costs?

18 A. I don't know.

19 Q. Okay. Do you know what kind of costs are  
20 generally included in the ISRS?

21 A. I believe -- I'm not as familiar with that as  
22 I am in like Pennsylvania, but I believe it's  
23 distribution-related costs. It may -- I can't say for  
24 sure whether it includes meters and services and  
25 hydrants, but I'm sure it includes mains. I'm not sure

1 what else. I don't -- I'm not involved in that  
2 calculation.

3 **Q. Okay. And on Exhibit 48, page 3 -- do you**  
4 **have that with you?**

5 A. I do.

6 **Q. If I'm looking at the St. Louis Metro area,**  
7 **there is a difference there in column C, row 8 that says**  
8 **\$13,388,589; correct?**

9 A. Yes.

10 **Q. And that's the amount of money for that**  
11 **revenue requirement that will be collected in the**  
12 **customer charge; is that right?**

13 A. That's the amount of increase in the customer  
14 charge revenue.

15 **Q. So if the -- is it accurate to say that if**  
16 **the Company is asking for approximately a \$32 million**  
17 **revenue increase in the St. Louis Metro area -- I believe**  
18 **that's what you said you calculated -- that 13.3 of that**  
19 **is going to be recovered through a fixed customer charge?**

20 A. I believe that's correct.

21 **Q. Now, you were here yesterday, Mr. Herbert;**  
22 **correct?**

23 A. Yes.

24 **Q. And were you here when Ms. Norton was on the**  
25 **stand?**

1 A. No.

2 Q. Would you accept if I represented to you that  
3 she suggested a particular question be directed to your  
4 attention related to allocation of a certain sewer cost?

5 A. I hope I can answer it.

6 Q. Okay. Are you familiar with what has been  
7 referred to during this hearing as an Arnold sewer cost  
8 shortfall?

9 A. I'm -- I'm moderately familiar with it.

10 Q. And what is your understanding of what that  
11 shortfall is?

12 A. There is a level -- my understanding is, and  
13 I'm not sure this is correct, but there's a level of cost  
14 of service for Arnold that the Company is only recovering  
15 whatever they proposed in their rates. And it's a  
16 shortfall of, I believe it's \$700,000. I don't know for  
17 sure.

18 Q. But you are sure that there is a shortfall  
19 that's there?

20 A. I believe -- I believe there is.

21 Q. Now, in the Class Cost of Service Study that  
22 you performed, does the Company propose to treat that  
23 revenue shortfall in a particular way?

24 A. I believe our original proposal would be to  
25 recover that by proposing rates for all sewer customers

1 that would recover the total cost of sewer service.

2 **Q. Is it your understanding that this shortfall**  
3 **is in part caused by the Company's representations to the**  
4 **people of Arnold that their rates would remain at a**  
5 **certain level?**

6 A. I believe that the Company has made a  
7 commitment to maintain a certain level of rates under  
8 proposed rates.

9 **Q. So -- so I believe -- and correct me if I'm**  
10 **wrong. I believe you included that shortfall related to**  
11 **Arnold sewer in your analysis in Exhibit 48; is that**  
12 **correct?**

13 A. No.

14 **Q. You did not?**

15 A. We did not.

16 **Q. Okay. Is that --**

17 A. I confirmed that yesterday. I wasn't sure  
18 yesterday, but after -- after the hearing I confirmed it.

19 **Q. And is that shortfall included in what was**  
20 **offered today as Exhibit 53?**

21 A. No.

22 **Q. Okay. Thank you. I believe you testified**  
23 **just this morning that it's your belief that a customer**  
24 **has total control over their bill?**

25 A. I believe they do, yes.



1           **Q.       Do you agree that the only control a customer**  
2 **has over the customer charge is to disconnect entirely?**

3           A.       I -- if they didn't want to have water, I  
4 suppose.

5           **Q.       What other control does the customer have**  
6 **over the customer charge that they're required to pay?**

7           A.       Well, if they want water service, then they  
8 have to pay the customer charge. So they have -- they  
9 don't have any control over that amount of their bill.

10           MR. OPITZ: That's all the questions I have,  
11 Judge. Thank you.

12           JUDGE JONES: Staff of the Commission?

13           MS. MYERS: No questions, Your Honor.

14           JUDGE JONES: Commissioner questions?

15           Mr. Chairman?

16           CHAIRMAN HALL: Yeah.

17 QUESTIONS BY CHAIRMAN HALL:

18           **Q.       Good morning.**

19           A.       Good morning.

20           **Q.       I want to make sure I understand your**  
21 **testimony on -- on the customer charge. And I'm looking**  
22 **at your supplemental testimony, and I believe you said**  
23 **this in other locations as well. But on page 3, line 9**  
24 **where you advocate for a 17.42 customer charge for**  
25 **residential five-eighths meters.**

1 A. In our original filing that -- that 17.42  
2 were the customer costs. We actually proposed the rate.  
3 We rounded it down to 17.40.

4 **Q. Okay. And I understand now that the Company**  
5 **is advocating a 16.90, based upon the agreed-to revenue**  
6 **requirement, but --**

7 A. That's correct.

8 **Q. Okay. So in your view does the 17.42 cover**  
9 **all of the customer costs?**

10 A. Yes. And that's shown in my Exhibit PRH-2.

11 **Q. Okay.**

12 A. That was -- that was attached to my rebuttal  
13 testimony.

14 **Q. Then help me reconcile that with the**  
15 **testimony and the evidence that the current customer**  
16 **charge only covers 23 percent of the Company's current**  
17 **revenues. That seems inconsistent to me.**

18 A. Well, I believe I testified yesterday it  
19 was -- the existing customer charges recovered  
20 21-and-a-half percent of the existing revenues. And then  
21 we were -- the 17.42 level was -- increased that up to  
22 24-and-a-half percent of total revenue.

23 **Q. Okay. So is it your position that**  
24 **24-and-a-half percent of the costs that the Company**  
25 **incurs are related to the customer costs?**

1 A. Customer costs, yes. Pure customer costs.

2 Q. Okay.

3 A. There are other fixed costs in the system  
4 that aren't customer costs. These are just -- the  
5 24-and-a-half percent are just the customer costs portion  
6 of the fixed costs. 90 percent of the costs are fixed of  
7 the total revenue. 24-and-a-half percent are customer  
8 costs.

9 Q. **What costs are fixed costs that are not**  
10 **customer costs?**

11 A. Oh, all the investment in mains and treatment  
12 plants and all -- all those costs are fixed. They --  
13 they're sitting there every day to meet the demands of  
14 the customers. And the return and depreciation expense  
15 and income taxes that they have to pay based on that  
16 investment is all considered a fixed cost.

17 The variable costs on the system are strictly  
18 those that vary with the amount of water produced, which  
19 are chemicals and power to pump.

20 Q. **And what is -- and what is the public policy**  
21 **rationale for connecting a customer charge to the**  
22 **customer costs?**

23 A. It's just the -- because those are the local  
24 fixed costs for each individual customer. It's -- it's  
25 his meter, the investment in that meter, the depreciation

1 expense on that meter, the operation and maint --  
2 operation and maintenance expense --

3 **Q. I think you're just explaining again what are**  
4 **the customer costs. I'm trying to go a little bit**  
5 **deeper --**

6 A. Okay.

7 **Q. -- and understand why -- what is the public**  
8 **policy rationale in connecting a customer cost --**  
9 **customer cost to a customer charge?**

10 A. Because those -- those costs don't vary with  
11 amount of use. So that --

12 **Q. Again, I still don't understand what is the**  
13 **public policy rationale. I understand --**

14 A. The public pol --

15 **Q. -- the definitions of the two. I want to**  
16 **know why we as a Commission in setting a customer charge**  
17 **should look to the customer costs in setting that. Why?**

18 A. Because that is the cost that each individual  
19 customer is responsible for without any usage.

20 **Q. Is it a cost causation --**

21 A. Yes.

22 **Q. -- argument --**

23 A. Yes.

24 **Q. -- that you're making?**

25 A. Yes.

1           **Q.       Okay. Could you elaborate on that? What is**  
2 **the cost causation argument?**

3           A.       Okay. Every -- every customer has a meter  
4 and a service line. There are costs associated with  
5 those. Every -- every customer gets a bill either  
6 monthly or quarterly. There are costs associated with  
7 that. I also included costs associated with public fire  
8 service because there are no public hydrant rates, which  
9 are fixed costs that need to be recovered. And so I  
10 include those costs as costs that need to be recovered  
11 from each customer because the Company doesn't have  
12 public fire hydrant rates.

13                   So those -- those fixed costs that don't vary  
14 with the amount of use needs to be recovered from each  
15 customer because they're -- each customer is responsible  
16 or cause those costs --

17           **Q.       But there are --**

18           A.       -- to be --

19           **Q.       But there are a whole host of costs -- fixed**  
20 **costs that you're not advocating be recovered through a**  
21 **customer charge?**

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

23           **Q.       Now, somewhere in your -- in your written**  
24 **testimony you make the assertion that demand for water is**  
25 **inelastic; is that correct?**

1 A. Yes, it is. Relatively.

2 Q. Well, that's an important word there.

3 A. Well --

4 Q. Your written testimony didn't include that  
5 qualification. So when you say relatively, you mean  
6 relative to what?

7 A. It's inelastic to a point. Most -- most  
8 customers enjoy using the amount of water that they feel  
9 they need. I would imagine if there's a price that gets  
10 to a certain point, it's going to start -- that would  
11 start to send the price signals to the customer that they  
12 may want to conserve, but that sometimes doesn't get up  
13 until much higher usage levels.

14 Q. So do you -- do you base your view on the  
15 inelasticity of -- the inelastic demand curve for water  
16 consumption, do you base that on Missouri American  
17 specific information? Do you base that on national  
18 information? Do you base it on just general economic  
19 principles? What's the basis for that?

20 A. General industry -- water industry-wide  
21 concepts.

22 Q. So nothing specific to Missouri American?

23 A. Not -- not specifically, no.

24 Q. And -- and so I think what you said is that  
25 it's relatively inelastic to a point. So -- so as price

1 **increases, it will become more elastic?**

2 A. Well, let me -- let me clarify a little bit.  
3 I think the nondiscretionary use, the winter use, the  
4 indoor house use is very inelastic. It's the  
5 discretionary use, the outdoor use, how many times you  
6 want to water your lawn or your -- you know, your plants,  
7 if you have a garden, or how often you wash your car.  
8 That's more discretionary use. That's more elastic than  
9 the indoor use.

10 **Q. So is that an argument for inclining block**  
11 **rates?**

12 A. I think inclining block rates are appropriate  
13 where supplies are constrained.

14 **Q. What if -- what if this Commission -- and I'm**  
15 **speaking hypothetically. But what if this Commission**  
16 **believed that conservation is a -- is an important public**  
17 **policy goal, regardless of whether or not there are**  
18 **specific shortages right now? If we were to make that**  
19 **determination, would inclining block rates make sense --**

20 A. Inclining --

21 **Q. -- as a way -- as a way to meet that goal?**

22 A. It can be. It can be simply if you want to  
23 curb summer use, you could have a higher rate for the  
24 summer months as a potential way of encouraging  
25 conservation during peak periods, which is when the --

1 sometimes the system facilities are, you know, at high  
2 demands is during the summer.

3 **Q. Now, in your -- in your testimony -- and I**  
4 **understand that the Company is not advocating for**  
5 **inclining block rates -- but you set forth what you**  
6 **believe would be a reasonable structure for inclining**  
7 **block rates; is that correct?**

8 A. Are you referring to my supplemental  
9 testimony?

10 **Q. Yes, I am.**

11 A. Yes.

12 **Q. Why is this three-block structure that you**  
13 **propose better than the two-block structure that Staff**  
14 **suggests?**

15 A. Well, I think -- I think you have certain  
16 different customers. You have those that pretty much  
17 just use water indoors and use the same amount all year  
18 round. Their winter use is very similar to their summer  
19 use. I think that should be priced at the lowest rate,  
20 at a certain level, which would be your first block.

21 I think there's some customers that have some  
22 level of discretionary use, but it's not excessive. So I  
23 think they should pay more for that, but not to an extent  
24 where it's punitive.

25 There are some people that just use water



1 I like crazy. And that's -- that third block is where I  
2 think a higher rate is more appropriate to discourage  
3 that, what I would call more excessive discretionary use  
4 or maybe in certain circumstances would be wasteful use.

5 **Q. Do you believe that there is any relationship**  
6 **between income and water consumption?**

7 A. There is some correlation, yes.

8 **Q. And are you basing that, again, on national**  
9 **research or is there anything specific to Missouri**  
10 **American that --**

11 A. Nothing -- national research. Not  
12 anything --

13 **Q. Is that --**

14 A. -- specific.

15 **Q. Is that -- is that some relationship, is that**  
16 **disputed or are there -- are there some people that --**  
17 **some in the industry that would dispute that?**

18 A. I'm not -- I'm not aware either way.

19 **Q. Okay.**

20 A. I don't know. But I've found that there  
21 are -- where lot sizes are larger, the homes are bigger,  
22 they tend to use more water --

23 **Q. Yeah. And that's --**

24 A. -- in my -- in some of the demand studies  
25 that I've done that actually looked at low-density

1 housing, as opposed to medium as opposed to high density  
2 with, you know, townhouses and that kind of thing. The  
3 use per customer is higher in a low -- low-density  
4 neighborhoods.

5 **Q. That seems reasonable to me as well. Are**  
6 **there any investor-owned water companies that you're**  
7 **aware of in the country that have inclining block rates**  
8 **for industrial and commercial --**

9 A. Well --

10 **Q. -- that you're aware of?**

11 A. Well, yeah, there is one -- one I'm involved  
12 in right now. It's SUEZ New York. They currently have  
13 inclining block rates for all classes.

14 **Q. What -- I don't understand how -- I mean, I**  
15 **can understand inclining block rates for residential, but**  
16 **I don't understand why -- what the public policy**  
17 **rationale would be for doing commercial or industrial,**  
18 **because you would seem to me to be penalizing larger**  
19 **companies who may be as efficient or more efficient than**  
20 **smaller companies.**

21 A. I agree. And I don't think inclining block  
22 rates are appropriate for commercial or industrial.

23 **Q. But you do support level block rates for**  
24 **industrial and commercial?**

25 A. I do.

1           **Q.       Let me go back to the customer charge just**  
2 **for a moment. What is the public policy rationale for**  
3 **having a statewide tariff pricing for the customer charge**  
4 **as opposed to the volumetric charge?**

5           A.       Well, as I -- I do recognize there are cost  
6 differences among the districts to -- to -- based on  
7 different sources of supply and treatment costs. There  
8 are costs -- costs that are different to produce the  
9 water. However, the customer costs, the cost of a meter,  
10 cost of a service line, and the cost to bill the customer  
11 is pretty much the same facilities. The costs can vary  
12 maybe because of the age of those facilities, but I  
13 can't, you know, really pinpoint anything else that --  
14 why those costs would be different among the districts.  
15 So I think a uniform customer charge across the state  
16 makes sense because of that.

17           **Q.       Okay. And I'm jumping around -- jumping**  
18 **around a little bit, and I apologize for that. But going**  
19 **back to the inclining block rates for residential**  
20 **customers, I know that's not something proposed by the**  
21 **Company. Does the Company view that as harmful?**

22           A.       Well, inclining block rates can -- you know,  
23 if you don't do it right, if you don't have a -- kind of  
24 a decoupling mechanism, you know, you're going to put  
25 more dollars in -- at risk for -- you know, if it does --

1           **Q.       Well, not if you're riding on inelasticity of**  
2 **demand for water.**

3           A.       Well, if you include some reduction --  
4 projected reduction in usage when you design the rates,  
5 that would help. That would -- that would help curb --

6           **Q.       Well, but in this case --**

7           A.       -- curb the loss of revenue.

8           **Q.       In this case the revenue requirement is set.**  
9 **And so -- so all we would be doing is shifting the**  
10 **volumetric charge around, but getting the same result --**

11          A.       Yes, but you --

12          **Q.       -- unless the inclining block rates actually**  
13 **triggered the conservation that -- that I believe would**  
14 **be good policy.**

15          A.       It would -- it would subject more dollars at  
16 risk for -- for the conservation that may occur and  
17 already occurring, as the Company has shown over time  
18 residential usage has been going down.

19                   CHAIRMAN HALL: Okay. All right. Thank you.

20                   JUDGE JONES: Commissioner Stoll?

21                   COMMISSIONER STOLL: I have no questions.

22                   Thank you.

23                   JUDGE JONES: Commissioner Kenney?

24                   COMMISSIONER KENNEY: No questions.

25                   JUDGE JONES: Commissioner Rupp?

1           COMMISSIONER RUPP: No questions. Thank you.

2           JUDGE JONES: Commissioner Coleman?

3           COMMISSIONER COLEMAN: No questions.

4           JUDGE JONES: Recross based on the chairman's  
5 questions?

6           MR. ANTAL: Just a few.

7 RECROSS-EXAMINATION BY MR. ANTAL:

8           **Q. Hello again, Mr. Herbert.**

9           A. Hello.

10          **Q. You were speaking with the chairman about the**  
11 **costs you included in the customer charge. And I believe**  
12 **you stated earlier that you included a portion of**  
13 **administrative and general expenses?**

14          A. Yes.

15          **Q. Okay. And is it your understanding that the**  
16 **AWW manual states that those are optional allocations or**  
17 **optional expenses --**

18          A. No, if you --

19          **Q. -- to be --**

20          A. -- read --

21          **Q. -- included?**

22          A. If you read the manual fully, you'll see in  
23 the example where they determine what the customer costs  
24 are. It includes administrative and general expenses.

25          **Q. Okay. And that's just an example of how it**

1 **calculates?**

2 A. It's their way of doing it. It's just  
3 showing how -- here's how you do it.

4 **Q. Okay.**

5 A. And -- and it shows including administrative  
6 and general expenses in those costs.

7 **Q. Okay. So then is there, to your**  
8 **understanding, any discretion that the AWW manual gives**  
9 **to the person calculating the costs of the Class Cost of**  
10 **Service Study?**

11 A. The -- the rate analysts can pretty much  
12 follow the manual any way they see fit. But the example  
13 in the manual definitely shows administrative and general  
14 expenses being allocated to customer cost functions.

15 **Q. So you're saying that there is some**  
16 **discretion?**

17 A. Anyone can feel that they aren't -- wouldn't  
18 do that if they -- if they felt that that's appropriate.  
19 But that's not what the manual shows.

20 **Q. Okay. In their example?**

21 A. In the example and when they describe how to  
22 do it --

23 **Q. Okay.**

24 A. -- how to determine customer costs.

25 **Q. Okay. Again, on the customer charge, just to**

1 **clarify, the Company's current position is that it should**  
2 **be \$16.90?**

3 A. 16.90 -- \$16.90 statewide, based on the  
4 settlement level of revenue requirement.

5 **Q. Okay. And so you made that adjustment from**  
6 **17.40 to 16.90 based off the difference in the Company's**  
7 **originally-filed revenue requirement --**

8 A. Yes.

9 **Q. -- to the settled?**

10 A. Yes.

11 **Q. Okay. And that's a roughly \$23 million**  
12 **difference?**

13 A. Whatever -- whatever the difference in the  
14 agreed to level is.

15 **Q. Was the Company's original filed revenue**  
16 **requirement approximately 53.7 million? No?**

17 A. Increase in revenue requirement?

18 **Q. I believe so. Is that -- is that not**  
19 **correct?**

20 A. My exhibit shows 49,276,000.

21 **Q. Based off your number, approximately 49**  
22 **million, and the revenue -- the settled revenue**  
23 **requirement of 30, that's approximately a \$19 million**  
24 **difference?**

25 A. Yes.

1           **Q.       Okay. And that yielded only a 50 cent --**  
2 **approximately a 50 cent decrease in the customer charge?**

3           A.       Yes. But that -- that doesn't -- you have  
4 other -- other costs that don't vary that much on the  
5 customer costs. They're all mostly fixed. So the amount  
6 of decrease in revenue requirement I just simply reran  
7 the cost analysis at the lower level of revenue  
8 requirement.

9           **Q.       Okay. And yet in Staff's calculation of the**  
10 **customer charge, based off the common revenue**  
11 **requirement, they calculated a multidollar increase; is**  
12 **that correct? Is that your understanding?**

13          A.       A multidollar increase?

14          **Q.       Yes. Like more than \$1, multidollar**  
15 **increase.**

16          A.       They're at 16.50, I believe, and -- for one  
17 zone and 14.80 for another zone and 14.50 for the third  
18 zone, I believe, something like that.

19          **Q.       Yes. And based off their originally filed --**  
20 **that's what they're at right now. But based off of the**  
21 **difference between their Class Cost of Service Study,**  
22 **which the customers --**

23          A.       Which was based on Staff's original revenue  
24 requirement, which was much lower than the settlement  
25 level of revenue requirement.



1 Q. And do you know the difference between --

2 A. No.

3 Q. -- Staff's revenue requirement?

4 A. I don't recall.

5 Q. Okay. But you think it's much larger than 19  
6 million?

7 A. I don't know what the Staff did to their  
8 recalculation of their customer costs, whether it was  
9 simply just a change in revenue requirement or they made  
10 some other changes. I don't know.

11 MR. ANTAL: Okay. No further questions.

12 Thank you, sir.

13 JUDGE JONES: MIEC?

14 MR. DOWNEY: No questions.

15 JUDGE JONES: City of Brunswick?

16 MR. DRAG: No questions.

17 JUDGE JONES: City of Joplin?

18 MS. BELL: No questions.

19 JUDGE JONES: Riverside?

20 MR. BEDNAR: No questions.

21 JUDGE JONES: St. Joseph?

22 MR. LAWYER: No questions.

23 JUDGE JONES: Warrensburg?

24 MR. CURTIS: No questions.

25 JUDGE JONES: Public Water Supply Districts?

1 MR. DORITY: No questions. Thank you.

2 JUDGE JONES: Triumph?

3 MR. HARDEN: No questions.

4 JUDGE JONES: OPC?

5 MR. OPITZ: Yes, Judge. May I inquire from  
6 my seat?

7 JUDGE JONES: Yes.

8 RECROSS-EXAMINATION BY MR. OPITZ:

9 Q. Mr. Herbert, I believe in your discussion  
10 with chairman -- the chairman talking about usage, you  
11 mentioned that you had performed certain demand studies?

12 A. Yes.

13 Q. Did you perform those for this case?

14 A. I did not.

15 Q. Are those demand studies publicly available  
16 anywhere?

17 A. Yes.

18 Q. And can you tell me where those would be  
19 available?

20 A. They would be in the current Illinois  
21 American rate case and in previous United of -- United of  
22 Pennsylvania, I think it was the 2011 case.

23 Q. Okay.

24 A. Those are the most recent ones I've done.

25 Q. Thank you. And you also discussed with the

1 chairman customer charge. And it seemed that you agree  
2 that not all fixed costs should be recovered through a  
3 customer charge; is that right?

4 A. That's correct.

5 Q. Would you agree that the customer charge  
6 should be related to only the incremental costs added by  
7 that customer?

8 A. No, it should include all meter services,  
9 customer billing --

10 Q. Thank you.

11 A. -- and fire costs and an allocated portion of  
12 administrative and general costs to those functions.

13 MR. OPITZ: Thank you. No more questions,  
14 Judge. Thank you.

15 JUDGE JONES: Okay. I do want to remind you  
16 all that we need to stop at ten till. Agenda's at noon  
17 today. But with that in mind, let's go ahead and keep  
18 going for the next ten minutes.

19 Staff, cross?

20 MS. MYERS: No cross, Your Honor.

21 JUDGE JONES: Redirect?

22 MR. ENGLAND: Thank you, Your Honor.

23 REDIRECT EXAMINATION BY MR. ENGLAND:

24 Q. Following up on a question you received from  
25 Mr. Antal with the Department of Energy -- or Division of

1 **Energy, excuse me, is it your testimony that a decrease**  
2 **in the customer charge that you've testified to today is**  
3 **not proportionate to the decrease in the revenue**  
4 **requirement?**

5 A. I'd have to calculate that. I don't -- I  
6 don't believe it is.

7 **Q. I guess my question is are they --**

8 A. Linear?

9 **Q. -- comparative -- well, are they linked?**

10 A. Well, what -- what I did is took the lower  
11 level of revenue requirement and simply did my customer  
12 cost analysis from that, and that produced the 16.90, in  
13 the same fashion as I calculated the 17.40.

14 **Q. All right. Well, assuming that the**  
15 **original-filed request was 50 million, the settled amount**  
16 **is 30 million, that's roughly a 40 percent increase. And**  
17 **my question: Is it a simple -- is it a simple exercise**  
18 **of just decreasing everything by 40 percent --**

19 A. No.

20 **Q. -- or is it a little more involved --**

21 A. No --

22 **Q. -- than that?**

23 A. -- because a lot of the decrease was  
24 attributed to higher level of present revenue, not a cost  
25 decrease. I think that's -- that's where it's not being

1 reflected linearly.

2 **Q. Thank you. And is there a difference between**  
3 **the cost -- excuse me, Class Cost of Service Study that**  
4 **you performed and the allocation of corporate costs to**  
5 **the various districts that the Company performs?**

6 A. Yes. I allocate costs after the Company --  
7 after the Company has already allocated those costs to  
8 the various districts.

9 **Q. So getting back to the question regarding**  
10 **Arnold, if the Company has allocated fewer costs to the**  
11 **Arnold district, you wouldn't know that; you just take**  
12 **the number they give you to allocate to the various**  
13 **classes --**

14 A. That's correct.

15 **Q. -- correct?**

16 MR. ENGLAND: Thank you. I have no other  
17 questions.

18 JUDGE JONES: Okay. With that then,  
19 Mr. Herbert, you may step down.

20 (Witness excused.)

21 JUDGE JONES: I guess we should go ahead and  
22 stop now, go off the record, and we'll come back here at  
23 1:00.

24 (Off the record.)

25 JUDGE JONES: Okay. We're back on the record

1 in WR-2015-0301. And we are discussing district  
2 consolidation and consolidated pricing, beginning with  
3 Missouri American's witness on this issue.

4 Yes, Mr. England.

5 MR. ENGLAND: Thank you.

6 Would you please state your name and --

7 JUDGE JONES: Oh, let me swear you in first.

8 MR. ENGLAND: Oh, sorry.

9 KARL MCDERMOTT,

10 after having been first duly sworn, was  
11 examined and testified on his oath as follows:

12 JUDGE JONES: Thank you, sir.

13 DIRECT EXAMINATION BY MR. ENGLAND:

14 **Q. Would you please state your name and by whom**  
15 **you're employed?**

16 A. My name is Karl, with a K, McDermott,  
17 M-C-D-E-R-M-O-T-T. And I'm the Ameren distinguished  
18 professor of business and government at the University of  
19 Illinois-Springfield and a special consultant at National  
20 Economic Research Associates.

21 **Q. Dr. McDermott, are you appearing today on**  
22 **behalf of Missouri American Water Company?**

23 A. Yes, I am.

24 **Q. And in that capacity have you caused to be**  
25 **prepared and filed in this case a document entitled**

1 **Direct Testimony of Karl A. McDermott that has been**  
2 **marked for identification as Missouri American Water**  
3 **Company Exhibit Number 12?**

4 A. Yes, I have.

5 **Q. And have you also caused to be prepared and**  
6 **filed in this case a document entitled Rebuttal Testimony**  
7 **of Karl A. McDermott, marked for purposes of**  
8 **identification as MAWC Exhibit 13?**

9 A. Yes, I did.

10 **Q. And, finally, have you caused to be prepared**  
11 **and filed in this docket a document entitled Surrebuttal**  
12 **Testimony of Karl A. McDermott, marked for purposes of**  
13 **identification as MAWC Exhibit 14?**

14 A. Yes, I did.

15 **Q. With reference to those exhibits, do you have**  
16 **any corrections that need to be made at this time?**

17 A. No, I do not.

18 **Q. If I were to ask you the questions appearing**  
19 **in those exhibits here today under oath, would your**  
20 **answers be the same?**

21 A. Yes.

22 **Q. And are those answers true and correct to the**  
23 **best of your knowledge, information, and belief?**

24 A. Yes.

25 **Q. Thank you, sir.**

1 MR. ENGLAND: I have no other questions for  
2 Dr. McDermott.

3 Would offer exhibits -- Missouri American  
4 Water Company Exhibits 12, 13 and 14, and tender him for  
5 cross-examination.

6 JUDGE JONES: Any objection? Seeing none,  
7 Missouri American Water Company Exhibits 12, 13, and 14  
8 are admitted into the record.

9 (MAWC Exhibits 12, 13, and 14 received into  
10 evidence.)

11 JUDGE JONES: We'll move right into  
12 cross-examination, beginning with Missouri Department of  
13 Energy.

14 MR. ANTAL: No cross. Thank you.

15 JUDGE JONES: MIEC?

16 MR. DOWNEY: No cross.

17 JUDGE JONES: City of Brunswick?

18 MR. DRAG: No questions, Your Honor.

19 JUDGE JONES: City of Joplin?

20 MS. BELL: Yes.

21 CROSS-EXAMINATION BY MS. BELL:

22 **Q. Good afternoon, Mr. McDermott. My name is**  
23 **Stephanie Bell, and I am with the City of Joplin today.**  
24 **I wanted to go over your direct testimony. You claim**  
25 **that the benefit for consolidated pricing is better**



1 **incentives for standard water quality; is that correct?**

2 A. That is one of them, yes.

3 **Q. And you said this enables the Company's**  
4 **recovery of government-mandated investments?**

5 A. That is correct. It helps in that.

6 **Q. When you say better incentives, you are**  
7 **referring to incentives for the Company; correct?**

8 A. Correct.

9 **Q. And in this context, incentivizing the**  
10 **Company to purchase struggling systems?**

11 A. Yes.

12 **Q. Again, you argue consolidated pricing enables**  
13 **recovery of government-mandated environmental investment?**

14 A. Correct.

15 **Q. Under the current rate structure, which many**  
16 **have described as district-specific pricing, the Company**  
17 **is able to recover costs associated with**  
18 **government-mandated investment already, isn't it?**

19 A. Yes.

20 **Q. You claim another benefit of consolidated**  
21 **pricing is better incentives for larger water companies**  
22 **to purchase smaller underperforming water companies?**

23 A. That's correct.

24 **Q. And when you mention incentives there, you're**  
25 **explicit that those incentives are for the Company;**

1 correct?

2 A. Correct.

3 Q. But under the current existing structure,  
4 Missouri American has purchased a number of small --  
5 small water districts; correct?

6 A. It has done that. And I just think that  
7 there's even a better incentive to continue doing that.

8 Q. Do you have any evidence of that?

9 A. Well, I think that all the states, in fact,  
10 like the states of Pennsylvania, have actually adopted a  
11 policy of single-tariff pricing to promote that very  
12 activity.

13 Q. So do you have any evidence that there has  
14 been more acquisitions of small water districts in  
15 Pennsylvania than already in Missouri over the same time  
16 period?

17 A. I have not done an exact comparison of those.  
18 No, I haven't.

19 Q. Okay. When there are small water -- did  
20 you -- you didn't hear the testimony yesterday, did you?

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

22 Q. But you understand when there are small  
23 struggling water districts that the Public Service  
24 Commission Staff may reach out to companies to purchase  
25 those districts?

1 A. That's one possibility, yes.

2 Q. **But granted -- granting consolidated pricing**  
3 **to Missouri American in this case only provides an**  
4 **incentive to Missouri American, not to all water**  
5 **companies who might purchase those struggling systems?**

6 A. I think that if you're moving towards a  
7 consolidated pricing or single-tariff pricing in a state,  
8 then that sends a signal to all the companies that if  
9 they undertake those actions, then they may end up  
10 getting that type of pricing.

11 Q. **But granting consolidated pricing to Missouri**  
12 **American only provides that incentive to Missouri**  
13 **American?**

14 A. For them at this moment, yes.

15 Q. **Correct. Okay. You also claim that**  
16 **consolidated pricing promotes state economic development**  
17 **goals?**

18 A. Yes.

19 Q. **And you claim those states with poor and**  
20 **inconsistent utility services will often fair poorly in**  
21 **quality of life determinations; is that correct?**

22 A. That's correct.

23 Q. **But you're not suggesting that one of those**  
24 **states that has poor and inconsistent utility services is**  
25 **Missouri, are you?**

1           A.       No. I'm just putting it out as an example of  
2 one of the benefits that comes as a result.

3           **Q.       Do you have any evidence that if there's a**  
4 **shift toward consolidation, the water quality in Joplin**  
5 **will improve?**

6           A.       I have not done a study of that nature.

7           **Q.       Do you have any evidence that in states where**  
8 **there's been a shift toward consolidation that those**  
9 **states have a better quality of life?**

10          A.       I have not done an explicit study of whether  
11 they have a better quality of life. But if it turns out  
12 that by having single-tariff pricing or what some people  
13 would call postage stamp pricing, which is the same price  
14 for a particular class of customer across the entire  
15 state, that they have the ability then to perform more  
16 work in the different areas to improve the quality.

17          **Q.       But you don't have any evidence showing that**  
18 **states with consolidated pricing are growing at a faster**  
19 **rate than Missouri or states with district-specific**  
20 **pricing?**

21          A.       I have not done any specific studies of that  
22 nature.

23          **Q.       You also argue that consolidated pricing**  
24 **benefits consumers in the long run?**

25          A.       Yes.

1           **Q.        You don't define long run, do you?**

2           A.        I don't believe I do in the testimony.

3           **Q.        Long run could be 50 years; correct?**

4           A.        It could be 50 years. I think it could be  
5 less than that. I think it could be ten years.

6           **Q.        Could it be more than that?**

7           A.        Could be more.

8           **Q.        Okay. Your fifth justification is that**  
9 **consolidated pricing lowers administrative and regulatory**  
10 **costs?**

11          A.        That's correct.

12          **Q.        Do you have any dollar figures for the**  
13 **purported lower of -- lowering of billing and collections**  
14 **or reduced costs of regulatory filings?**

15          A.        I did not do a specific study of those  
16 things, no.

17          **Q.        You claim that there is a national trend**  
18 **toward consolidation?**

19          A.        That's correct.

20          **Q.        And is that based on your Schedule KAM-2 --**

21          A.        It is.

22          **Q.        -- and KAM-3?**

23          A.        It is.

24          **Q.        Do you have those in front of you?**

25          A.        Yes, I do.

1           **Q.       Okay. Now, the top of those two sheets, they**  
2 **mention single-tariff pricing; is that correct?**

3           A.       Yes.

4           **Q.       Not consolidated pricing?**

5           A.       Correct. But the -- but consolidated pricing  
6 is a form of movement toward single-tariff pricing.

7           **Q.       I understand. Okay. You show -- so KAM-2 is**  
8 **as of 1999 and KAM-3 is as of 2015?**

9           A.       That's correct.

10          **Q.       And on the -- so 2015 is the most up-to-date**  
11 **sheet?**

12          A.       That's the best we can do, yeah.

13          **Q.       Okay. And on the 2015 sheet you show**  
14 **Illinois under generally accepted for single-tariff**  
15 **pricing?**

16          A.       Yes.

17          **Q.       There's not a single rate for all of American**  
18 **Water's company in Illinois currently, is there?**  
19 **Correct?**

20          A.       It's been awhile since I looked at their  
21 tariffs, but I -- there may be some slight differences.  
22 I think fire may be dealt with differently.

23          **Q.       Okay. I'm going to hand you what's been**  
24 **marked JOP-2, which was offered yesterday and accepted**  
25 **into evidence. Are you familiar with this document?**

1 A. Well, this is the first time I've seen this  
2 particular document.

3 **Q. But it purports to show proposed rate changes**  
4 **for Illinois in January 1 -- as of January 1, 2017?**

5 A. I would have to read through and make sure I  
6 understand what is all here.

7 **Q. Can you read that first sentence? Just to**  
8 **yourself is fine.**

9 A. I've read it.

10 **Q. Okay. And on page 2 you'll see different**  
11 **districts; and the monthly bill at current rates is the**  
12 **first column, and those numbers are different?**

13 A. Yes.

14 **Q. Okay. If we go back to your chart, KAM-2,**  
15 **you also show -- let's see, KAM-2 -- actually, I think**  
16 **I'm on KAM-3. You also show Missouri under states where**  
17 **single-tariff pricing has been approved?**

18 A. Yes. And by -- by using the term  
19 single-tariff pricing, I'm including consolidated  
20 pricing.

21 **Q. So that's any form of consolidated pricing?**

22 A. Yes.

23 **Q. So no matter how small the district. So if**  
24 **ten people were consolidated into a district of 100, you**  
25 **would include them as single-tariff pricing?**

1           A.       Or if we went from the district pricing we  
2 had five years ago to a consolidated pricing.

3           **Q.       So any movement toward single-tariff pricing,**  
4 **you include that in the 19?**

5           A.       Yes.

6           **Q.       What if that state decided that it wasn't in**  
7 **the state's best interest or it wasn't just and**  
8 **reasonable for that state to be on -- to have moved**  
9 **toward consolidated pricing and then they go back to**  
10 **district-specific pricing, do you remove them from that**  
11 **list?**

12          A.       Of course if I were asked to redo the exhibit  
13 in a future case, I would have to do that.

14          **Q.       Finally, you show California on this list as**  
15 **single-tariff pricing has been approved?**

16          A.       Yes.

17          **Q.       And are you aware, is there a single rate for**  
18 **all of American Water Company customers in California**  
19 **currently?**

20          A.       Well, I think one of the reasons you might  
21 see some differences is that this -- the consolidated  
22 pricing policies that are often used or single-tariff  
23 pricing are also -- that's not the only thing that drives  
24 what's going on. So, for example, if you have a merger,  
25 the companies may merge and it's incumbent upon the



1 Company then to bring forward a proposal to have  
2 single-tariff pricing at that point for the two. So if  
3 we're in between rate filings and we're having different  
4 procedures being -- you know, the mergers occurred this  
5 year and we haven't filed a rate case till later, you  
6 could have different rates.

7 **Q. Okay. So you are using schedule -- Schedule**  
8 **KAM-2 and KAM-3 to make the argument that there's a**  
9 **national policy trend currently towards single-tariff**  
10 **pricing or consolidated pricing?**

11 A. Correct.

12 **Q. Okay. Do you know how many states on your**  
13 **list currently -- not have been there and decided it's**  
14 **not the right way to go, but currently under either**  
15 **generally accepted or single-tariff pricing have been**  
16 **approved have a water utility on a single uniform rate**  
17 **for all their customers within the state?**

18 A. I'm sorry, could you --

19 **Q. Sure. Sorry. I'll try to rephrase that.**  
20 **How many -- how many of these states on this list is**  
21 **there one rate for all of the water customers in the**  
22 **entire state?**

23 A. I have not checked that because, again, as I  
24 say, as the process is moving forward and you're having  
25 mergers and acquisitions, there can be times where you

1 have a tariff like this that's filed by American Water  
2 where you could have -- some of the companies have  
3 different rates because they haven't had a chance to  
4 actually go before the Commission and propose that.

5 So I don't know of any that have single rates  
6 for everybody in the -- under their jurisdiction in the  
7 state. I would have to check on that.

8 **Q. So the answer is you don't know?**

9 A. I don't have a definitive answer for that.

10 MS. BELL: No further questions.

11 JUDGE JONES: City of Riverside?

12 MR. BEDNAR: No questions.

13 JUDGE JONES: St. Joseph?

14 CROSS-EXAMINATION BY MR. LAWYER:

15 **Q. Good afternoon, Dr. McDermott.**

16 A. Good afternoon.

17 **Q. I'm not absolutely certain if this is**  
18 **something that you might be able to tell the Commission**  
19 **about. I was just curious, are you aware of any other**  
20 **mechanisms used by other states other than single-tariff**  
21 **pricing to encourage the acquisition of struggling water**  
22 **systems?**

23 A. That's the main one that I've seen.

24 **Q. That's the main one. But there are others?**

25 A. There could be others, and it might be in the

1 terms of the merger treatments and things of that nature.  
2 But often that would set up a situation where then you  
3 would eventually seek single-tariff pricing.

4 **Q. Okay. Like I said, I wasn't sure if it might**  
5 **be something that you might be aware of if there were**  
6 **states that had special programs to provide financing or**  
7 **anything like that for the improvements necessary.**

8 A. Well, in like the case of Pennsylvania, they  
9 actually have a very explicit policy that they're saying  
10 we're encouraging you and we will adopt single-tariff  
11 pricing for mergers of ailing companies.

12 MR. LAWYER: Okay. Thank you.

13 JUDGE JONES: Warrensburg?

14 MR. CURTIS: No questions.

15 JUDGE JONES: Public Water Supply Districts?

16 MR. DORITY: No questions. Thank you.

17 JUDGE JONES: Stonebridge?

18 Triumph?

19 MR. HARDEN: No.

20 JUDGE JONES: OPC?

21 MR. POSTON: No questions.

22 JUDGE JONES: Staff?

23 MS. MYERS: Yes, just a few questions.

24 CROSS-EXAMINATION BY MS. MYERS:

25 **Q. Mr. McDermott, I'm going to read a line from**

1 **your direct testimony, if you'd like to follow along.**

2 A. Sure.

3 **Q. It's page 8.**

4 A. Page 8?

5 **Q. Um-hum.**

6 A. I'm there.

7 **Q. And I'm starting at line 14.**

8 A. All right.

9 **Q. And it says, The inefficiencies associated**  
10 **with the fragmentation of the water industry provide the**  
11 **opportunity for consolidation. Did I read that**  
12 **correctly?**

13 A. Yes, you did.

14 **Q. Now, are you familiar that Missouri American**  
15 **Water currently has eight water districts?**

16 A. Yes.

17 **Q. And that's been referred to as the status**  
18 **quo?**

19 A. Right.

20 **Q. And are you aware that both Staff and**  
21 **Missouri American Water Company are proposing a**  
22 **consolidation plan that would lead to three districts?**

23 A. That's my understanding.

24 **Q. And, now, do you have an opinion on whether**  
25 **it would be more efficient to move towards consolidation**

1 **in this current case versus moving towards consolidation**  
2 **in some future rate case?**

3 A. My advice would be to move towards it as fast  
4 as possible. I understand that sometimes states adopt  
5 incremental policies, but my view would be that a  
6 single-tariff pricing policy is the best.

7 **Q. And why is it the best?**

8 A. Because that kind of postage stamp pricing  
9 that's adopted for customers gives you the flexibility to  
10 deal with all sorts of shocks. I mean, if you thought  
11 about, you know, the City of St. Louis, I could probably  
12 identify a thousand different areas where I might see  
13 some cost differences, because in the 1970s you built  
14 homes and in late '70s you built homes and towns  
15 expanded. So the costs under the ECOSSE method would  
16 basically be different for all of those parts of the  
17 state. And this kind of single-tariff pricing allows you  
18 to absorb shocks to the entire system, whether it's in a  
19 localized area or not.

20 And to follow the other slippery slope that,  
21 you know, we should have pricing all the way down to, you  
22 know, I live at the bottom of the hill and you live at  
23 the top of the hill, that becomes kind of difficult to  
24 administer. And so single-tariff pricing and that kind  
25 of postage stamp rate provides you a platform to achieve

1 a number of public policy goals.

2 MS. MYERS: Okay. Well, thank you,  
3 Mr. McDermott.

4 I have no further questions.

5 JUDGE JONES: Mr. Chairman?

6 CHAIRMAN HALL: Yeah.

7 QUESTIONS BY CHAIRMAN HALL:

8 Q. Good afternoon, Professor.

9 A. Good afternoon.

10 Q. If I was to take the position that the main  
11 objective of consolidated pricing is to facilitate  
12 acquisition of distressed systems, what would the best  
13 principle be in order to determine those consolidated  
14 districts? We've heard some discussion of geography.  
15 We've heard some discussion of operational similarities.  
16 We've heard some discussion of rates and some discussion  
17 of costs. And there's probably others.

18 A. Yes. I don't -- you know, if there is a --  
19 if there is a single principle being adopted, whichever  
20 ones they are to move towards consolidation, then I -- I  
21 would -- I don't think there's a particular one that's  
22 better than another. I think the Staff's, you know,  
23 geographic -- if I understand it correctly, they have a  
24 geographic principle. That would be fine. It's the  
25 movement. You're creating a mechanism for that to

1 happen.

2 **Q. So it doesn't matter from your perspective as**  
3 **to the principle that supports the particular grouping;**  
4 **your contention would be that the more customers you**  
5 **consolidate, the easier it is to spread costs and absorb**  
6 **what costs might result from acquisition of a distressed**  
7 **system?**

8 A. Yes. And it provides you the flexibility to  
9 deal with issues like affordability and other things like  
10 that. I mean, there's a host of things that you can deal  
11 with under single-tariff pricing.

12 **Q. So your testimony is that there's a national**  
13 **trend towards consolidation, though I was very intrigued**  
14 **by the questioning from Ms. Bell about the chart that you**  
15 **used to support that assertion. And of course this is**  
16 **not working now. You had -- you had Missouri --**

17 A. Do you want it? Do you need it?

18 **Q. Helpful witness.**

19 A. Well, I...

20 **Q. So you had Missouri in the list of states**  
21 **where single-tariff pricing has been approved?**

22 A. And I'm defining single-tariff pricing to  
23 include consolidated pricing. And because you've moved  
24 that way in past cases, you're -- you're a state that's  
25 in that group.

1           **Q.       We moved -- Missouri moved that way in one**  
2 **case, and in the most recent case moved back.**

3           A.       Back. And so at some point I'm going to have  
4 to decide that if you move forward in this case and back  
5 in others, how are we really going to deal with Missouri?

6           **Q.       Well, I mean, I must say that, to me, really**  
7 **throws into question the validity of this chart. So**  
8 **I'm -- is there something else that you can articulate**  
9 **that would lead me to believe that there is a national**  
10 **trend? Because this chart doesn't do it for me, in light**  
11 **of how you have -- how you've placed states in these**  
12 **particular categories.**

13          A.       Well, we called every one of the states, the  
14 people that work for me, and asked them. And that's  
15 how -- and we're calling commissions to get validation of  
16 what the state's policy is towards that. I don't  
17 actually know who they all -- you know, who the person  
18 was that was talked to. But at the time that's how we  
19 classified them. And it's true, again, we've used  
20 single-tariff pricing as the heading there. And that  
21 includes consolidated pricing, if people are moving in  
22 that direction.

23          **Q.       So is there -- is there another -- another**  
24 **source that you could rely on other than this one for**  
25 **your -- for your assertion that there is a national trend**



1 **towards consolidation?**

2 A. Well, that was actually beginning with the  
3 EPA's study. And so we started with their work and built  
4 on that to see if there were any changes. And, of  
5 course, if you look at the two thou-- 1999, which is  
6 actually closer in time to what the EPA study was, you  
7 have states that are moving between the categories. And  
8 so we were just checking up on them.

9 **Q. Okay. All right. So now you -- you are**  
10 **clearly a strong proponent of single-tariff pricing,**  
11 **which is not something that the Company has been**  
12 **advocating for in this case?**

13 A. That's correct.

14 **Q. Do you -- but it's your position that**  
15 **anything -- any movement towards single tariff is good**  
16 **public policy?**

17 A. Yes.

18 **Q. Is there -- is there a public policy**  
19 **rationale for a single-tariff pricing on the fixed charge**  
20 **versus the variable charge or do you -- do you view**  
21 **whatever policies there are that support single-tariff**  
22 **pricing, it's the same principle for the fixed charge and**  
23 **the variable charge?**

24 A. So if you're saying, for example, moving  
25 towards straight fixed variable pricing, if you were

1 doing that all across your districts, then you would move  
2 towards --

3 **Q. Well, I'm -- there -- right now we --**  
4 **Missouri American has a customer charge that varies**  
5 **district by district. The Company is proposing a**  
6 **customer charge that is consistent --**

7 A. Uniform.

8 **Q. -- uniform throughout its service territory.**  
9 **And so my question to you is the principles that you rely**  
10 **on that support single-tariff pricing, do they apply**  
11 **equally to variable charges versus customer charges or do**  
12 **they apply more for one or the other?**

13 A. No, they apply across the board. So, for  
14 example, in a company like Missouri American, they're  
15 centralizing billing and many of the things for the  
16 customer charges. You're doing your purchasing for  
17 districts as a group. So a lot of that is all becoming  
18 consolidated at the -- in the parent company to be able  
19 to provide the same service across the entire service  
20 territory.

21 So as you move towards that and everything is  
22 being centralized so that the costs are not going to be  
23 that much different between any of the geographic areas,  
24 this process will move you towards the ability to support  
25 that single price uniformly across the customers.

1 CHAIRMAN HALL: Okay. No further questions.  
2 Thank you.

3 THE WITNESS: Thank you.

4 JUDGE JONES: Commissioner Stoll?

5 COMMISSIONER STOLL: I have no questions.  
6 Thank you.

7 JUDGE JONES: Commissioners --

8 COMMISSIONER RUPP: No questions.

9 JUDGE JONES: -- Kenney, Rupp?

10 Recross based on questions from the chair.  
11 Missouri Department of Energy?

12 MR. ANTAL: I think maybe just one or two.

13 RECROSS-EXAMINATION BY MR. ANTAL:

14 **Q. Professor McDermott, you were discussing**  
15 **whether or not a uniform customer charge across all the**  
16 **rates had the same or a different effect on -- as**  
17 **single-tariff pricing generally. And you made mention of**  
18 **the straight fixed variable; is that correct?**

19 A. Correct.

20 **Q. Okay. Are -- and we've -- you've discussed**  
21 **that single-tariff pricing, one of the benefits is to**  
22 **rate affordability or to reduce rate shock; is that**  
23 **correct?**

24 A. That's correct.

25 **Q. Is rate shock usually a result of capital**

1 **investment?**

2 A. Well, if I can clarify, the single-tariff  
3 pricing isn't straight fixed variable. That's a --  
4 that's a -- I was trying to understand the chairman's  
5 question, and I thought he was asking me about straight  
6 fixed variable. That's a -- that's a different approach  
7 than single-tariff pricing.

8 **Q. Okay. And straight fixed variable is not**  
9 **being proposed by any party in this case, to your**  
10 **knowledge; is that correct?**

11 A. Not to my knowledge. I...

12 **Q. Okay. That being the case, I'd still propose**  
13 **my question. Are -- let's say outside of straight fixed**  
14 **variable, so are capital costs usually included in a**  
15 **customer cost?**

16 A. They can be, yes. It depends on the cost  
17 methodology that's used.

18 **Q. Okay. But they're different cost**  
19 **methodologies?**

20 A. Yes, the ECOSSE comes in a number of  
21 varieties.

22 **Q. Okay. So there's no guarantee that a uniform**  
23 **customer cost would necessarily alleviate rate shock?**

24 A. It would dampen it if it's being spread  
25 across all your customers.

1 MR. ANTAL: Okay. And -- thank you very  
2 much.

3 JUDGE JONES: MIEC?

4 MR. DOWNEY: No questions.

5 JUDGE JONES: City of Brunswick?

6 MR. DRAG: No questions.

7 JUDGE JONES: City of Joplin?

8 MS. BELL: Just a few.

9 RECROSS-EXAMINATION BY MS. BELL:

10 **Q. Mr. McDermott, I'm still trying to understand**  
11 **schedule KAM-3. And I just want -- the Commissioner**  
12 **asked you about how you -- your method for developing**  
13 **this chart, and you said that you called the other**  
14 **commissions?**

15 A. My -- I had people working for me who called  
16 to check on what are the policies in each state. And I  
17 don't know exactly who they talked to at the commissions.

18 **Q. Okay. Is there a reason you just didn't**  
19 **consult Missouri American -- or American Water's website?**

20 A. Well, that's Missouri American's situation,  
21 not just -- the whole state. This is a state policy, not  
22 for a particular company.

23 **Q. Okay. So this isn't based on American**  
24 **Water's -- whether or not they have single-tariff pricing**  
25 **or district-specific pricing?**

1           A.       It's based on whether the commissions have  
2 approved a single tariff or consolidated tariff pricing  
3 in their state.

4           **Q.       Okay. Would it surprise you to know that**  
5 **Missouri -- or, excuse me. Would it surprise you to know**  
6 **that American Water in New Jersey shows ten plus**  
7 **districts in different rates?**

8           A.       Again, I'd have to understand whether  
9 there're merger policies that are driving that outcome,  
10 as we spoke about before, and that you can have that  
11 happen, and then you propose to the Commission to  
12 consolidate after the mergers. So there will be separate  
13 tariffs on file at any one point in time until an action  
14 is taken. And that would be the same for all the states  
15 that are case by case.

16          **Q.       So your answer is it wouldn't surprise you?**

17          A.       No.

18          **Q.       And it wouldn't surprise you to know that**  
19 **California has six different districts?**

20          A.       No.

21          **Q.       And both New Jersey and California are on**  
22 **your chart as single-tariff pricing has been approved?**

23          A.       And, again, I think within those districts  
24 that single-tariff pricing and across the whole state you  
25 may have single-tariff pricing occur as all the mergers

1 and everything else plays out.

2 MS. BELL: Thank you. No further questions.

3 THE WITNESS: Thank you.

4 JUDGE JONES: Riverside?

5 MR. BEDNAR: Just a couple.

6 CROSS-EXAMINATION BY MR. BEDNAR:

7 **Q. I just want to focus on consolidation, the**  
8 **benefits of consolidation --**

9 A. Yes.

10 **Q. -- that Commissioner Hall was talking about.**  
11 **I believe you stated that there is an incentive --**  
12 **consolidation adds to incentive of more standardized**  
13 **water quality; is that correct?**

14 A. Right. When you're -- when you're acquiring  
15 companies that are in difficulty, then you -- the bigger  
16 company has the ability to bring a better standard of  
17 water quality to the districts being acquired.

18 **Q. And in Missouri hasn't it been the case in**  
19 **the case of Missouri American Water that these -- the**  
20 **majority of the water districts that they are responsible**  
21 **for now were not districts they created personally, but**  
22 **districts they have acquired in the last 20 or 30 years?**

23 A. That's my understanding.

24 **Q. And all those districts are in different**  
25 **state of repair or disrepair, are they not?**

1           A.       That's been consistent with the example that  
2 I gave about, you know, looking at the City of St. Louis,  
3 and you can have different costs just because of when the  
4 towns were built and things of that nature.

5           **Q.       And isn't -- would it be your testimony that**  
6 **without consolidated pricing, the ability for one**  
7 **district to be able to make improvements to enhance or**  
8 **preserve the quality of water, those enhancements may not**  
9 **occur because of the rate shock that would occur if, in**  
10 **fact, that capital investment was made to maintain the**  
11 **water quality for that particular district?**

12          A.       Right. That would -- in many cases it might  
13 just exceed affordability standards and things of that  
14 nature. So small cus -- small water companies can have  
15 great difficulties trying to absorb those costs.

16          **Q.       And in the same way, if the issue was --**  
17 **about acquiring smaller companies who lost the ability to**  
18 **maintain their infrastructure or the ability to operate,**  
19 **the lack of the ability to consolidate that district with**  
20 **other larger districts would be a disincentive for**  
21 **Missouri American or any other water company to acquire**  
22 **that -- that smaller water company that's being**  
23 **challenged; correct?**

24          A.       That's correct.

25          **Q.       And so it would be in the best interest**



1 overall of state public policy to ensure adequate quality  
2 water -- adequate and safe water to all the citizens of  
3 the state to enhance a policy that gives that the best  
4 chance of success; correct?

5 A. I believe so, yes.

6 MR. BEDNAR: Thank you.

7 JUDGE JONES: St. Joseph?

8 MR. LAWYER: No questions.

9 JUDGE JONES: Warrensburg?

10 MR. CURTIS: No questions.

11 JUDGE JONES: Public Water Supply Districts?

12 MR. DORITY: No questions. Thank you.

13 JUDGE JONES: Stonebridge?

14 Triumph?

15 MR. HARDEN: No questions.

16 JUDGE JONES: Office of Public Counsel?

17 MR. POSTON: Just a few.

18 CROSS-EXAMINATION BY MR. POSTON:

19 Q. Just to follow up on the line of questions  
20 from Ms. Bell about the KAM-3 schedule.

21 A. Yes.

22 Q. And I'm Marc Poston from the Office of Public  
23 Counsel. And you said you had people that worked for  
24 you --

25 A. Yes.

1           **Q.       -- make these phone calls to the state**  
2 **commissions, is that -- was to the state commissions?**

3           A.       I believe so, yes.

4           **Q.       Okay. And who is this person or persons that**  
5 **work for you?**

6           A.       Steve Collins at NERA, National Economic  
7 Research Associates.

8           **Q.       Okay. And so why did you have them make**  
9 **phone calls instead of just look at the tariffs?**

10          A.       Because, again, when -- we're looking at the  
11 policies and the evolution of policies at the state. So  
12 it's not just what -- if I looked at tariffs, there would  
13 be a patchwork, as we've already identified that there  
14 is. But that doesn't speak to the fact that the policy  
15 that a state is following, it could be for consolidation.

16          **Q.       Okay. So -- so if -- okay. But I guess I**  
17 **get it. So even if there's ten separate districts in a**  
18 **state, you could still label that as a single tariff**  
19 **under your rationale?**

20          A.       And -- and I -- my -- I will never use single  
21 tariff again. I will use consolidated tariffs as the --  
22 as the moniker.

23          **Q.       And your other rationale was an EPA study,**  
24 **and that was from 17 years ago; is that correct?**

25          A.       That was a starting point, yes.

1 MR. POSTON: Okay. All right. Thank you.  
2 That's all.

3 JUDGE JONES: Staff of the Commission?

4 MS. MYERS: No questions, Your Honor.

5 JUDGE JONES: Redirect?

6 MR. ENGLAND: Yes, thank you, Your Honor.

7 REDIRECT EXAMINATION BY MR. ENGLAND:

8 Q. First of all, you made reference on at least  
9 two occasions to a term that I'm not familiar with. And  
10 that is ECOSS. Could you be a little more specific as to  
11 what you're referring to?

12 A. Well, an embedded cost study.

13 Q. Thank you. Then turning our attention back  
14 to your Schedule KAM-2 and 3, and in particular Illinois.  
15 I believe you're from Illinois; is that correct?

16 A. That is correct.

17 Q. So you have some personal knowledge?

18 A. Yes.

19 Q. Is it possible that some of the rates that  
20 Ms. Bell had you look at for the Illinois American  
21 Company may contain local franchise fees, sales tax, and  
22 other additives, if you will?

23 A. Yes, they could.

24 Q. And, in fact, the base rates for water  
25 without those taxes may -- may actually be the same?

1 A. Yes, they could.

2 Q. **And I think you said this on several**  
3 **occasions, but in the -- the basis for your study is not**  
4 **what a company may say, but what the Commission says**  
5 **regarding the issue of consolidated tariff pricing or**  
6 **single-tariff pricing; is that right?**

7 A. That's correct.

8 Q. **Is it also your understanding that there are**  
9 **other water companies besides Illinois American that are**  
10 **regulated by the Illinois Commerce Commission?**

11 A. Yes.

12 Q. **So an Illinois -- excuse me. An Illinois**  
13 **American website wouldn't be dealing with what the**  
14 **policies are on those particular companies?**

15 A. Not for those particular companies and  
16 whether they've come in for rates, to ask for  
17 consolidation if they had districts, or anything like  
18 that. But the Commission's generally been favorable to  
19 consolidation.

20 Q. **Similarly, in Missouri there are other water**  
21 **companies besides Missouri American that are regulated by**  
22 **this Commission?**

23 A. It's my understanding.

24 Q. **And is it possible that the Commission may**  
25 **have announced a policy or adopted a policy in those**

1 **company cases of single-tariff pricing or consolidated**  
2 **tariff pricing?**

3 A. Yes, it can happen for any company.

4 MR. ENGLAND: Thank you, sir. Just a second,  
5 please.

6 I have no other questions. Thank you.

7 JUDGE JONES: Thank you, Mr. McDermott. You  
8 may step down.

9 (Witness excused.)

10 JUDGE JONES: OPC, call your witness.

11 MR. POSTON: Call Dr. Geoff Marke. He's  
12 already been sworn and his testimony entered.

13 JUDGE JONES: I thought he had been.

14 You remain under oath. You may have a seat.

15 GEOFF MARKE,

16 after having been previously duly sworn, was  
17 examined and testified on his oath as follows:

18 JUDGE JONES: Did you say his testimony's  
19 already been admitted?

20 MR. POSTON: It has, yes.

21 JUDGE JONES: We'll move right in to  
22 cross-examination, starting with the Missouri Department  
23 of Energy.

24 MR. ANTAL: No questions. Thank you.

25 JUDGE JONES: MIEC?

1 MR. DOWNEY: Yes, Your Honor.

2 CROSS-EXAMINATION BY MR. DOWNEY:

3 Q. Good afternoon, Dr. Marke.

4 A. Good afternoon, Mr. Downey.

5 Q. I'd like to start off with some information  
6 you had in your testimony about median incomes and  
7 poverty rates. Do you recall where that is in your  
8 income -- or, excuse me, in your testimony?

9 A. I do. It's page 17 in my direct testimony  
10 lists the Table 2, which is a breakdown of the U.S.  
11 Census data over the different Missouri American service  
12 counties.

13 Q. And continuing to page 18, do you discuss  
14 specific municipalities within the St. Louis Metro  
15 District?

16 A. Yes, I do.

17 Q. Would that include Ladue, Bellefontaine  
18 Neighbors, Creve Coeur, and Ferguson?

19 A. Yes, it does.

20 Q. Okay. And is it fair to say Creve Coeur and  
21 Ladue are pretty low on the poverty rate and pretty high  
22 on the median income?

23 A. That's a fair assessment.

24 Q. And yet Bellefontaine Neighbors and Ferguson  
25 are low on median income and high in the poverty rate?

1 A. That's correct.

2 Q. And do you make a point later in your  
3 testimony that the customer -- customers in those  
4 jurisdictions would be subsidizing higher-income  
5 customers in jurisdictions that have lower poverty rates?

6 A. Yes, I do.

7 Q. And is that one of your arguments against  
8 consolidation?

9 A. Yes, it is.

10 Q. Did you hear Mr. Herbert testify this  
11 morning?

12 A. I did.

13 Q. Okay. And did you hear him tell, I believe  
14 it was the chairman, that the customer charge should be  
15 cost based?

16 A. I did hear that.

17 Q. Okay. And that's a little different than his  
18 opinion when it comes to consolidation; would you agree?

19 A. I would agree.

20 Q. And he's a little inconsistent in that  
21 regard?

22 A. Yes.

23 Q. In your opinion is cost causation a  
24 fundamental tenet of ratemaking?

25 A. Definitely.

1           **Q.       And do experts like you rely on treatises**  
2 **I like Bonbright's treatise?**

3           A.       Yes, we do.

4           **Q.       Okay. And is that one of the tenets he**  
5 **espouses in his treatise?**

6           A.       Yes, it is.

7                   MR. DOWNEY: Judge, I'd ask if you could take  
8 official notice of that treatise.

9                   JUDGE JONES: Is it anywhere in the record?  
10 Because, I mean, if we take official notice of it, I  
11 suppose we'd have to be able to look at it. I don't know  
12 where that is.

13                   MR. ENGLAND: It's been awhile since I've  
14 actually done the research on administrative law and  
15 official notice. But if Counsel wants to argue in his  
16 brief like case law and treatises, I think he's free to  
17 do so. I just don't think it's appropriate or necessary  
18 to take official notice of a treatise. Otherwise, we'll  
19 ask you to take official notice of Dr. Morin's treatise,  
20 Charles Phillips' treatise. As you know there's a number  
21 of them on public utility regulations.

22                   JUDGE JONES: When you say -- when you say  
23 take official notice, you mean just noticing that there  
24 is a treatise as such?

25                   MR. DOWNEY: Well, and not requiring me to



1 mark the book as an exhibit and introduce it. I think we  
2 all have access to it. I think that's what Mr. England  
3 is saying. But in earlier cases I've actually been asked  
4 to provide copies of parts of books that I want the  
5 Commission to take notice of.

6 JUDGE JONES: Well, to the extent that you --  
7 that you present argument about it, I think that should  
8 be the portion that's in the record. And if someone else  
9 wants to do something otherwise, they too can refer to  
10 it.

11 MR. DOWNEY: Okay.

12 JUDGE JONES: So...

13 MR. DOWNEY: Thank you.

14 BY MR. DOWNEY:

15 **Q. Do you -- do you have an opinion on whether**  
16 **customers of one type of utility should be paying for**  
17 **costs incurred by another type of utility, say gas and**  
18 **water?**

19 A. Could you repeat that, please?

20 **Q. Yeah. Let me give you an example.**

21 A. Okay.

22 **Q. Should customers of a gas utility in their**  
23 **gas rates pay for expenses incurred by a water utility to**  
24 **provide water service?**

25 A. No.

1           **Q.       Okay. And I may have an incorrect**  
2 **understanding. But under the Staff's proposal, is the**  
3 **Staff proposing that non-Missouri American sewer**  
4 **customers -- excuse me -- yes, non-American (sic) sewer**  
5 **customers pick up part of the charge for sewer rates?**

6           A.       That's my understanding.

7           **Q.       Okay. And you understand in the nonunanimous**  
8 **stipulation OPC and my clients have executed, we've**  
9 **agreed to have nonsewer customers pick up those -- some**  
10 **of those costs. If the Commission rejects that**  
11 **nonunanimous stipulation, do you have an opinion on**  
12 **whether it's appropriate for nonsewer customers to be**  
13 **picking up costs for sewer service?**

14          A.       I think -- as a general principle, I don't  
15 think it's appropriate. I guess I would reserve, you  
16 know, the right to look at the actual costs.

17           MR. DOWNEY: Thank you. I believe that's it.

18           Thank you, Judge.

19           JUDGE JONES: Okay. City of Brunswick?

20           MR. DRAG: I have a couple of questions, Your  
21 Honor.

22           JUDGE JONES: Okay.

23           CROSS-EXAMINATION BY MR. DRAG:

24           **Q.       Good morning. My name -- good afternoon. My**  
25 **name is Gary Drag, and I'm representing the City of**

1 **Brunswick. I'm going to refer to your direct testimony,**  
2 **page 21, lines 14 through 20.**

3 A. Okay. I'm there.

4 **Q. Okay. You state, A CTP design, therefore,**  
5 **represents a tax, which discriminates against systems**  
6 **that control their costs in favor of those that do not.**

7 **Isn't it reasonable to believe that if you**  
8 **have a single operator like MA -- MAW operating all of**  
9 **these districts, that the cost control policies will be**  
10 **consistent across all those districts?**

11 A. I would disagree.

12 **Q. And why is that?**

13 A. I think certain elements of that cost control  
14 would be regulated or would be, I guess, controlled  
15 across all of the systems. I think one of the things  
16 that we struggled with here as an office in coming with,  
17 you know, our ultimate decision to support  
18 district-specific pricing centered on the concept of --  
19 let me step back.

20 When we talk about districts, we talk about  
21 counties, I think these are social constructs at the end  
22 of the day. Right? We're drawing a line in the sand.  
23 We're saying, you know, this is X area. My testimony  
24 goes into great detail on how electric and gas just  
25 fundamentally work different than that. And I think for

1 our purposes it really comes down to the tangible product  
2 at the end of the day.

3 For water, that's local. For electric, I  
4 mean, the example that I gave was Jefferson City. There  
5 is no Jefferson City coal plant here. We're not mining  
6 Jefferson City coal. Jefferson City is -- relies on  
7 Ameren and, to a greater extent, MISO to go ahead and  
8 power our lights. I can't say that about water. You  
9 know, Mr. Downey asked me questions about cost causation.  
10 There's lots of case law about cost causation in the  
11 electric side, which is what I'm much more familiar with.  
12 On the water side there isn't a FERC. There isn't an  
13 FCC.

14 There's just fundamental differences. And at  
15 the end of the day for us as an office, to align with the  
16 principles of cost causation in ratemaking, that was an  
17 important distinction.

18 **Q. But in terms of -- I mean, you make the**  
19 **statement of -- I mean, the costs can be attributed to --**  
20 **both to fixed and variable costs; correct?**

21 A. Yes.

22 **Q. Okay. But in terms of cost control,**  
23 **especially the variable costs, if you -- if MAW has a**  
24 **consistent policy across Missouri for all of its**  
25 **districts, wouldn't that -- wouldn't that eliminate any**

1 **discrimination in terms of variable costs?**

2 A. No, no, I mean, absolutely not. I think  
3 that's -- probably more of our focus is on the variable  
4 costs, because of that water source, that local water  
5 source. When the Company talks about 90 percent of their  
6 costs are fixed, I would say this represents a snapshot  
7 in time, this is a moment in time, and that our concern  
8 with this as a policy objective is really the long-term  
9 ramifications of this. Hopefully, you know, within the  
10 testimony, what we wanted to do was really spell out  
11 why -- to explore any of the unintended consequences that  
12 might align itself with single-tariff pricing. But there  
13 are -- to your point, there are absolutely things that  
14 the Company does do to contain costs in terms -- and  
15 we've seen that play out with their O & M expenses.

16 **Q. And that would be consistent across all the**  
17 **districts?**

18 A. I can't speak to all the districts. As a  
19 general aggregate, the Company has reduced expenses like  
20 O & M.

21 **Q. Okay. Would you agree there is a capital**  
22 **investment lifecycle?**

23 A. Yes.

24 **Q. How would you describe that lifecycle,**  
25 **starting with -- let's say the base point is the**

1 **investment in the plant?**

2 A. The short answer would be entropy. The  
3 systems, you know, degrade over time and -- you know,  
4 wear and tear.

5 Q. Okay. So would it be reasonable to say that  
6 you have a really high peak investment when the plant is  
7 built, then it drops off considerably as you enter a  
8 phase of where it's new and then -- and then it basically  
9 curves up and increases over time as the plant wears out,  
10 and then it will get a good spike on the next -- start of  
11 the next lifecycle, next investment in plant, roughly,  
12 just...

13 A. Roughly, yes.

14 Q. Okay. So consolidated tariff pricing  
15 would -- do you -- let me withdraw that. Is it true that  
16 then consolidated tariffing pricing discriminates against  
17 a district that is basically in the middle of that  
18 capital investment lifecycle?

19 A. I would agree with that.

20 Q. Okay. Okay. And so over time, though, then  
21 that -- as you go through a capital investment lifecycle,  
22 as every district proceeds through, that discrimination  
23 equalizes out; isn't that true?

24 A. I would say yes, with a qualification.

25 Q. Okay.

1           A.       The qualification that I would add is that we  
2 hear a lot about them talking about long term, long term  
3 this evens out. That's assuming long term these  
4 districts remain the same, that we don't add on  
5 additional districts. You know, we've heard from  
6 Missouri American that they've -- you've got a 2 percent  
7 annual growth expectation. That's great. But understand  
8 if I'm a St. Louis Metro customer, when my elected  
9 official signed off on selling St. Louis County water,  
10 I'm not sure that part of the package was communicated.  
11 I'm not sure it was communicated that, by the way, we're  
12 going to cover this cost today, but we're also going to  
13 be -- you're also going to be covering the cost of the  
14 existing districts that we have and any future district  
15 that we're going to take on as well.

16                       So to your question, over a long -- long  
17 enough span, assuming that Missouri American gobbles up  
18 everything in Missouri, yes.

19                       MR. DRAG: Okay. That's all. Thank you very  
20 much.

21                       JUDGE JONES: City of Joplin?

22 CROSS-EXAMINATION BY MS. BELL:

23           **Q.       I want to direct you to Schedule PRH-6. You**  
24 **were here -- I have an extra copy for you. You were here**  
25 **for Mr. Herbert's testimony; correct?**

1 A. Yes, I was.

2 Q. And you've had a chance to review this  
3 document before?

4 A. I've been at a bit of a disadvantage. I've  
5 been in the back, and I have not had copies. But I'll  
6 give it my best shot.

7 Q. Okay. Page 2 of that schedule shows Staff's  
8 consolidation plan. Is that your understanding?

9 A. Yes.

10 Q. And the right column says Costs Per  
11 Residential Customer According to Mr. Herbert; is that  
12 correct?

13 A. That's correct.

14 Q. Okay. Let's look at District 2. So if  
15 Staff's proposal is adopted in this case, under -- using  
16 these numbers, St. Joseph would be paying higher than its  
17 actual cost of service, if there's a consolidated rate  
18 between St. Joseph, Platte, and Brunswick; is that  
19 correct?

20 A. That's as I understand it.

21 Q. So the localities with the -- with the lower  
22 numbers in those groupings would be -- would end up  
23 paying higher than their actual cost of service?

24 A. Yes.

25 Q. Essentially St. Joseph would be providing a



1 **subsidy to Platte County and Brunswick; is that correct?**

2 A. That's correct.

3 **Q. And Platte County and Brunswick in that**  
4 **district would be paying below their cost of service**  
5 **under Staff's proposal?**

6 A. That's correct.

7 **Q. Okay. And I believe you were present**  
8 **yesterday for the testimony, and you heard from the**  
9 **Company that in the long run -- and I think you were just**  
10 **talking about this -- in the long run, they argue,**  
11 **everyone will need an upgrade. Is that your**  
12 **understanding?**

13 A. Yes, it is.

14 **Q. So in Water District -- District 3 on PRH-6,**  
15 **you see Joplin is consolidated with Warrensburg?**

16 A. Yes.

17 **Q. So assuming the Company's logic that everyone**  
18 **would need an upgrade, Warrensburg will eventually need**  
19 **an upgrade?**

20 A. Yes.

21 **Q. When the Warrensburg system does need that**  
22 **upgrade, under Staff's proposal Joplin residents will**  
23 **help pay for that system; correct?**

24 A. Correct.

25 **Q. And that's over and above their actual cost**

1 of service; correct?

2 A. Correct.

3 Q. Earlier you talked about the systems not  
4 being interconnected. So would Joplin residents benefit  
5 from any upgrades to the Warrensburg system? Would their  
6 water quality be better?

7 A. No.

8 Q. Would -- would the taste of their water be  
9 better?

10 A. No.

11 Q. They would have -- any upgrades to the  
12 Warrensburg system would have no effect on the water in  
13 Joplin; correct?

14 A. Not to my knowledge.

15 Q. Okay. Are you aware of any legislative fixes  
16 in other states -- one of the -- let me back up. One of  
17 the reasons that's been offered, and I think that you  
18 disagreed with in your testimony, for consolidated  
19 pricing is reducing the potential for rate shock. Is  
20 that your understanding? The proponents of consolidated  
21 pricing state that it could reduce the potential for rate  
22 shock?

23 A. Yes.

24 Q. Are you aware of any legislative fixes in  
25 other states for reducing the potential of rate shock due

1 **to significant capital expenditures?**

2 A. I am.

3 **Q. And can you tell me about that?**

4 A. I'm familiar with one state in particular.  
5 California. I had included it initially in my testimony  
6 and withdrew it. California has a number of different  
7 mechanisms in place to deal with systems -- distressed  
8 systems, small systems. In short, they refer to it as a  
9 rate support fund.

10 **Q. Is that a legislative enacted program?**

11 A. It is.

12 **Q. And it's funded through taxpayer dollars?**

13 A. I'm not entirely positive on whether or not  
14 that's through the entire state of California or through  
15 the utility customer base itself.

16 **Q. Okay. In your opinion -- yesterday we also**  
17 **talked a little bit about consolidated pricing and**  
18 **winners and losers. In your opinion does consolidated**  
19 **pricing have the potential to create winners and losers?**

20 A. Yes.

21 **Q. And you have been in touch and -- you've read**  
22 **the transcripts from the public hearings, and you've been**  
23 **in touch with the other consumer groups. Is there -- no**  
24 **offense to the people of Platte County, who are fine**  
25 **people. But you agree that the general sentiment is**

1 **whichever consumers end up consolidated with Platte are**  
2 **ultimately the losers; is that correct?**

3 A. I believe so.

4 MS. BELL: No further questions.

5 JUDGE JONES: Riverside?

6 MR. BEDNAR: Yes, I do.

7 (Riverside Exhibit 4 marked for  
8 identification.)

9 CROSS-EXAMINATION BY MR. BEDNAR:

10 **Q. I guess first housekeeping, Mr. Marke, are**  
11 **there any other exhibits that the Office of Public**  
12 **Counsel have submitted on the issues of consolidated**  
13 **districts or rate design that are misleading that you'd**  
14 **like to correct today?**

15 A. Well, I think that's taking my misleading  
16 statement out of context. But not that I'm aware of.

17 **Q. No, I don't think it is, because I just used**  
18 **your exhibit on single-tariff pricing that was used in**  
19 **Mr. Smith's, and you said I was misleading in my**  
20 **questioning about that. So I just want to know if**  
21 **there's any other ambiguous exhibits that have been**  
22 **submitted to the Commission, as far as the Office of**  
23 **Public Counsel exhibits?**

24 A. To clarify, when I used the term misleading,  
25 I'd like to point out that the graphic or the table

1 that's listed there is from 1999. That was the only  
2 point I was trying to make. 17 years old.

3 **Q. It's your exhibit, not mine.**

4 **A. Fair enough.**

5 **Q. But we'll get now then to the accuracy and**  
6 **what the -- how people are defining district specific and**  
7 **consolidated, because I think your position is about**  
8 **preserving district specific; is that correct?**

9 **A. That's correct.**

10 **Q. But, in fact, you've supported consolidated**  
11 **tariffs in past cases, even cases you cite on page 3;**  
12 **correct?**

13 **A. Yes.**

14 **Q. So when we go through that -- and let's talk**  
15 **about on page 3 of your testimony.**

16 **A. My direct testimony?**

17 **Q. Yes. You talk about the nonunanimous**  
18 **stipulation and agreement, and you lay out the parties**  
19 **that signed and those that didn't. The parties that**  
20 **signed were the Company, the Staff, OPC, Ag Processing,**  
21 **MIEC, Metropolitan Sewer District, the City of**  
22 **St. Joseph, BJC, Triumph Foods, Empire Electric -- Empire**  
23 **District Electric Company.**

24 **So, quite frankly, the majority of cities did**  
25 **not sign off on that agreement; correct?**

1 A. I wasn't a -- I wasn't a part of that case.  
2 I'll take your word for it.

3 Q. Well, you use as an example -- you say, This  
4 agreement reflects the present day district-specific rate  
5 design as will be discussed in this testimony. That's  
6 kind of an incorrect statement, is it not? It's not  
7 district specific because, in fact, any of the water  
8 districts in lines 11 through 23, you state that, The  
9 signatories, including OPC, proposed to combine Warren  
10 County with St. Louis Metro, correct, lines 13 and 14?

11 A. The signatories have reached a resolution for  
12 this case that includes the establishment of eight water  
13 districts, as described herein. The signatories proposed  
14 to combine Warren County with St. Louis Metro District.  
15 Is that --

16 Q. I asked the question, did you not -- did not  
17 the signatories propose to combine Warren County with  
18 St. Louis Metro District; that's yes or no?

19 A. Yes.

20 Q. Okay. And you -- they also proposed to  
21 combine Loma Linda with Joplin; correct?

22 A. Correct.

23 Q. So that is consolidated tariff --

24 A. It is.

25 Q. -- correct? And then you maintain individual

1 **districts for Mexico, Jefferson City, Warrensburg, Platte**  
2 **County, and St. Joseph; correct?**

3 A. Yes, I do.

4 **Q. And then the eighth district you combine the**  
5 **systems of Brunswick, Lakewood Manor, Spring Valley,**  
6 **Ozark Mountain, Lake Taneycomo, White Branch, Rankin**  
7 **Acres, Riverside Estates, Roark and Lake**  
8 **Carmel /Maplewood; correct?**

9 A. Correct.

10 **Q. That's a consolidation; correct?**

11 A. It is a form of consolidation, yes.

12 **Q. Right. It's not district specific, is it?**

13 A. No, it's not.

14 **Q. Okay. That's the point. So in your**  
15 **statement on 24 and 25 that this agreement reflects**  
16 **present day district-specific rate design, that's**  
17 **incorrect?**

18 A. I think reasonable minds can differ. I think  
19 we heard that in --

20 **Q. Well, no.**

21 A. -- the last testimony.

22 **Q. I'm anxious to hear your explanation what of**  
23 **that is district specific when you consolidate districts**  
24 **and it's not consolidation. You have an opportunity to**  
25 **explain my misunderstanding.**

1           A.        So beginning on page 2, starting on the end  
2 of line 25, I write, The Commission created separate  
3 working Docket SW-2011-0103 --

4           **Q.        With all due respect --**

5           A.        -- the title of that docket is --

6           **Q.        With all due respect --**

7           A.        -- In The Matter of the Review --

8           **Q.        Sir, my question --**

9           A.        -- of the Comments --

10           MR. POSTON: He's asking -- he's answering  
11 his question, Judge.

12           JUDGE JONES: Let him finish answering.

13           THE WITNESS: -- in Policy Consideration of  
14 District-Specific Pricing and Single Tariffing Pricing in  
15 Which Stakeholders Submitted Comments and an  
16 on-the-record proceeding occurred. I would not call what  
17 is in my indented section single-tariff pricing. The  
18 absence of that, I've referred to it as district  
19 specific.

20           BY MR. BEDNAR:

21           **Q.        But would you refer to the indented portion**  
22 **as district specific?**

23           A.        I would say -- I would say that it is  
24 district specific for seven districts, with an eighth  
25 district that is a hybrid. And to your point, I



1 understand there had been some consolidation.

2 **Q. Well, Warren County had their own district**  
3 **before?**

4 A. There was a system within Warren County.

5 **Q. It was a separate district. And you look at**  
6 **the previous cases, Warren County is always segregated**  
7 **just like Platte, just like Joplin, just like St. Joseph;**  
8 **correct?**

9 A. My understanding is that Warren isn't like --  
10 I wouldn't characterize Warren like Platte, but...

11 **Q. It was before this case.**

12 A. Okay.

13 **Q. Before they consolidated it. You don't know**  
14 **that?**

15 A. I don't know that.

16 **Q. Okay. So what do you -- again -- again, I**  
17 **agree with you it's not single tariff, and I'm not**  
18 **suggesting it's single tariff.**

19 A. Okay.

20 **Q. What I'm suggesting is that it's not district**  
21 **specific, if district specific is defined as every**  
22 **district has to support their own costs.**

23 A. I would agree.

24 **Q. Okay.**

25 MR. POSTON: Judge, I'm going to make an

1 objection here. It seems like Mr. Bednar is testifying.  
2 I don't really see questions being posed. Half of what  
3 we're hearing here is just testimony from him. And I'd  
4 just ask that he be posing questions to the witness and  
5 not just testifying.

6 JUDGE JONES: Again, Mr. Bednar, stop  
7 testifying and pose questions.

8 MR. BEDNAR: I don't think I'm testifying,  
9 Your Honor. I think I'm cross-examining, and  
10 cross-examining can be done -- I have asked for a yes or  
11 no answer. He chose to read from a transcript instead of  
12 just saying yes or no when I asked about  
13 district-specific pricing, yes or no.

14 JUDGE JONES: The whole of your -- at this  
15 point then the whole of your cross has been to draw some  
16 type of contradiction out of him with regard to  
17 district-specific pricing. That's been done.

18 MR. BEDNAR: Okay.

19 JUDGE JONES: Okay. So now you can go to  
20 something else.

21 BY MR. BEDNAR:

22 **Q. Let's go to page 5 of your testimony, lines**  
23 **17 and 18. You state that no federal agency exerts**  
24 **economic regulatory policy over the water industry.**

25 **A. Yes.**

1           **Q.       Do you consider the Environmental Protection**  
2 **Agency as a federal agency?**

3           A.       Not an economic regulatory policy agency.

4           **Q.       It has no impact -- their -- their policy has**  
5 **no impact over the water industry?**

6           A.       That's not what I say.

7           **Q.       Well, does FERC dictate rates for Ameren in**  
8 **Missouri?**

9           A.       FERC -- FERC regulates -- FERC exhibits --  
10 exerts economic regulatory policy over Ameren.

11          **Q.       For -- for state electricity provisions?**

12          A.       Yes.

13          **Q.       In what way?**

14          A.       Transmission.

15          **Q.       Okay. In the ratemaking for Ameren's**  
16 **districts, does FERC make a decision on ratemaking or**  
17 **does this Commission make the --**

18          A.       The FERC costs are passed down to the Ameren  
19 customers, yes.

20          **Q.       Now, we talked about the income levels. You**  
21 **brought up income earlier and that Platte County was,**  
22 **I'll say, a richer district. Your chart on page 17 --**

23          A.       Yes.

24          **Q.       -- did you do that research yourself?**

25          A.       I did.

1           **Q.       And how did you do that?**

2           A.       Referenced a U. S. Census Bureau. The link is  
3 Footnote 25.

4           **Q.       And when it says Platte for the median**  
5 **income, did you draw that out of just the Platte Water**  
6 **District or out of Platte County?**

7           A.       Platte County.

8           **Q.       And you understand the Platte Water District**  
9 **is much smaller than Platte County?**

10          A.       Yes, I do.

11          **Q.       And did you make that distinction then in the**  
12 **average income?**

13          A.       I did not.

14          **Q.       Were you aware that the average income for**  
15 **Riverside is \$37,000?**

16          A.       I looked it up last night, yes.

17          **Q.       Yeah, I bet you did. So it's much -- it's**  
18 **even lower than St. Louis Metro, correct, Riverside?**

19          A.       If -- I mean, if we want to play that game, I  
20 would say that St. Louis Metro has many different  
21 municipalities with very range -- huge range in median  
22 income.

23          **Q.       Sir, I'm not playing games. I'm trying to**  
24 **get -- to make sure that we all understand what's in the**  
25 **best interest of the state on ratemaking policy. And**

1 so --

2 A. Agree.

3 Q. -- when somebody says a Platte County -- when  
4 you offer testimony that Platte County is wealthier than  
5 other districts, I think it's incumbent upon me to point  
6 out the errors in that conclusion; correct?

7 A. I would take issue with the errors, the  
8 conclusion.

9 JUDGE JONES: You all are going off track.

10 THE WITNESS: Mr. Bednar, I did list the  
11 accounts on that table. In future testimony I can be  
12 more explicit, but --

13 BY MR. BEDNAR:

14 Q. Now, would you agree --

15 A. -- I was trying to be straightforward with  
16 that.

17 Q. Would you agree with me, whether it's low  
18 income or high income, that there are various -- that you  
19 cannot rely just on the statement that it's a high-income  
20 district or a low-income district and determine usage or  
21 over usage? And I'll give you an example.

22 You have a high-income district that may have  
23 larger yards, may have other systems, but they also may  
24 have the ability to pay for water conservation uses such  
25 as time-controlled irrigation systems or higher

1 technology for controlling the use of water and using the  
2 new systems in place for low-flush toilets, for example,  
3 where in a low-income area, it may be low-income folks  
4 are living in an apartment duplex, a multi family housing  
5 that has old infrastructure and there's not the ability  
6 to upgrade, so you have leaks that are not the  
7 responsibility or caused by the resident but are caused  
8 by the aging structure; correct?

9 A. Correct.

10 Q. Now, there's been a lot of talk about single  
11 tariff versus district specific. You state on page 4 of  
12 your testimony when you talk about then having  
13 flexibility from district-specific pricing. So in  
14 previous cases you agree that Public Counsel has called  
15 for consolidation in the past of districts; correct?

16 A. Correct.

17 Q. And then on that same page, 7 through 10, you  
18 offer four factors that Public Counsel looks at, water  
19 services local, principles of cost causation,  
20 inappropriate price signal to consumers, and  
21 overinvestment of infrastructure. So on this  
22 inappropriate price signal -- and I understand the  
23 concept of a price signal is to try to change the  
24 consumer's behavior. But in the water companies, in the  
25 acquisition of water districts, would you agree with me

1 **that people don't often move into a district based upon**  
2 **water cost alone?**

3 A. I can't speak to that. I mean, I'm assuming  
4 the average person's probably not high on their priority.

5 **Q. And would you agree with me that some people**  
6 **are living in a district that's been bought and they**  
7 **don't have any control over even knowing their system**  
8 **needs to be upgraded?**

9 A. Yes.

10 **Q. For instance, the number of customers in**  
11 **Platte County Water District that know they need a new**  
12 **treatment facility --**

13 A. Yes.

14 **Q. -- very few people knew that. In fact, it**  
15 **didn't even come up in the last case back in 2010 or '11,**  
16 **I don't believe, when we talked about single-tariff**  
17 **pricing.**

18 MR. POSTON: Judge, again, he's testifying.  
19 There's no question --

20 MR. BEDNAR: I'm asking. I'm sorry. Let  
21 me --

22 BY MR. BEDNAR:

23 **Q. Are you aware of whether or not the Platte**  
24 **County water treatment case (sic) came up in the 2010 or**  
25 **2011 case?**

1           A.       My understanding of the Platte County  
2 situation and their water treatment plant that's about to  
3 come on line was just brought to light with me within  
4 this past few days within this case. And I think that's  
5 one of the problems, actually.

6           **Q.       But were you aware that Riverside took the**  
7 **position of supporting single-tariff pricing in the last**  
8 **case before the water treatment plant came up?**

9           A.       By last case, you mean the 2011 case?

10          **Q.       Yes.**

11          A.       Yes.

12          **Q.       You are aware of that?**

13          A.       Yes.

14          **Q.       So we're -- it's not -- you understand it's**  
15 **not the city's position just in this case because there's**  
16 **a water treatment plant that we're now suddenly taking**  
17 **the position for single-tariff pricing?**

18          A.       Okay.

19          **Q.       Do you agree? You understand that?**

20          A.       I understand that in your last -- in the last  
21 case the city was in favor of single-district pricing.

22          **Q.       Now, on page 15, lines 23 through 25, you**  
23 **state that any consolidation granted primarily on social**  
24 **equity considerations should be examined in their**  
25 **totality to prevent any unnecessary subsidization or**



1 **unintended impact on those customers who can least afford**  
2 **to bear the burden; correct?**

3 A. Correct.

4 Q. **And so when we talk about the rate impact and**  
5 **we talk about rates that become out of the bandwidth for**  
6 **what anybody would recognize as a just rate, we can look**  
7 **at the current rates of Platte County; correct? And**  
8 **we've passed around lots of exhibits to show how high**  
9 **they are now and how much lower they would be, still**  
10 **higher than other districts, but lower than what they**  
11 **currently are, regardless of capital investment structure**  
12 **today; correct?**

13 A. Correct.

14 Q. **So when we look at all the factors, you had**  
15 **four -- you identified four. I think the Company's**  
16 **identified three or four. I'm going to show you again**  
17 **one of your exhibits from Mr. Smith's -- not your**  
18 **personal exhibits, but Mr. Smith's exhibits on page 3 of**  
19 **5, Schedule RCS-16 I just passed out. It's been marked**  
20 **as Riverside Exhibit Number 4.**

21 A. (Indicating.)

22 Q. **Yes, that's it. It's a fairly good summary**  
23 **sheet, would you agree, of the for and against single**  
24 **tariff versus anti-single-tariff pricing?**

25 A. I don't have that one. I've got the state's.

1 That's all I've got.

2 **Q. Oh, I'm sorry. (Indicating.) Would you**  
3 **agree with me that's a fair start for identifying the key**  
4 **policy questions and examining single-tariff pricing**  
5 **versus no single-tariff pricing?**

6 A. Yes.

7 **Q. And are there any of the arguments under the**  
8 **arguments in favor of single-tariff pricing that you**  
9 **think are unjust or unreasonable to consider? Mitigates**  
10 **rate shock to utility customers, is that a fair element**  
11 **to examine?**

12 A. Do I think any of the arguments listed in  
13 that block are not --

14 **Q. Appropriate?**

15 A. -- appropriate? I think the authors do a  
16 good job of summarizing the arguments.

17 **Q. Okay. And when OPC decides to consolidate or**  
18 **not, would you say that it's consistent with those in**  
19 **favor of single-tariff pricing there?**

20 A. When OPC decides to consolidate?

21 **Q. Yeah. When you support districts being**  
22 **consolidated, are those -- of those in favor, would you**  
23 **say that they fall in line with those same arguments that**  
24 **are made on Exhibit Number 4?**

25 A. Can I ask a clarifying question?

1           **Q.       Sure.**

2           A.       When you say OPC, when we support this, do  
3 you mean in previous cases or within --

4           **Q.       Even this case?**

5           A.       -- the stipulation?

6           **Q.       Um-hum.**

7           A.       They're elements, yes.

8           **Q.       Okay. So, I mean, you believe the rate shock**  
9 **can be so bad there should be consolidation at times;**  
10 **correct?**

11          A.       I'm going to respond with more than a yes and  
12 no answer to that. And I think this is getting to your  
13 point too. We throw the term rate shock around a whole  
14 lot.

15          **Q.       Right.**

16          A.       And I think -- I don't think most customers  
17 really have a firm grasp of what their rates are. I  
18 think they know what their bills are. So a huge bill  
19 impact, a large number, I think is something that we  
20 definitely take into consideration.

21          **Q.       Did you -- and you attended one of the**  
22 **Riverside hearings, at least the first one, didn't you?**

23          A.       No, I was not able to make any of the  
24 Riverside ones.

25          **Q.       So you're not aware of the rate shock that**

1 **the residents of Riverside are going through and have**  
2 **gone through in the past with their rates; correct?**

3 A. I have heard it throughout our settlement in  
4 this case.

5 **Q. Have you ever visited Riverside at all?**

6 A. I have not been there.

7 **Q. Have you talked to anybody from -- any public**  
8 **officials from Riverside, other than the mayor yesterday?**

9 A. Other than the mayor, I'm not -- not that I'm  
10 aware of.

11 **Q. Okay. How about any of the other -- Mexico,**  
12 **Missouri?**

13 A. The Mexico mayor?

14 **Q. Or city alderman or councilman --**

15 A. No, I haven't.

16 **Q. -- anybody from the city? When you talk**  
17 **about the over investment of infrastructure as being a**  
18 **reason to be against consolidated tariff pricing, have**  
19 **you identified any infrastructure that the Company is**  
20 **proposing in Platte County -- are you arguing they don't**  
21 **need a water treatment plant in Platte County?**

22 A. Again, I mean, I just became aware of the  
23 Platte County treatment center within the last couple of  
24 days.

25 **Q. Right. But you -- so as of today you don't**

1 **have any issue that they need a treatment facility;**  
2 **right? And understanding you can argue against prudent**  
3 **and reasonable costs in constructing that facility.**

4 A. I can't speak to whether or not they need a  
5 treatment -- to your point, in the electric sector, a  
6 little bit more familiar with. We've got IRPs. I know  
7 what's coming down for the utilities. We don't have that  
8 same sort of oversight, you know, as far as I can tell,  
9 with water.

10 **Q. So is there any -- any instance of Missouri**  
11 **American building -- making any capital improvements that**  
12 **you believe were unnecessary or gold -- or I think you've**  
13 **referred to it as gold plating?**

14 A. Yes.

15 **Q. Which one?**

16 A. I would refer you back to the St. Joseph  
17 case, which spurred this whole district-specific consol --  
18 district-specific pricing. As I understand it, the  
19 St. Joseph water treatment plant was deemed imprudent and  
20 got us to, I guess, our present situation.

21 **Q. And those imprudent costs are still passed on**  
22 **to the ratepayer?**

23 A. No.

24 **Q. Okay. That's what I'm talking about, any**  
25 **capital -- I mean, you have a chance to go -- any prudent**

1 **costs of Missouri American that you think are gold**  
2 **plating?**

3 A. Do I know of any?

4 **Q. Yeah.**

5 A. Well, I mean, to your point, they haven't  
6 consolidated.

7 **Q. They've consolidated in some areas though,**  
8 **haven't they, as evidenced by page 3 of your own**  
9 **testimony?**

10 A. No, I have not personally performed any  
11 audits.

12 **Q. Okay. And I believe it's your testimony that**  
13 **as far as rate design is concerned, you need more**  
14 **information; you can't -- you believe that the Commission**  
15 **needs to open up a whole new docket just to study rate**  
16 **design; correct?**

17 A. I think that issue was interdependent with  
18 several other issues that were settled in the  
19 stipulation. I would be more than welcome to -- you  
20 know, if the Commission feels like that's an appropriate  
21 way forward, I mean, we suggested it, so, yes.

22 **Q. Yeah, you suggest it in your testimony. And**  
23 **you also suggest that you need policy direction from the**  
24 **Commission; correct?**

25 A. Correct.

1           **Q.       So you agree that it is within the**  
2 **Commission's policy-making authority to make a**  
3 **determination on both consolidation and single tariff;**  
4 **correct?**

5           A.       I would defer to my attorney on the legal  
6 aspects of that. But as I understand it, I mean, the  
7 Commission has discretion to do, you know, what they  
8 want.

9           MR. BEDNAR: No further questions. Thank  
10 you.

11           JUDGE JONES: St. Joseph?  
12 CROSS-EXAMINATION BY MR. LAWYER:

13           **Q.       Good afternoon.**

14           A.       Afternoon.

15           **Q.       I have a quick question on Riverside's**  
16 **Exhibit 4 you were just presented with. I believe you**  
17 **were asked if -- if you thought it was just and**  
18 **reasonable for these arguments to be considered. And you**  
19 **had said that you thought that it was a good summary of**  
20 **the arguments for or against single-tariff pricing; is**  
21 **that correct?**

22           A.       That's correct.

23           **Q.       Would you say that there are certain**  
24 **arguments or factors which should be -- should be given**  
25 **more weight in determining single -- whether or not**

1 **single-tariff or district-specific pricing should be**  
2 **implemented?**

3 A. I would say yes.

4 **Q. What -- what would your -- in your mind what**  
5 **would be a principle of ratemaking that should receive --**  
6 **receive more weight than others?**

7 A. I think it's a balancing act. I mean --

8 **Q. Exactly. That's -- and -- but not all of the**  
9 **factors in balancing them out is -- what I'm getting at**  
10 **is are there others that are more important than others**  
11 **and, therefore, carry more weight in the balancing?**

12 A. I guess to answer your question, I would  
13 point to my testimony and to the list of issues that --  
14 you know, that our office felt that were the most  
15 relevant issues here in this case.

16 **Q. And those, just to -- to bring it back to**  
17 **the --**

18 A. Sure.

19 **Q. -- previous line of questioning, I just**  
20 **wanted to give you an opportunity to kind of single out**  
21 **what those were.**

22 A. Again, it's the local service of water, that  
23 a tangible product itself. The principles of cost  
24 causation. The inappropriate price signal to consumers  
25 that we feel like is muted in this sense. And just the



1 overall concern of potential over investment in  
2 infrastructure.

3 Q. Thank you. During the cross-examination by  
4 the City of Brunswick's attorney, Mr. Drag, he had asked  
5 about the lifecycle of the costs associated with capital  
6 improvements. You are familiar with the fact that  
7 St. Joseph had a water treatment facility built in the  
8 not-too-distant past; correct?

9 A. Correct.

10 Q. Do you have any opinion on where it's  
11 possible that that lifecycle would be? Probably hard to  
12 put an exact number on it, but --

13 A. I would say it's still relatively early in  
14 that lifecycle.

15 Q. Still relatively early. In your opinion  
16 would asking the City of St. Joseph or the customers  
17 within St. Joseph District to absorb major capital  
18 improvements for other districts, would that go to, in a  
19 slightly different context, what you refer to in your  
20 testimony as beyond the zone of just and reasonable?

21 A. I would agree with that.

22 Q. In your Table 2 of your testimony, which  
23 lists the different median income levels and poverty  
24 rates, does the St. Joseph and Brunswick Districts have  
25 lower median incomes and higher poverty rates than Platte

1 County? Obviously, we're all aware of the problems --  
2 the shortcomings of some of these numbers that have been  
3 pointed out during the last -- the cross-examination by  
4 Mr. Bednar. But with these numbers that we are dealing  
5 with, St. Joseph and Brunswick do have a lower median  
6 income and poverty level --

7 A. Yes.

8 Q. -- or higher poverty level, excuse me. When  
9 you -- in your testimony you go to Figure 7 that  
10 illustrates the income differences within the St. Louis  
11 Metro District; correct?

12 A. Correct.

13 Q. And in that you say that -- or I should say  
14 following that figure you say that asking the customers  
15 in the St. Louis Metro District to subsidize other  
16 districts goes beyond your -- what you would consider the  
17 zone of just and reasonable; correct?

18 A. Correct.

19 Q. So would it seem to go beyond your zone of  
20 just and reasonable to ask St. Joseph and Brunswick to  
21 absorb capital improvements of a district, regardless of  
22 whether or not it had a median income that was much  
23 higher?

24 Sorry, I've gone a little bit too abstract.  
25 We will just use the Platte County District that is

1 **proposed under Staff's proposal to be included with**  
2 **St. Joseph and Brunswick. Would that go beyond what you**  
3 **would consider in the zone of just and reasonable?**

4 MR. BEDNAR: I'd object to that question,  
5 Your Honor, because it's been stated that the statistics  
6 with Platte County were incorrect. I'd object to the  
7 mischaracterization of testimony. The table that's being  
8 utilized for the comparison of incomes was admittedly  
9 incorrect, because it covered the entire Platte County  
10 area as opposed to the Platte County Water District,  
11 which is a much smaller area.

12 JUDGE JONES: So your objection is facts not  
13 in evidence?

14 MR. BEDNAR: Yes, Your Honor.

15 JUDGE JONES: Objection sustained.

16 BY MR. LAWYER:

17 **Q. One last question of clarification. You had**  
18 **been asked about referring to what we have now as**  
19 **district specific when there has indeed been some**  
20 **consolidation within Missouri. Are there -- is there a**  
21 **wide spectrum of pricing tariffs in the country --**

22 A. Yes.

23 **Q. -- between single tariff consolidated to**  
24 **district specific? Would it be fair to say there's a**  
25 **spectrum of them with -- with variances along that line?**

1 A. I would agree with that in general.

2 Q. So when you say -- you refer to what we have  
3 as district specific, it's because it falls maybe closer  
4 to district specific than single tariff or to -- along  
5 that spectrum; is that correct?

6 A. Correct.

7 MR. LAWYER: Okay. Thank you. I have  
8 nothing further.

9 JUDGE JONES: Warrensburg?

10 MR. CURTIS: No questions. Thank you.

11 JUDGE JONES: Public Water Supply Districts?

12 MR. DORITY: No questions. Thank you.

13 JUDGE JONES: Triumph?

14 MR. HARDEN: No.

15 JUDGE JONES: Office of Public Counsel? Oh,  
16 I'm sorry, Staff.

17 CROSS-EXAMINATION BY MS. MYERS:

18 Q. Dr. Marke, I kind of want to return to a  
19 subject that you discussed with Mr. Downey in terms of  
20 shifting revenue responsibility, particularly among  
21 utilities. Do you remember that line of questioning?

22 A. Yes.

23 Q. And was it your stance then that in general  
24 you do not support shifting revenue responsibility among  
25 utilities?

1 A. Yes.

2 Q. Are you familiar with the Platte County sewer  
3 system?

4 A. Enough to know how many accounts they have.

5 Q. Are you aware that their current customer  
6 charge is \$65.22 per month? That's their rate?

7 A. That sounds right.

8 Q. Are you also aware under the stipulation and  
9 agreements their revenue responsibility, their increase  
10 would be 47 percent, which would lead to an over \$90 a  
11 month charge?

12 A. Um-hum.

13 Q. So in situations like that, do you still hold  
14 the position that we should not shift revenue  
15 responsibility?

16 A. I would hold -- I would say that the waste  
17 water situation has largely been lost in this dialogue,  
18 and our office is definitely -- our proposed stipulation  
19 at least attempts to try to address that, and I feel like  
20 we got agreement amongst the parties to answer that.

21 Q. So then would it be your position that it is  
22 sometimes in the public interest to shift revenue  
23 responsibility?

24 A. Yes, I would agree with that.

25 Q. And then we turn to you did sign the

1 **nonunanimous stipulation agreements; correct?**

2 A. Correct.

3 **Q. And there was some consolidation in there;**  
4 **correct?**

5 A. Correct.

6 **Q. Do you know who Brunswick was consolidated**  
7 **with?**

8 A. St. Joe.

9 **Q. St. Joe. And so if the Commission chooses**  
10 **not to accept that agreement, what do you propose happens**  
11 **to Brunswick?**

12 A. So if the Commission does not propose to  
13 accept that agreement, I mean, I would assume I probably  
14 wouldn't have much of a say in that.

15 **Q. Right.**

16 A. The Commission would probably, you know,  
17 elect to go with the decision. I think their -- as been  
18 expressed before, I think there're probably a number of  
19 ways of slicing it. We recognized as an office that  
20 Brunswick was important and that merit further  
21 consideration as far as a small system to have some form  
22 of relief.

23 **Q. So, again, would it be your position that it**  
24 **is within the public interest at times to consolidate**  
25 **water districts?**

1 A. Yes.

2 MS. MYERS: All right. Thank you, Dr. Marke.

3 I have no further questions.

4 JUDGE JONES: Missouri American Water  
5 Company?

6 MR. ENGLAND: Thank you, Your Honor. I knew  
7 I'd forget something. Excuse me.

8 CROSS EXAMINATION BY MR. ENGLAND:

9 Q. **Good afternoon, Dr. Marke.**

10 A. Good afternoon, Mr. England.

11 Q. **You made reference to the portion of the -- a**  
12 **St. Joseph treatment plant being imprudent or something**  
13 **to that effect. Do you recall that?**

14 A. I do.

15 Q. **What is the basis for that de-- or that**  
16 **statement?**

17 A. That was my understanding, based off of the  
18 oral testimony given by Staff Witness Busch yesterday and  
19 my own review of the previous history.

20 Q. **Have you reviewed the Commission's order in**  
21 **the 2000 rate case where that plant was placed into**  
22 **service?**

23 A. I've reviewed it. Off the top of my head, I  
24 can't quote what I'm sure is about to follow.

25 Q. **It's your understanding, though, there was a**

1 **prudent -- excuse me, a finding of imprudence?**

2 A. Could you repeat that, please?

3 **Q. It's your understanding that there was a**  
4 **finding of imprudence in that order?**

5 A. That was my understanding.

6 **Q. Can you be more specific as to what was**  
7 **imprudent?**

8 A. I can't.

9 **Q. You also mentioned, I believe, in response to**  
10 **Mr. Bednar that you just learned of the fact that Platte**  
11 **County's treatment plant needs to be replaced; is that**  
12 **right?**

13 A. That's correct.

14 **Q. I take it then you did not read the direct**  
15 **testimonies of Company Witnesses Dunn and Spanos that**  
16 **were filed back in July to begin this case that talked**  
17 **about the fact that that plant is coming out of service**  
18 **in the next couple of years and that depreciation rates**  
19 **need to be accelerated to recover the undepreciated**  
20 **portion of that plant?**

21 A. I read the testimonies. I would say that  
22 that particular point had escaped my mind.

23 **Q. And then there were some questions about rate**  
24 **shock, and I'm not sure I understood your response. But**  
25 **if I can paraphrase, I understand that maybe you're not**



1 **just concerned with a percentage increase, but perhaps**  
2 **the actual rate itself; is that right?**

3 A. I think I -- I characterized it as the bill  
4 impact. But, yes.

5 **Q. Okay. So if a customer was only paying \$1**  
6 **today for water service and his bill went to \$2, that**  
7 **would --**

8 A. Right.

9 **Q. -- be 100 percent increase?**

10 A. Correct.

11 **Q. Can I also suggest or would you agree with me**  
12 **that that wouldn't necessarily be an unconscionably high**  
13 **rate for a water bill?**

14 A. Right.

15 **Q. Okay. Thanks. I notice that your title is**  
16 **economist with the OPC; is that right?**

17 A. That's correct.

18 **Q. Okay. When I look at your qualifications**  
19 **though, I did not see a degree in economics. Did I miss**  
20 **something?**

21 A. No, you did not.

22 **Q. And there was some testimony in response to a**  
23 **question from Joplin attorney, Ms. Bell, regarding -- I**  
24 **think you got into a discussion about a subsidy. So when**  
25 **you talk about a subsidy, are you talking about it in a**

1 **true economic sense or in a broader sense?**

2 A. Could you refresh my memory as to the context  
3 of the subsidy in question?

4 **Q. Something to the effect that customers in**  
5 **low-cost districts will subsidize customers in high-cost**  
6 **districts. It's been a common theme for the opponents of**  
7 **consolidated tariff pricing.**

8 A. And, I'm sorry, the original question was?

9 **Q. Are you using the term subsidy in a strict**  
10 **economic sense or in some other broader sense?**

11 A. So I would say a more broader sense, not the  
12 strict economic sense.

13 **Q. Is it based -- I'm sorry?**

14 A. Not the strict economic sense of the term. I  
15 haven't done any study to suggest...

16 **Q. Fair to say it's based on perhaps results**  
17 **from fully-allocated embedded cost studies that you draw**  
18 **these conclusions?**

19 A. Yes.

20 **Q. Okay. What is OPC's position on this issue?**  
21 **You've got your filed case, and then you've got the**  
22 **nonunanimous stipulation.**

23 A. The nonunanimous stipulation.

24 **Q. That's your preferred or only position now?**

25 A. That's our preferred position, yes.

1 Q. Okay. And so if the stipulation is your  
2 position, I think it's fair to say, and you may have  
3 already said it, that it does involve some consolidation  
4 of districts?

5 A. Yes.

6 Q. And it does involve a revenue contribution,  
7 to some degree, from water to sewer?

8 A. Yes.

9 Q. And it does involve what I will call a rate  
10 for the Platte County residents that is 5 percent less  
11 than their indicated cost of service; is that right?

12 A. That's correct.

13 Q. Okay. Have you or any signatory to the  
14 nonunanimous stipulation prepared a rate comparison of  
15 the results of that nonunanimous proposal to present  
16 rates?

17 A. No.

18 Q. So is it fair to say that you can't tell the  
19 Commission what rates would result from your nonunanimous  
20 stipulation at this time, if it -- if it's accepted by  
21 the Commission?

22 A. I would say yes, with a qualification.

23 Q. Yes is fine. Thank you. Attached to your  
24 direct testimony is a Schedule GM-2, which I believe was  
25 a -- well, let me get to it so I get the title correct.

1 **It's entitled The History of Rate Design for MAWC Since**  
2 **1989. Did you see that?**

3 A. I saw that.

4 **Q. And I think that was something that the**  
5 **Company submitted in a workshop-type docket or --**

6 A. Correct.

7 **Q. -- something of that nature? I thought it**  
8 **was particularly well written, didn't you? I'll withdraw**  
9 **the question.**

10 **What I do want to focus on is to see if you**  
11 **would agree with me, assuming you read it, that it looks**  
12 **like for a period of 1989 through 1998 the Commission and**  
13 **the parties grappled with the notion of single tariff**  
14 **versus district-specific tariffs, first for the companies**  
15 **that made up the old Missouri sys-- Missouri cities water**  
16 **system, and then after they were consolidated or acquired**  
17 **by Missouri American, it became a Missouri American issue**  
18 **in the mid to late '90s; is that right?**

19 A. That's what it appears.

20 **Q. And would you also agree with me that during**  
21 **that period of time, at least reading from the selected**  
22 **quotes from the Commission's report and order, that the**  
23 **Office of Public Counsel at that time seemed to be**  
24 **favoring consolidated rates or single-tariff pricing?**

25 A. Yes, that's how I read it.

1           **Q.       Okay. And then, finally, we actually did**  
2 **have, for a brief moment in history, single-tariff prices**  
3 **from 1998 to 2000; right?**

4           A.       Correct.

5                   MR. ENGLAND: Okay. Thank you, sir. I have  
6 no other questions.

7                   JUDGE JONES: Questions from the Commission?  
8 Mr. Chairman?

9                   CHAIRMAN HALL: Yeah, just a few.

10 QUESTIONS BY CHAIRMAN HALL:

11           **Q.       Good afternoon.**

12           A.       Afternoon.

13           **Q.       So looking at the nonunanimous stipulation**  
14 **that OPC is a signatory on, there is a uniform customer**  
15 **charge; is that correct?**

16           A.       That's correct.

17           **Q.       And based on the questioning from**  
18 **Mr. England, this is now OPC's preferred position on --**  
19 **on the customer charge, well, and -- and consolidation;**  
20 **is that correct?**

21                   Wait, is he coming back on consol -- on rate  
22 design? We're just on consolidation here.

23                   MR. POSTON: Yes.

24                   JUDGE JONES: Yes, he is.

25                   CHAIRMAN HALL: I'll wait. Thank you.

1 JUDGE JONES: Commi ssi oner Stoll .

2 COMMI SSIONER STOLL: I have no questi ons.

3 Thank you.

4 JUDGE JONES: Commi ssi oner Kenney?

5 COMMI SSIONER KENNEY: No questi ons.

6 JUDGE JONES: Commi ssi oner Col eman?

7 COMMI SSIONER COLEMAN: No.

8 JUDGE JONES: And cross based on questi ons  
9 from the chair?

10 I'm taking no one has any questi ons.

11 And redi rect?

12 MR. POSTON: Just a few. Thank you.

13 REDI RECT EXAMI NATION BY MR. POSTON:

14 **Q. I'd like to start with the Riverside**

15 **Exhibit 4. Do you still have that?**

16 A. Yes.

17 **Q. And this is the exhibit where there's**  
18 **arguments in favor of single-tariff pricing and arguments**  
19 **against it; is that correct?**

20 A. That's correct.

21 **Q. And I wasn't quite sure I understood maybe**  
22 **some of the Q and A between you and Mr. Bednar, but did**  
23 **you state that you agree with all of these things that**  
24 **are -- let me strike that.**

25 **Do you think all of these things on the left**

1 **side are valid reasons in this case why the Commission**  
2 **should approve single-tariff pricing?**

3 A. No. No, I don't.

4 **Q. And can you give me some examples as to some**  
5 **of these perhaps why you don't -- do not think those are**  
6 **valid reasons in this case?**

7 A. One issue that I think has been touched on a  
8 lot in this case is the small system viability issues.  
9 As we understand it, there's a statute in place right now  
10 that allows the Company to acquire a small system and  
11 place it within an existing district, which to me  
12 addresses a lot of the concerns.

13 A lot of these issues were points that were  
14 raised by other parties in direct testimony or rebuttal  
15 testimony, which I responded to. Based off of the  
16 evidence at hand, I didn't believe that there was enough  
17 support given to move towards single-tariff pricing. I  
18 can list further ones.

19 **Q. So -- so there are more if --**

20 A. Absolutely.

21 **Q. -- we went through this?**

22 A. Yeah.

23 **Q. No, that's fine. I believe it was**  
24 **Mr. England asked you a question about OPC's position is**  
25 **now the stipulation that we -- nonunanimous stipulation.**

1 **Can you explain why Public Counsel joined in the**  
2 **stipulation?**

3 A. I think Public Counsel is attempting to -- to  
4 balance a lot of interests. We're representing  
5 ratepayers in this case and -- in a case where ratepayers  
6 don't agree. Our stipulation lays out an end result  
7 where we felt that at least every party gained something  
8 at the end. You know, in terms of -- I'd like to stress  
9 that in terms of the consolidation that we proposed, it  
10 was limited to the water districts and not to the  
11 wastewater. A lot of the -- I think the discussion about  
12 the small systems has centered on wastewater systems.  
13 Wastewater systems are not what is being proposed or what  
14 you're hearing as far as the single tariff or the three  
15 zones that Staff is proposing. That does not include the  
16 wastewater systems.

17 Staff, as I understand, is proposing five  
18 districts for wastewater, and the Company's proposing a  
19 single unified wastewater district. It's our  
20 understanding that the wastewater districts are the  
21 highest-risk districts. They're the ones that bear the  
22 most cost and the most potential for the EPA regulation  
23 coming down. We just don't want that to be lost in the  
24 translation within the stipulation; that that's still an  
25 outstanding issue.



1           **Q.       So in that agreement -- it's a total package**  
2 **agreement; would you characterize it that way?**

3           A.       We went to great lengths to try to get a  
4 total package agreement, yes.

5           **Q.       So would it be appropriate to pull out one,**  
6 **say, portion of that agreement and assume that, absent**  
7 **the other parts of the agreement, we would be supportive**  
8 **of that one portion?**

9           A.       No.

10           MR. POSTON: That's all I have. Thank you.

11           JUDGE JONES: You may step down.

12           THE WITNESS: Thank you.

13           (Witness excused.)

14           JUDGE JONES: Okay. We've been going for a  
15 while. But we do have one more witness on this issue,  
16 Collins. So before we take a break, I'd like to go ahead  
17 and get that witness exhausted -- or get this issue  
18 exhausted, rather, so we can break and come back to rate  
19 design. Although the witness may be exhausted by the  
20 time they get off the stand.

21           Will you raise your right hand, sir.

22                    BRIAN C. COLLINS,

23                    after having been first duly sworn, was  
24 examined and testified on his oath as follows:

25           JUDGE JONES: Thank you. Please be seated.

1 DIRECT EXAMINATION BY MR. DOWNEY:

2 Q. Good afternoon, Mr. Collins.

3 A. Good afternoon.

4 Q. Thanks for traveling back to Missouri for  
5 this.

6 A. No problem. Thank you.

7 Q. I will tell you that I have premarked your  
8 testimony, and your direct is MIEC Exhibit 5 and your  
9 rebuttal is MIEC Exhibit 3 and your surrebuttal is MIEC  
10 Exhibit 4. Don't ask me why I marked them in that order.  
11 And you have those testimonies in front of you?

12 A. I do.

13 Q. Okay. First tell the Commission who employs  
14 you.

15 A. I'm with Brubaker & Associates.

16 Q. And what role do you play there?

17 A. I am a principal of the firm.

18 Q. Okay. And are you a consultant on behalf of  
19 the MIEC in this case?

20 A. I am.

21 Q. Okay. And you have your prefiled testimony  
22 in front of you?

23 A. Yes.

24 Q. Okay. Do you have any corrections you need  
25 to make to any of those testimonies?

1 A. Not that I'm aware of.

2 Q. Okay. If I were to ask you the questions in  
3 those testimonies, would your answers to that be the  
4 same?

5 A. Yes.

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

8 A. Yes.

9 MR. DOWNEY: Your Honor, I would offer MIEC  
10 Exhibits 3, 4, and 5.

11 JUDGE JONES: Any objections? I don't hear  
12 any. MIEC Exhibits 3, 4, and 5 are admitted to the  
13 record.

14 (MIEC Exhibits 3, 4 and 5 received into  
15 evidence.)

16 JUDGE JONES: Cross-examination, beginning  
17 with Staff.

18 CROSS-EXAMINATION BY MS. MYERS:

19 Q. Hi, Mr. Collins. I'm Jamie Myers with Staff  
20 counsel.

21 A. Good afternoon.

22 Q. So you're here testifying on behalf of MIEC;  
23 correct?

24 A. Yes, that's correct.

25 Q. Are you aware that there was a stipulation --

1 a nonunanimous stipulation filed in this case, of which  
2 MIEC was a signatory?

3 A. Yes, I'm aware.

4 Q. And were you here when Dr. Marke just  
5 testified?

6 A. Yes, I was in the room.

7 Q. And Dr. Marke was asked a question, I believe  
8 it came from the chairman, if that stipulation agreement  
9 has now become the official position of OPC on rate  
10 design, customer charge, and consolidation. And I'd like  
11 to ask you that same position (sic). Are the contents of  
12 the stipulation agreement now the official position of  
13 MIEC?

14 A. Well, I think our preferred position is the  
15 district-specific pricing, but we stand by the  
16 stipulation that MIEC signed.

17 MS. MYERS: Okay. Well, I have no further  
18 questions. Thank you.

19 THE WITNESS: Thank you.

20 JUDGE JONES: Missouri Department of Energy?

21 MR. ANTAL: No questions. Thank you.

22 JUDGE JONES: City of Brunswick?

23 MR. DRAG: I have some questions, Your Honor.  
24 I tested it at lunch. So hopefully -- and hopefully this  
25 works better than my last time at trying technology in

1 front of this Commission.

2 JUDGE JONES: Are you needing to do  
3 something?

4 MR. DRAG: Yeah.

5 CROSS-EXAMINATION BY MR. DRAG:

6 Q. Good afternoon, Mr. Collins.

7 A. Good afternoon.

8 Q. My name is Gary Drag. I represent the City  
9 of Brunswick. My first question deals with your direct  
10 testimony, page 5, lines 16 through 23. And you state  
11 that consolidated pricing could provide the Company  
12 disincentives for cost control within the high operating  
13 districts because all costs would be average across the  
14 state. Whoops, I'm sorry, I skipped a line. I jumped.  
15 Well, we'll just deal with that. That's on page 6, lines  
16 3 through 10. I'm sorry. I thought I was on page 5.

17 Isn't it reasonable to believe that the --  
18 right now that the districts are create-- treated as  
19 separate cost centers within or by MAW?

20 A. Yes.

21 Q. Okay. Isn't it reasonable to believe that  
22 the districts will continue to be treated as individual  
23 cost centers, but -- and then they be consolidated at a  
24 higher level of accounting?

25 A. I'm not sure what the Company's proposal

1 would be for that, you know, if consolidation is, you  
2 know, established. So I'm not sure if I can answer that  
3 question.

4 **Q. Okay. Couldn't the maintaining separate**  
5 **accounting cost centers for the districts be -- mitigate**  
6 **the problem of the cost of the -- of the cost averaging?**

7 A. I'm sorry, could you repeat your question?

8 **Q. Sure. Wouldn't maintaining separate cost**  
9 **centers mitigate the problems associated with cost**  
10 **control, as you defined on page 6?**

11 A. I think by maintaining cost control centers  
12 for each of the districts as they stand now would help us  
13 determine, you know, what the cost cause, you know, by  
14 each of the districts are for the Company.

15 **Q. Okay. And if you could maintain the --**  
16 **identify those costs, then that would mitigate that**  
17 **disincentive; is that true?**

18 A. I think that's true. If you know what your  
19 actual costs are, that would certainly help, you know,  
20 maintain, yeah, your efficiencies.

21 **Q. To the best of your knowledge, do you think**  
22 **that the Commission could require cost center accounting**  
23 **at that level to mitigate these disincentives?**

24 A. I think the Commission has the discretion to  
25 do that.

1 Q. Okay. Thank you. Now we'll go to page 5,  
2 lines 16 through 23. And in there you talk about  
3 efficiency and where consolidated pricing will lead to  
4 higher usage by the districts that end up with reduced  
5 rates. But isn't it -- isn't it true that right now  
6 current districts that have low rates may not be using  
7 their water resource efficiently?

8 A. That could be true.

9 Q. Okay. And isn't it true that the current  
10 high-cost districts are probably -- vary times of using  
11 their water resource carefully?

12 A. That could be possible.

13 Q. Isn't it true then that if you basically swap  
14 those positions that there's really no net change in  
15 water usage?

16 A. I'm not sure if I would agree with that.

17 Q. Okay. And why not?

18 A. Well, I think you're asking me to give  
19 opinion on, you know, a customer's perception of price.  
20 And I just don't know if I can answer that question --

21 Q. Okay.

22 A. -- as I sit here today.

23 Q. Okay. Thank you. Is it possible that  
24 because of the built-in behavioral issues of the current  
25 high-cost districts, in terms of maintaining water

1 efficiency, that consolidating the districts, the  
2 pricing, that even though they end up with a lower rate,  
3 that they will still maintain that mentality of water  
4 efficiency?

5 A. That could be. If they develop habits  
6 sometimes are hard to break. So...

7 Q. Okay. Thank you. Okay. My next set of  
8 questions deals with your direct testimony, page 8 and  
9 mostly Schedule BCC-1, and also your rebuttal testimony,  
10 page 5, lines 1 through 4.

11 MR. DOWNEY: What page?

12 BY MR. DRAG:

13 Q. Let's see here. Please bear with me while I  
14 skip to those appropriate pages here. And also I  
15 apologize. This chart and the questions I'm going to ask  
16 you were basically done on the fly this morning. So I  
17 don't have paper to hand out, and I apologize for that.

18 You state in your direct testimony on page 8  
19 that you recommend that district -- that the districts'  
20 revenue requirement be recovered in the proposed rates  
21 based on the respective cost of service, and that would  
22 be across all the districts. Do you still agree with  
23 that?

24 A. That was my, you know, position in the direct  
25 testimony. I think in my rebuttal testimony I said that



1 we could continue to agree with what currently is  
2 established, what is in place in terms of rates for the  
3 districts.

4 **Q. Okay. So in your rebuttal testimony, you**  
5 **state that you would retain the small districts -- well,**  
6 **I'll read it: Further, I recommend that the remaining**  
7 **small districts continue to be combined as a single water**  
8 **district of multiple groups. Do you still agree with**  
9 **that?**

10 **A.** I would agree with that. That was a  
11 compromise that was reached in the last rate case, and I  
12 would continue to support that.

13 **Q. Okay. Let's go to -- if you want to please**  
14 **turn to Schedule BCC-1. In the very top, that would be**  
15 **appendix -- that would be the table -- I'm referring to**  
16 **the table stating Missouri American Water Company,**  
17 **Company Proposal, Comparison of Cost of Service With**  
18 **Revenue or the Present Rates. And you list a percentage**  
19 **increase for Brunswick of 59.6 percent that would be**  
20 **required if you were -- if they were meeting the revenue**  
21 **requirement based on their cost of service; is that**  
22 **correct?**

23 **A.** Yes, that would be the increase needed to  
24 bring them to cost of service.

25 **Q. Okay. And do you still agree with all the**

1 **percentage increases on this table?**

2 A. When I put the table together, this was the  
3 increase at the Company's requested revenue requirement.

4 **Q. Okay.**

5 A. So those percentages have definitely changed,  
6 based on the stipulated revenue requirement for the  
7 Company, I believe of --

8 **Q. Okay.**

9 A. -- \$30.6 million.

10 **Q. Okay. So bear with me. My numbers here are**  
11 **based on this table. So they are going to be -- but the**  
12 **issue -- it's still applicable to what I'm trying to --**  
13 **what I will be questioning you on.**

14 **Are you familiar with Appendix B in the -- in**  
15 **MAW's transmittal letter?**

16 A. If you could provide me a copy of it. I'm  
17 sure I've looked at it.

18 **Q. Yeah, well, that's the problem. I'm doing**  
19 **this on the fly and not having an office in Jefferson**  
20 **City.**

21 **May I approach the witness?**

22 JUDGE JONES: Yes, you may.

23 BY MR. DRAG:

24 **Q. Okay.**

25 MR. DOWNEY: Judge, may I go over there and

1 watch? I may have some redirect on this?

2 JUDGE JONES: Sure, you can.

3 BY MR. DRAG:

4 Q. So Appendix B lists the propose -- current  
5 rates and proposed rates by -- okay. Well, they list the  
6 current and proposed rates by -- from MAW. We're going  
7 to focus on the Current Rate column. And behind you I  
8 have displayed a spreadsheet that I created this morning  
9 that basically goes and what it does is it lists the  
10 current rates, the proposed rates difference, and the  
11 change from that Appendix B. I have sorted it by -- in  
12 terms of the costs, the highest current rate down to the  
13 lowest current rate, and it does not include the sewer  
14 rates.

15 Do the numbers in the Current Rate column  
16 match what is in Appendix B, specifically focusing on  
17 Brunswick?

18 A. Yes, it appears that the present rates match  
19 also the proposed rates.

20 Q. Okay. And I'm going to page down -- I'm  
21 sorry, page up. Does the current rate match that for  
22 Platte County of \$66.20?

23 A. Yes.

24 Q. And does the current rate for White Branch at  
25 \$65 match Appendix B?

1 A. Yes, it does.

2 Q. Okay. And just so we know, just for the  
3 record, the current rate for Brunswick is 49.18; is that  
4 correct?

5 A. Yes, that's correct.

6 Q. Okay. If you look under Column J, I have  
7 listed the percentages from your chart. And for  
8 Brunswick the increase was 59.6 percent. Was that in  
9 your Schedule BCC-1?

10 A. Yes, that was the increase for Brunswick at  
11 the Company's proposed cost of service.

12 Q. Does the \$22 -- I mean 22.6 percent match  
13 your chart?

14 A. I'm sorry, for Platte County?

15 Q. For Platte County. Well, the percentage,  
16 that column under Mr. Collins' Appendix A, the 22.6 is  
17 coming from your BCC-1?

18 A. Yes.

19 Q. And does the 13.3 percent for White Branch  
20 match your schedule, which would be under the other  
21 districts; is that correct?

22 A. Yes, that's correct.

23 Q. Okay. So applying that -- those numbers,  
24 Platte County ends up with an 81 point -- it ends up with  
25 a rate of \$81.16, White Branch ends up with \$73.65, and

1 **Brunswick ends up with \$78.49, as proposed rates with**  
2 **your percentages. Does that seem -- does that seem**  
3 **correct?**

4 A. Yeah, I'll trust that you did the math  
5 correctly. Subject to check, I'll agree.

6 **Q. Okay. I'm sorry?**

7 A. Subject to check, I'll agree.

8 **Q. Okay. And looking at that Column K, is**  
9 **there -- does the -- do the rates for Platte County,**  
10 **White Branch, and Brunswick appear to be the highest?**  
11 **And I can scroll down for you. Whoa, whoa. There we go.**  
12 **There we go.**

13 A. Yes, it appears to be.

14 **Q. Okay.**

15 A. With the qualification that those rates, yes,  
16 are based on the Company's proposed revenue requirement  
17 in its direct case based on its cost of service.

18 **Q. Okay. I'm going to show you another -- have**  
19 **you seen Exhibit MAW 48?**

20 A. I believe I have. That was an exhibit that  
21 was produced yesterday?

22 **Q. Yes. Okay. Would you like a copy?**

23 A. I would, yes.

24 **Q. Okay. I'm going to -- I'm going to switch**  
25 **tabs on this spreadsheet. What I have done on this**

1 spreadsheet, if you look, I have only captured the Rate  
2 A, the present rates and -- from MAW -- from MAW exhibit,  
3 and what I've done is listed them by the 3,000, 5,000,  
4 8,000 rates. They are -- on that spreadsheet we have  
5 Brunswick, Emerald Pointe, and Jefferson City. Those are  
6 sorted in alphabetical order. What I would like you to  
7 do is verify that the present rates on my spreadsheet  
8 correlate to MAW's.

9           So for Brunswick we have rates of 54.61,  
10 76.31, and 108.86. Does that match the MAW exhibits  
11 under Rate A, the five-eighths-inch meters?

12       A.     Yes, it does.

13       Q.     Okay. I'm going to scroll down. Okay. For  
14 Ozark Mountain do the rates 47.56, 64.56, and 90.06 match  
15 MAW's exhibit?

16       A.     Yes, it does.

17       Q.     Does the -- for Rankin Acres, does the \$58  
18 rate match MAW's exhibit?

19       A.     Yes.

20       Q.     And Spring Valley, the 76.31 and the 108.86,  
21 does that match?

22       A.     Yes, along with the 54.61.

23       Q.     Yes. Okay. And then scrolling down, for  
24 White Branch does the \$65 rate match?

25       A.     Yes.

1 Q. Okay. I'm going to scroll back up. I know  
2 this is repetitive, but I'm trying to make sure that my  
3 number -- my numbers are correlating with existing  
4 exhibits.

5 For Brunswick the percent increase is 59.6.  
6 Does that match your Schedule BCC-1?

7 A. Yes.

8 Q. For Ozark Mountain does the 13.3 match your  
9 schedule?

10 A. Yes, assuming that Ozark Mountain is in the  
11 other districts.

12 Q. Same thing, what about Rankin Acres, 13.3?

13 A. Yes.

14 Q. St. -- Spring Valley at 13.3?

15 A. Yes.

16 Q. And, finally, White Branch at 13.3?

17 A. Yes.

18 Q. Thank you. Looking at this spreadsheet --  
19 you can tell me when to scroll through -- is it clear  
20 that Brunswick has the -- under your proposed rate  
21 increase, has the highest rates at 87.16, 121.79, 173.74?  
22 Do you agree with that, that Brunswick had the highest  
23 rates?

24 A. Yes, it appears so at the -- for revenue  
25 requirement of the Company, based on the --

1           **Q.       Okay.**

2           A.       -- cost of service, yes.

3                   MR. DRAG: And I'd like to make it clear that  
4 if Counsel or the Commission would like a copy of my  
5 spreadsheet, I can produce those.

6                   JUDGE JONES: Okay. Thank you.

7 BY MR. DRAG:

8           **Q.       Okay. Do you know the customer counts for --**  
9 **I mean or have some idea of the customer counts of like**  
10 **Brunswick?**

11          A.       I've seen the customer count, but I couldn't  
12 recite it off the top of my head right now.

13          **Q.       Okay. Does 341 accounts sound about right**  
14 **from your recollection?**

15          A.       It sounds about right.

16          **Q.       Okay. And Ozark Mountain at 501?**

17          A.       Yeah, Ozark Mountain I'm probably not too  
18 familiar with. So if you have --

19          **Q.       Okay.**

20          A.       -- something you can point me to.

21          **Q.       Yeah. Well, we'd have to go to -- I'm using**  
22 **the customer counts from Marke's -- Dr. Marke's testimony**  
23 **in Table 2.**

24          A.       And I'm assuming you're referring to  
25 residential?



1 Q. Correct.

2 A. Okay.

3 Q. Well, actually, Dr. Marke's table just counts  
4 customer accounts.

5 A. Okay.

6 Q. So -- well, what Dr. Marke's table listed was  
7 341 for Brunswick, Ozark Mountain at 501, Rankin Acres at  
8 221, Spring Valley at 130, White Branch at 135, and  
9 Platte County at 5,484. I'd also make a note that  
10 White Branch is not in Table 2 of Marke's testimony, but  
11 actually in Figure 3 on page 9.

12 Do you think that these rate increases for  
13 these smaller -- for Brunswick, Rankin Acres, Spring  
14 Valley, they are all going to have high -- some of the  
15 highest increases? Do you think -- do you -- is it your  
16 opinion that they should simply buck up and pay the rate?

17 A. With these high-level increases, I would  
18 definitely think the situation would involve some type of  
19 rate mitigation.

20 Q. Okay. And then what would you -- how  
21 would -- what do you be-- strike all that. Do you have  
22 any proposals as to what kind of rate -- how that rate  
23 mitigation may be implemented?

24 A. Well, I know in the past -- I believe we  
25 reached a settlement in a previous rate case where, for

1 example, St. Louis Metro District rates were based on  
2 cost of service, but we contributed some rate mitigation  
3 to Brunswick.

4 **Q. Okay. So you're -- so you're willing to go**  
5 **and depart from your stance of straight cost -- straight**  
6 **responsibility for revenue based on the cost basis and,**  
7 **instead, alter that to some hybrid, which would involve**  
8 **consolidated pricing?**

9 A. Right. I think it's important to determine  
10 the district's cost of service, but we have to look at  
11 what that cost increase would be to bring those rates up  
12 to cost of service. And if, you know, for example, those  
13 rates are very high, the increase is very high, then I  
14 think we have to look at that and come up with some, you  
15 know, reasonable rate mitigation.

16 **Q. Okay. And why do you think that there needs**  
17 **to be rate mitigation for these smaller communities and**  
18 **even a semi-small community like Platte County where**  
19 **they're faced with significant rates?**

20 A. I'm sorry, could you repeat the question?

21 **Q. Why -- what is -- what is the basis for your**  
22 **opinion that there needs to be rate mitigation for these**  
23 **communities like Brunswick, Platte County, Rankin Acres**  
24 **so that they're not hit with these huge increases?**

25 A. I think it's a, you know, basic principle of

1 ratemaking, that, you know, you set rates on cost of  
2 service; but you have to caveat that with looking at, you  
3 know, what's a reasonable level of the increase and, you  
4 know, if the increases were at such a level, it may  
5 dictate some level of rate mitigation. I think that's a  
6 pretty recognized principle of ratemaking.

7           You know, I've been involved in several rate  
8 cases where we've looked at, you know, just one company,  
9 but we've looked at, you know, class increases; and if a  
10 class has a very high percentage increase relative to the  
11 system average, you know, you may want to try to limit  
12 that class's increase to maybe 1.25 times the system  
13 average, 1.5 times the system average.

14           **Q.       Is it fair to say that the reason for doing**  
15 **that is founded in social equity?**

16           A.       Social equity?

17           **Q.       Or let's say just trying to take into account**  
18 **the social costs of these significant increases?**

19           A.       I think it's just trying to look at the --  
20 you know, the economic impact on the individual customer,  
21 you know, what that -- what's that customer's, you know,  
22 socioeconomic status and, you know, what can they afford  
23 to pay. Affordability is definitely a principle of sound  
24 rate design. So I think you have to take that into  
25 effect -- into account as well.

1           **Q.       So, in summary, you have no -- you have no**  
2 **issues with consolidating Brunswick or some of these**  
3 **other small communities or even Platte County into some**  
4 **form that mitigates these rates?**

5           A.       You know, we've agreed to the stipulation  
6 that consolidates Brunswick with St. Joseph. You know,  
7 we stand by that signing of the stipulation. You know,  
8 again, we've agreed to some rate mitigation for Platte --

9           **Q.       Okay.**

10          A.       -- County District as well. So...

11                   MR. DRAG: Okay. Thank you very much.

12                   JUDGE JONES: Joplin?

13 CROSS-EXAMINATION BY MS. BELL:

14           **Q.       Good afternoon, Mr. Collins. My name is**  
15 **Stephanie Bell, and I'm representing the City of Joplin.**

16           A.       Good afternoon.

17           **Q.       I am looking at your direct testimony. You**  
18 **claim -- were you present for Mr. Herbert's testimony?**

19           A.       For a portion of it.

20           **Q.       Okay. You claim his argument ignores the**  
21 **principles of cost causation. What do you mean by cost**  
22 **causation?**

23           A.       What costs have the customers of a certain  
24 district incurred the Company -- have caused the Company  
25 to incur those costs to provide those customers service.

1           **Q.       And after that you state a district's rate**  
2 **should be based on a cost that Missouri American incurs**  
3 **to provide it with service. Why?**

4           A.       Cost causation is, you know, one of the basic  
5 tenets of sound ratemaking. So, you know, cost causation  
6 results in appropriate rates.

7           **Q.       Okay. So you also discuss some of the**  
8 **differences in prices among districts. And those are,**  
9 **you said, cost related -- there could be differences in**  
10 **costs related to storage, pressure, pumping, and**  
11 **chemicals; is that correct?**

12          A.       Let's see, which page of my testimony are you  
13 referring to?

14          **Q.       I think I'm on page -- the top of page 5.**

15          A.       Top of page 5. Yes, that's correct. Yeah,  
16 storage, pressure, pumping.

17          **Q.       Okay. And so it's these differentials in**  
18 **costs between districts that supports your argument for**  
19 **district-specific pricing; is that correct?**

20          A.       Right. Each of these districts have -- have  
21 particular costs they've caused the Company to incur.  
22 And, you know, it's my position that the rates should be  
23 based on the -- on those costs that those customers cause  
24 the Company to incur.

25          **Q.       Okay. And I believe I read in your testimony**

1 **that you have given testimony and participated in rate**  
2 **cases in Illinois; is that correct?**

3 A. Yes, I have.

4 **Q. And so are you familiar with their pricing --**  
5 **rate structure?**

6 A. Are you referring to Illinois American's?

7 **Q. Correct.**

8 A. Yes. Yes, I have participated and filed  
9 testimony in Illinois American cases before. And there's  
10 currently an Illinois American rate case before the  
11 Illinois Commerce Commission presently, and our firm is  
12 reviewing that case now.

13 **Q. Okay. Are you aware if American Water in**  
14 **Illinois is currently on single-tariff pricing?**

15 A. They're not completely on single-tariff  
16 pricing. They have three districts. They have Zone 1.  
17 They also have, I believe, the Lincoln District, as well  
18 as the Pekin District. And it's my understanding that  
19 they do perform separate cost studies -- cost of service  
20 studies for each of those districts.

21 **Q. And Zone 1 has separate districts within**  
22 **itself; is that correct?**

23 A. Zone 1 has Champaign, the interurban  
24 district, which covers the area around Granite City and  
25 various other communities and -- although I believe the

1 Chicago -- what used to be the Chicago Metro District has  
2 been now included by the Company in Zone 1.

3 **Q. So do you have an opinion, is there a**  
4 **national trend movement towards single-tariff pricing?**

5 A. In my view, in the cases that I've reviewed,  
6 you know, there still are a lot of companies out there  
7 that still maintain district-specific pricing, to a  
8 certain extent.

9 **Q. Okay. I think Mr. Drag was asking you**  
10 **questions about the numbers provided by the Company. And**  
11 **specifically I'm looking at MAWC 48.**

12 A. Yes.

13 **Q. Do you have a copy of that?**

14 A. I believe -- yeah, I no longer have a copy in  
15 front of me.

16 MS. BELL: Do you have another extra copy of  
17 that? Thank you. I only have my one.

18 BY MS. BELL:

19 **Q. And is it your understanding that this is the**  
20 **Company's proposal for consolidation -- no, this is**  
21 **the -- yeah, the Company's proposal for consolidation?**

22 A. Yeah, I was not here yesterday when this  
23 exhibit was handed out, but I believe -- I believe that's  
24 correct.

25 **Q. Well, okay. And so are you -- are you aware**

1 **that there is a sewer shortfall?**

2 A. I am.

3 **Q. And do you know that number?**

4 A. Is it roughly \$565,000?

5 **Q. I think that's the one in the nonunanimous**  
6 **stip. I think the Company represented -- if I told you**  
7 **that the Company has already represented to the**  
8 **Commission that it's \$1.3 million, would you take that as**  
9 **accurate? Have you heard that number before?**

10 A. I believe that sounds familiar.

11 **Q. Okay. And so in looking at these numbers, in**  
12 **looking at these rates, the Company -- for example, if we**  
13 **look at Joplin, it shows a 6.6 decrease in Zone 1 there**  
14 **under F13?**

15 A. Yes.

16 **Q. And so if these charts included that sewer**  
17 **shortfall, that number would change; correct?**

18 A. Assuming that Joplin picks up a portion of  
19 the sewer shortfall, yes.

20 **Q. And is it your understanding that the**  
21 **Company's proposal is to spread that sewer shortfall out**  
22 **on all districts?**

23 A. I believe that's the case, yes.

24 **Q. And so all of these numbers for each district**  
25 **would actually increase or, if you were showing a**



1 **decrease, the decrease would lessen; is that correct?**

2 A. Yes.

3 MS. BELL: No further questions.

4 JUDGE JONES: City of Riverside?

5 MR. BEDNAR: Yes, Your Honor.

6 CROSS-EXAMINATION BY MR. BEDNAR:

7 **Q. Good afternoon, Mr. Collins.**

8 A. Good afternoon.

9 **Q. If I understand correctly, your testimony**  
10 **today is in support of the Missouri industrial customers**  
11 **out of St. Louis; correct?**

12 A. Yes. The MIEC, yes.

13 **Q. Yeah. And so basically their focus is on --**  
14 **would be on Rate J in any of the forms we're looking at;**  
15 **correct?**

16 A. Yes. Yes, they take service from Rate J.

17 **Q. Now, you talk about affordability as also an**  
18 **element of determining the appropriate tariff; correct?**  
19 **Is that the right word I used? You talked about cost**  
20 **causation as an element, Affordability as an element.**

21 A. Yes, when you're ratemaking, you know, you  
22 want to set rates based on cost of service. But, you  
23 know, affordability is something that can be considered.

24 **Q. There's a recognized balance when you're**  
25 **trying to make these decisions as to setting the rates;**

1 correct?

2 A. Yeah, it is a balancing act, yes.

3 Q. Yeah. And so -- and when we're talking about  
4 industrial customers and commercial customers, there  
5 is -- there is -- there's just a factor of business  
6 competition; correct?

7 A. Yes. Yes, they're in competition.

8 Q. So in the case of St. Louis industry, they  
9 may be competing against Illinois; correct? That could  
10 be an element of a company's decision to locate in  
11 Illinois versus St. Louis; correct?

12 A. Sure, a company based in St. Louis could be  
13 competing -- you know, based on what product they're  
14 producing, could be competing with another company in  
15 Illinois or even in another country.

16 Q. Even in your own state; right?

17 A. Even in your own state, that's right.

18 Q. And so when -- we can go to the Company's  
19 proposal, Exhibit 48. Do you have that -- which sheet do  
20 you have in front of you?

21 A. Yes, I have 48.

22 Q. 48. Okay. And if you turn to rate -- to the  
23 second page -- or, I'm -- yeah.

24 A. Yeah, probably page 2 and 3, possibly?

25 Q. Right.

1 A. Or --

2 Q. Go to page 2, I guess it works, of 48.

3 A. Okay.

4 Q. And we go down to Rate J. The differentials  
5 there for Rate J, even within the state of Missouri,  
6 are -- you'd agree with me are pretty significant? For  
7 instance, in Platte County for the -- is -- at 2 million  
8 gallons per month, the present rate for St. Louis  
9 industry is \$3,279.94 a month, and in Platte County it's  
10 \$10,262 a month?

11 A. Yeah, I believe this is the total bill based  
12 on 2 million gallons a month --

13 Q. Yeah, yeah.

14 A. -- of usage. So this would be the total bill  
15 in column D for St. Louis, Rate J.

16 Q. Right. And then if you go above it to the  
17 45,000 gallons, \$249 for St. Louis, \$241 for Platte  
18 County; correct?

19 A. Yes.

20 Q. And for -- and Brunswick, I mean, for that  
21 2,500 -- or 2 million gallons per month, is 16,000  
22 compared to 3,000 for St. Louis; correct?

23 A. Yes, assuming 2 million gallons per month of  
24 usage.

25 Q. Right. So then when we talk about

1 **affordability and causation, when do the rates get so**  
2 **high that you believe that rate mitigation, as you**  
3 **testified, is important? For instance, is -- are these**  
4 **numbers too high to justify rate mitigation, that is, for**  
5 **Platte County \$10,252 a month at the present rate for 2**  
6 **million gallons a month?**

7 A. You know, I've not really done an analysis at  
8 the affordability of Rate J for Platte County. But as --  
9 I believe as I was responding to questions to Brunswick  
10 earlier, you know, for example, in a rate case where  
11 you're looking at, you know, the overall system average  
12 increase, you know, if there's a class that's getting way  
13 above system average, you might want to limit that to,  
14 you know, maybe 1.25, 1.5 times the system average. So,  
15 you know, I have not looked at a specific level of, you  
16 know, mitigation that might, you know, need to be done  
17 for Rate J in the other districts.

18 **Q. Now, you're also aware of the concept of**  
19 **Economic Development Riders; correct?**

20 A. Yes, yes.

21 **Q. And so in that respect the states decide that**  
22 **there's an interest in providing different incentives for**  
23 **businesses to locate in Missouri; correct?**

24 A. I'm not familiar with, you know, if there's a  
25 particular --

1           **Q.       I'm not talking about any particular**  
2 **incentive, but just the philosophy of economic incentives**  
3 **is usually used to attract a company or to keep a company**  
4 **within the state of Missouri; correct?**

5           A.       Right. I've participated in some cases in  
6 Indiana where there's been, you know, an economic  
7 development rate that we've worked on to help expand a  
8 business.

9           **Q.       And I just ask, it's a valid concern of a**  
10 **state regulatory body to think about the economic -- the**  
11 **impact on economic development that their ratemaking**  
12 **would have; correct?**

13          A.       I think it's always a consideration that's  
14 important for a commission to consider.

15          **Q.       Now, in -- in your testimony on page 5, lines**  
16 **9 through 11, you state that -- talking about**  
17 **consolidated pricing, that, in essence, consolidated**  
18 **pricing results in price subsidies to customers in**  
19 **high-cost districts at great cost to customers in**  
20 **low-cost districts. Now, when you say great cost, how do**  
21 **you define great cost?**

22          A.       Well, I guess we probably could agree to  
23 disagree that everyone has a subjective definition of  
24 great. So...

25          **Q.       Yeah, so I'm just asking -- I'm not**

1 **disagreeing with you yet. Fair warning. But what would**  
2 **you determine is great?**

3 A. I guess you'd have to look at, you know,  
4 what's the, you know, present rate that they're paying  
5 versus, you know, what's the proposed rate and really,  
6 you know, base your decision on that.

7 **Q. So it's not -- you can't rely, as in earlier**  
8 **testimony of other witnesses, that -- maybe -- the fact**  
9 **that a percentage is high doesn't necessarily mean that**  
10 **the actual dollar figure is going to be high; correct?**

11 A. Right. I mean, if you have a rate of a  
12 dollar and it goes to 3, that's a 200 percent increase,  
13 right? So --

14 **Q. Right.**

15 A. -- it's all relative.

16 **Q. Yes, it is. So in that concept -- again,**  
17 **going back to that balancing act, when -- for Platte**  
18 **County, as you saw on the previous screen, the \$66 on the**  
19 **average residential rate versus a \$31 or \$28, the**  
20 **relative increase -- if you can bring down Platte County**  
21 **from a 66 to a 48 and it requires another district to go**  
22 **from 28 to 32, you can make an argument there's a**  
23 **balancing act there; that a \$20 decrease in exchange for**  
24 **a dollar or \$2 increase in another district, there's**  
25 **jurisdiction for that?**

1           A.       I believe the Commission has discretion to  
2 make that decision.

3           **Q.       Yes. Now, the other -- I have this other**  
4 **question. The same page, down on line 17, you state that**  
5 **these rate subsidies would erode the economic incentive**  
6 **for customers in high-cost districts to be more efficient**  
7 **in placing demands on the water utility, because the**  
8 **prices they pay do not accurately reflect the cost of**  
9 **receiving water service.**

10                   Now, I'm just puzzled exactly when you're  
11 talking about residential customers, what behavior do you  
12 think they'd exhibit here? What are -- are we talking  
13 about they take too many showers a day, they'd leave the  
14 water running in the faucet while they shave, or they're  
15 watering the grass too much to the point that it has --  
16 you know, that they're grossly negligent in their use of  
17 water? I just don't understand --

18           A.       Yeah, they could be --

19           **Q.       -- price signals to residents. I just -- I'm**  
20 **not quite sure I understand this position.**

21           A.       Well, I guess I could maybe help you with an  
22 example. You know, let's say, for example -- and I'm  
23 just making up these numbers.

24           **Q.       Sure.**

25           A.       Let's say the cost to serve a residential

1 customer would result in a typical bill of maybe, you  
2 know, a hundred dollars a month cost of service, but  
3 let's say the rate's set at, you know, \$35 a month. You  
4 know, I would think if a customer is subject to \$100 a  
5 month water bill, they're really going to look at  
6 conserving water. They may not water the lawn as much.  
7 They may take shorter showers. But if their -- you know,  
8 if their bill is set at \$35 a month, they may not act the  
9 same way.

10 **Q. That's interesting, because Riverside,**  
11 **that's -- basically the average bill is anywhere from 65**  
12 **to \$100 a month, when you combine it with sewer for some,**  
13 **so -- versus the lower-cost districts that we might want**  
14 **to be consolidated with that are in that \$30 range. So**  
15 **there's an argument to be made too that consolidation can**  
16 **actually help conservation when combined with another**  
17 **district with a much lower rate.**

18 A. I'm sorry, could you repeat that? You're  
19 saying that helps conservation?

20 **Q. It could. Because you stated earlier that,**  
21 **you know, for somebody -- it's more likely that somebody**  
22 **has a high bill -- you used a hundred dollars a month --**  
23 **would be more inclined to conserve, as opposed to**  
24 **somebody in the \$30 range would be less likely to be**  
25 **worried about conserving. And so if you can take these**



1 **districts, as Brunswick attorney showed you, those 60,**  
2 **70, 80, \$90, \$100 districts, and combine them with some**  
3 **of the \$30 districts, you actually -- it's a win/win**  
4 **situation; the lower-cost districts are more conscious of**  
5 **their bill and may move towards conservation and your**  
6 **higher-district folks are rewarded, and they're already**  
7 **trained, and there's a more equitable affordability --**

8 MR. POSTON: Judge --

9 BY MR. BEDNAR:

10 **Q. -- as you stated earlier.**

11 MR. POSTON: -- I'm going to object. This is  
12 a compound question, and he's been going on with this  
13 question for a long time.

14 MR. BEDNAR: I'll withdraw the question.

15 BY MR. BEDNAR:

16 **Q. Your example would say that somebody at \$30 a**  
17 **month is less conscious of their water usage than**  
18 **somebody whose bill is at a hundred dollars a month;**  
19 **correct?**

20 A. Well, it depends on the customer too that's  
21 paying \$35. You know, if it's a poor customer, \$35 may  
22 be pretty hard for them to come up with now.

23 **Q. That's right. And if you're a poor customer,**  
24 **a hundred dollars is really hard to come up with;**  
25 **correct?**

1 A. If it's -- you know, if it hurts at \$35, it's  
2 going to be more pain at a hundred.

3 Q. Right. Now, the other thing on page 6 you  
4 talk as an argument against consolidated pricing, is that  
5 if the rates were consolidated, the Company would have no  
6 reason to maintain separate books and records for each  
7 operating district; correct?

8 A. Referring to my testimony?

9 Q. Yes, on page 6, lines 4 through 6.

10 A. Yes.

11 Q. But, in fact, if the Commission would adopt  
12 such a rule of conditions along with consolidated tariffs  
13 to ensure transparency, to ensure easier examination,  
14 that would take care of that problem, wouldn't it?

15 A. Separate books for the districts would  
16 definitely help us determine what each district's cost of  
17 service, you know, would be.

18 Q. Right. So you could spend more time on the  
19 cost of service and less time on what Platte County or  
20 Joplin's paying; right? We could focus on the Company  
21 then and their costs; correct?

22 A. I guess anything's possible.

23 Q. Okay. And I -- on the same page you make the  
24 statement on lines 12 through 14 --

25 A. Yes.

1           **Q.       -- that consolidated pricing will not allow**  
2 **the Company to properly manage its different geographical**  
3 **operating districts and it will prevent it from**  
4 **identifying high-cost operating districts in the future.**

5                   **Do you have any evidence to support that**  
6 **statement, in regard to Missouri American Water?**

7           A.       Well, I think to the extent that, you know,  
8 separate books are not maintained and we just kind of  
9 pool everyone together, you know, we're not really  
10 know -- we're not going to know what each district's cost  
11 of service, you know, would be and, you know, it would be  
12 difficult to identify high-cost operating districts, you  
13 know, if we don't have some idea of what the cost of  
14 service is for each of those districts.

15           **Q.       I think that's a different question than what**  
16 **I'm saying. Your statement here is that the Company --**  
17 **consolidated pricing will not allow the Company to**  
18 **properly manage its operating districts, prevent it from**  
19 **identifying high-cost operating districts. So are you**  
20 **stating that you have evidence that Missouri American**  
21 **Water would not properly run their company?**

22           A.       I don't have evidence, but that's my opinion.

23           **Q.       Okay. And you don't have any evidence to**  
24 **support that opinion; correct?**

25           A.       I have not seen any evidence from Missouri

1 American.

2 Q. Okay. Then on -- lower on line 16 through  
3 18, consolidated pricing greatly reduces the Company's  
4 incentive to perform due diligence before acquiring new  
5 water systems; it may also impact the price Missouri  
6 American is willing to pay for new systems.

7 But the reverse is also true, isn't it; that  
8 consolidated pricing could actually provide an incentive  
9 for Missouri American to pay for new systems if they knew  
10 that those costs would not simply be absorbed for the  
11 limited number of customers in that particular small  
12 system; correct?

13 A. That would definitely give them incentive to  
14 go out and acquire systems and pass those costs on to  
15 other customers. But I don't necessarily agree that  
16 that's the right thing to do.

17 Q. Although you are aware that Missouri law  
18 provides that now, don't you; that they can acquire  
19 smaller systems defined as under 8,000 customers and  
20 spread those costs, if approved by the Commission?

21 A. That's my understanding.

22 Q. Okay. And I guess in general we've talked a  
23 lot about -- when we talk about consolidation, it's not a  
24 one-way street as far as sharing of costs; correct?

25 A. I'm not sure if you -- what you mean by your

1 question.

2 Q. Well, it's kind of a snapshot. We -- you  
3 know, for instance, we'll use Platte County as an  
4 example. There's going to be a water treatment plant  
5 added here in the next three years, potentially; and  
6 that's going to add costs, and we'd like that cost to be  
7 assisted through consolidation of the districts that  
8 there's a cost sharing. At some point, whether it's five  
9 years or ten years, I imagine there's going to be a  
10 significant amount of infrastructure put into St. Louis;  
11 correct?

12 A. I would imagine.

13 Q. And so the question is then would the  
14 Missouri industrials want the assistance from 20,000  
15 additional customers or 40,000 additional customers or  
16 80,000 additional customers to help pay for that  
17 infrastructure or would the businesses in St. Louis  
18 prefer to shoulder that on their own?

19 A. I believe the MIEC's been very consistent in  
20 presenting testimony that recommends district-specific  
21 pricing.

22 Q. But you also have stated in your testimony  
23 there's oftentimes they'll agree to consolidation because  
24 of different bases, either there's affordability or some  
25 other reason that justifies a consolidation of districts,

1 **correct, such as your stipulation in this case?**

2 A. Yes, there's been times we've agreed in the  
3 past and in this current case with right of rate  
4 mitigation, when it's necessary.

5 **Q. So you'd agree with me that when it comes to**  
6 **district-specific ratemaking, no one in the room is**  
7 **taking a pure hard-and-fast position of nothing but**  
8 **district-specific ratemaking; correct?**

9 A. Again, it's my recollection with our  
10 participation in rate cases that we have maintained  
11 district-specific pricing, but recognizing that there are  
12 times when rate mitigation and maybe some consolidation,  
13 you know, is justified.

14 **Q. So you would agree with my statement?**

15 A. It's been so long since your last question, I  
16 don't know if I can remember what the question was.

17 **Q. There's no purity in specific ratemaking;**  
18 **that, in fact, in every case there's been some movement**  
19 **toward consolidation of districts, because as -- you'd**  
20 **agree with me on that; right?**

21 A. I would agree that there's been, you know,  
22 movement to right of rate mitigation and to consolidate  
23 to a certain level in past cases.

24 MR. BEDNAR: Okay. Thank you. No further  
25 questions.

1 JUDGE JONES: St. Joseph?  
2 MR. LAWYER: No questions.  
3 JUDGE JONES: Warrensburg?  
4 Oh, he's gone.  
5 Public Water Works?  
6 MR. DORITY: No questions, Judge.  
7 JUDGE JONES: Triumph?  
8 MR. HARDEN: No questions.  
9 JUDGE JONES: OPC?  
10 MR. POSTON: No questions.  
11 JUDGE JONES: And Missouri American Water  
12 Company?  
13 MR. ENGLAND: Thank you, Your Honor.  
14 CROSS-EXAMINATION BY MR. ENGLAND:  
15 Q. Good afternoon, Mr. Collins.  
16 A. Good afternoon, Mr. England.  
17 Q. And you know I'm with the water company;  
18 right?  
19 A. Yes, I do.  
20 Q. So I'm not your friend, although I'll be  
21 friendly.  
22 A. As will I.  
23 Q. Just so long as we don't have to kiss and  
24 make up, according to Judge Jones.  
25 Let me begin, I think you may recall that we

1 asked you, or at least MIEC, in a data request the name  
2 of the member companies on whose behalf you're  
3 testifying. You recall that data request?

4 A. I do.

5 Q. And your answer was to the effect that you  
6 are testifying on behalf of MIEC, a not-for-profit  
7 corporation, and not on behalf of specific member  
8 companies; correct?

9 A. Yes.

10 Q. So can I assume from that response that you  
11 have not been authorized by any member company of MIEC to  
12 testify on its behalf in this proceeding?

13 A. I'd have to defer to counsel.

14 Q. Then you don't know if you've been authorized  
15 to testify on (sic) any member company; is that a fair  
16 statement?

17 A. Again, I'd have to defer to my counsel for  
18 that.

19 Q. At page 3, lines 2 through 4 -- I think maybe  
20 Mr. Bednar had a question about this as well. Hopefully  
21 my question will be different.

22 MR. DOWNEY: Are you on direct?

23 MR. ENGLAND: I'll double-check. I am not.

24 I believe it's rebuttal testimony,  
25 Mr. Collins. And since your counsel misnumbered the



1 testimonies, I had them in the wrong order.

2 MR. DOWNEY: I did that just for you, Trip.

3 MR. ENGLAND: I nearly objected on that  
4 grounds alone.

5 BY MR. ENGLAND:

6 Q. Page 3, lines 2 through 4, please. And I  
7 be --

8 A. Page 3 of the rebuttal?

9 Q. Yes. And I believe, again, Mr. Bednar had  
10 you focus on that for a question or two.

11 A. Page -- I'm sorry, page 3.

12 Q. Rebuttal.

13 A. Okay.

14 Q. Lines 2 through 4 where you state,  
15 Consolidated pricing results in price subsidies to  
16 customers in high-cost districts at great costs to  
17 customers in low-cost districts. See that?

18 A. Yes.

19 Q. And it's my understanding, again in response  
20 to a data request that we submitted, that you have not  
21 performed an analysis for any of your member companies to  
22 quantify the subsidy, if any, they would pay under either  
23 MAWC's or Staff's proposed consolidation in this case; is  
24 that right?

25 A. That's right. It's my understanding that,

1 however, there is a subsidy provided by Rate J -- the  
2 Rate J class in St. Louis Metro as a result of  
3 single-tariff pricing, and our clients do take service  
4 under Rate J.

5 **Q. But they're not the only customers in Rate J**  
6 **in St. Louis; correct?**

7 A. Correct.

8 **Q. Can you tell me how much of your -- each**  
9 **member company's total operating costs they spend on**  
10 **water they receive from MAWC, either on an annual or**  
11 **monthly basis?**

12 A. I have not performed that analysis.

13 **Q. Do you know what percentage their water bill**  
14 **is of their total O & M costs?**

15 A. I do not.

16 **Q. You have not performed a Class Cost of**  
17 **Service Study in this case, have you, sir?**

18 A. I have not. I have only made a change to  
19 your witness' cost service study.

20 **Q. In fact, I think with that exception, you say**  
21 **you generally agree with the study performed by**  
22 **Mr. Herbert?**

23 A. That's correct.

24 **Q. Okay. And then a second question regarding**  
25 **any type of analysis. Have you performed a bill or rate**

1 **analysis to show how rates resulting from the**  
2 **nonunanimous stipulation on rate design that you have**  
3 **signed would impact customers and compare to existing**  
4 **rates?**

5 A. I have not performed that analysis.

6 MR. ENGLAND: Okay. Thank you, sir. No  
7 other questions.

8 JUDGE JONES: Commissioner Stoll?

9 COMMISSIONER STOLL: I have no questions.

10 COMMISSIONER KENNEY: I have no questions.

11 COMMISSIONER RUPP: Did you end your vacation  
12 to come in here?

13 THE WITNESS: I'm taking a temporary -- yeah.

14 COMMISSIONER RUPP: Where were you  
15 vacationing?

16 THE WITNESS: New Orleans, with my wife and  
17 son. He's a big jazz fan. He plays in the jazz band in  
18 middle school and wanted to go to New Orleans.

19 COMMISSIONER RUPP: And hopefully you got a  
20 couple extra days added on --

21 THE WITNESS: Yeah.

22 COMMISSIONER RUPP: -- to future vacation.

23 THE WITNESS: I will. I'm going to go back  
24 and help him learn more about Louis Armstrong, so...

25 COMMISSIONER KENNEY: It's probably good you

1 took a break.

2 JUDGE JONES: Okay. Recross based on  
3 questions from Commissioner Rupp?

4 Redirect?

5 MR. DOWNEY: Thank you, Judge.

6 REDIRECT EXAMINATION BY MR. DOWNEY:

7 Q. I'll just work backwards. Mr. Bednar was  
8 asking you some questions. That's Riverside's  
9 attorney --

10 A. Yes.

11 Q. -- was asking you some questions about price  
12 signals --

13 A. Yes.

14 Q. -- and sending the wrong price signals  
15 through consolidation. Do you recall that?

16 A. Yes, I recall that.

17 Q. Okay. And explain to the Commission how  
18 customers respond to prices and how they might respond in  
19 the wrong way if a high-cost customer consumes too much  
20 product?

21 A. Right. If a customer's rate is not based on  
22 his cost of service -- for example, I think the number I  
23 gave, if, you know, the true cost of service is a hundred  
24 dollars a month and for some reason the rate is set at  
25 \$35 a month, you know, that rate may not incent that

1 customer to conserve as much water -- consume as much  
2 water as it would if it was paying its true cost of  
3 service.

4 **Q. Sort of like a guy that at dinner eats --**  
5 **eats his meal and drinks a lot of drinks, and he splits**  
6 **the check with all the folks that don't drink anything?**

7 A. That's correct. That's funny you say that,  
8 because I've seen that on the plane on the way here.  
9 It's very similar.

10 **Q. Okay. Mr. Bednar was also talking to you**  
11 **about keeping separate books by district. One of the**  
12 **other counsel asked you about that as well. I think**  
13 **Mr. Drag. And I want to -- as I understand it, one of**  
14 **the reasons that Missouri American offered for**  
15 **consolidating is economies of scale. Do you agree with**  
16 **that, that that is one of their offered reasons for**  
17 **consolidation?**

18 A. I believe that may have been a reason in  
19 Herbert's testimony.

20 **Q. All right. Would we lose some of those,**  
21 **quote, economies of scale if we still required the**  
22 **district to keep specific pricing and cost information,**  
23 **excuse me, the Company by district?**

24 A. I'm sorry, could you repeat the question?

25 **Q. Horrible question. I need to repeat it.**

1 JUDGE JONES: Mr. Downey, can you lower your  
2 microphone?

3 MR. DOWNEY: Sorry.

4 JUDGE JONES: Thanks.

5 MR. DOWNEY: It would probably help if I turn  
6 it on too. I'm having some issues with electronics this  
7 week.

8 BY MR. DOWNEY:

9 **Q. My question was, if one of the reasons for**  
10 **consolidation is saving costs through economies of scale,**  
11 **don't we mitigate that savings by continuing to require**  
12 **the Company to keep district-specific cost information?**

13 A. I think it would be good to continue to  
14 maintain books that allows us to determine  
15 district-specific cost of service. That would be  
16 important in setting rates.

17 **Q. Okay. I get that it's a good idea and you**  
18 **think it should be done. But the Company won't save any**  
19 **costs in that regard. It won't be able to, you know,**  
20 **keep one set of books and records versus eight. And**  
21 **won't that cause the utility, the Company, to continue to**  
22 **incur that higher cost level?**

23 A. By maintaining eight sets of books?

24 **Q. By maintaining eight sets of books versus**  
25 **one?**

1 A. Yeah, I'm not sure how much, you know, the  
2 cost difference would be. So I don't know if I can  
3 really answer that question.

4 **Q. All right. Fair enough. Okay. Mr. Drag was**  
5 **asking you a number of questions about your -- your cost**  
6 **analysis on one of your schedules in your direct**  
7 **testimony. I believe it was Schedule BCC-1?**

8 A. Yes, I recall that.

9 **Q. And this may be pretty clear already, but I**  
10 **just want to make sure it is really clear. Those figures**  
11 **that you have in your schedule are based on the Company's**  
12 **request in this case; is that, first of all, correct?**

13 A. Yes, on Schedule BCC-1, if you look at the  
14 top block of that schedule, line 11, the increase  
15 requested by the Company is \$49.3 million, or roughly a  
16 19.5 percent increase. That was based on the Company's  
17 proposal in their direct.

18 **Q. And the parties settled revenue requirement.**  
19 **Are you aware of that?**

20 A. Yes, that's my understanding, that the  
21 requested revenue requirement now is -- the increase is  
22 \$30.6 million.

23 **Q. Would you agree with me that's roughly a**  
24 **40 percent haircut?**

25 A. Yes, I would agree.

1           **Q.       All right. And would you expect the**  
2 **percentage increases in your column 5 to decline by**  
3 **40 percent?**

4           A.       I don't know if each district would decline  
5 by 40 percent. I would expect them to be -- to be much  
6 different.

7           **Q.       The total would decline by 40 percent?**

8           A.       Correct.

9           **Q.       All right. All right. I'd like you to turn**  
10 **to page 5 of your direct. And you had some discussion**  
11 **with Mr. Drag about wrong price signals. You have some**  
12 **language on line 66 -- excuse me, 16 through 23 --**

13          A.       Yes.

14          **Q.       -- about price signals?**

15          A.       Yes.

16          **Q.       Have you -- do you think you've adequately**  
17 **explained that already, what you mean by adequate price**  
18 **signals?**

19          A.       I think so.

20                   MR. DOWNEY: All right. I think that covers  
21 it. Thank you.

22                   (Witness excused.)

23                   JUDGE JONES: Public Counsel, did you have  
24 any?

25                   MR. POSTON: I was going to suggest taking a



1 break. Sorry.

2 JUDGE JONES: Oh. Yeah, well, we can take  
3 that suggestion now. We'll take a break for -- just a  
4 little after 4:00. I want to go ahead and get into rate  
5 design and see how far we can get by 10:00 tonight.  
6 We'll start with Missouri Department of Energy's witness  
7 at about 5 after 4:00.

8 MR. DOWNEY: Judge?

9 JUDGE JONES: Yes.

10 MR. DOWNEY: Mr. England just noted that he's  
11 going to have no cross for Mr. Collins on rate design.  
12 Did anyone else have cross for him on rate design?

13 JUDGE JONES: We can go off the record.

14 (Off the record.)

15 JUDGE JONES: We are continuing on the record  
16 with WR-2015-0301, moving into the issue of rate design.  
17 We've already heard from Missouri American Water  
18 Company's witness, Herbert. We'll move on now to  
19 Missouri Department of Energy's witness, Hyman.

20 So you can call him.

21 MR. ANTAL: DE calls Mr. Hyman.

22 MARTIN ROBERT HYMAN,  
23 after having been first duly sworn, was  
24 examined and testified on his oath as follows:

25 JUDGE JONES: Thank you, sir. You may be

1 seated.

2 DIRECT EXAMINATION BY MR. ANTAL:

3 **Q. Mr. Hyman, will you please state your full**  
4 **name and title?**

5 A. Martin Robert Hyman, Planner 3 with the  
6 Missouri Division of Energy.

7 **Q. Okay. Mr. Hyman, did you prepare or cause to**  
8 **be prepared what's been marked as MoDOE Exhibit 3, direct**  
9 **revenue requirements; MoDOE Exhibit 4, direct rate**  
10 **design; MoDOE 5, rebuttal rate design; and MoDOE 6,**  
11 **surrebuttal?**

12 A. Yes, I did.

13 **Q. Do you have any changes or corrections to**  
14 **that testimony?**

15 A. Yeah, I have some corrections to the direct  
16 rate design, rebuttal and surrebuttal. In all of those  
17 pieces of testimony, I put down Riverside. But whenever  
18 I wrote that, that was incorrect. It should have been  
19 Riverside Estates. It doesn't change the analysis. It's  
20 just a nomenclature issue.

21 In rebuttal testimony, let's see, I need to  
22 add something that says "per 100 gallons" to the title at  
23 the end of Table 2. That's page 11.

24 **Q. Okay.**

25 A. Then I also -- I think you were going to

1 bring out an errata sheet to correct page 12.

2 **Q. I can distribute that.**

3 A. I'll wait till that's done. And that errata  
4 is just correcting how the -- how Table 3 looks in terms  
5 of the organizations of the rate zones or hybrid  
6 districts of Staff. I had it arranged by company.  
7 Again, it doesn't affect any of the analyses. It's just  
8 more of an aesthetic thing.

9 **Q. Okay.**

10 A. And page 23, line 6, again in rebuttal I have  
11 "in this case" twice. I just wanted to strike one of  
12 those. And, lastly, on surrebuttal, page 10, line 7, I  
13 wanted to strike "emphases added." There aren't any  
14 emphases in that phrase, so...

15 **Q. Okay. With those questions in mind, are your**  
16 **answers contained in those testimonies true and correct,**  
17 **to the best of your knowledge and belief?**

18 A. Yes, sir.

19 **Q. If I were to ask you the same questions**  
20 **today, would your answers be the same?**

21 A. Yes, sir.

22 MR. ANTAL: I move for the admission of MoDOE  
23 Exhibits 3 through 6.

24 JUDGE JONES: Does anyone have any objections  
25 to Missouri Department of Energy Exhibits 3, 4, 5, and 6?

1           Seeing none, those exhibits are admitted into  
2 the record.

3           (MoDOE Exhibits 3, 4, 5, and 6 received into  
4 evidence.)

5           MR. ANTAL: I will tender the witness for  
6 cross-examination.

7           JUDGE JONES: Okay. Before we get started,  
8 Commissioner, you had a quick question.

9           COMMISSIONER STOLL: I just had a question  
10 about the page that you passed out.

11          MR. ANTAL: Yes.

12          COMMISSIONER STOLL: Do you mean a hundred  
13 gallons a month?

14          THE WITNESS: Yeah, the units are in hundred  
15 gallons per month.

16          JUDGE JONES: Okay.

17          COMMISSIONER STOLL: Okay. Okay. I haven't  
18 looked at it thoroughly. But thank you. I just wanted  
19 to make sure.

20          THE WITNESS: You're welcome.

21          JUDGE JONES: And cross-examination,  
22 beginning with Staff.

23          MS. MYERS: No questions, Your Honor.

24          JUDGE JONES: MIEC?

25          MR. DOWNEY: No questions.

1 JUDGE JONES: City of Brunswick I don't think  
2 had any questions.

3 MR. DRAG: No questions, Your Honor.

4 JUDGE JONES: Okay. City of Joplin?

5 MS. BELL: No questions, Your Honor.

6 JUDGE JONES: Riverside?

7 MR. BEDNAR: No questions, Your Honor.

8 JUDGE JONES: St. Joseph? It doesn't look  
9 like he's here.

10 Warrensburg? Not here.

11 Public Water Supply Districts?

12 MR. DORITY: No questions.

13 JUDGE JONES: Triumph? He's gone.

14 Office of Public Counsel?

15 MR. OPITZ: No questions, Judge.

16 JUDGE JONES: And Missouri American Water  
17 Company?

18 MR. ENGLAND: Your Honor, I have a few  
19 questions. May I do it here from my seat?

20 JUDGE JONES: Yes, you may.

21 MR. ENGLAND: Thank you.

22 CROSS-EXAMINATION BY MR. ENGLAND:

23 **Q. Afternoon, Mr. Hyman.**

24 **A. Afternoon, Mr. England.**

25 **Q. As I understand the Division of Energy's**

1 **position, they are proposing a lower customer charge, if**  
2 **you will, at least relative to those proposed by Staff**  
3 **and the Company; correct?**

4 A. At this time we would support that.

5 **Q. And as I understand the -- one of the**  
6 **reasons, if not the primary reason for doing so, it puts**  
7 **more of the revenue requirement on the volumetric charge;**  
8 **right?**

9 A. I don't think that's a primary reason we're  
10 doing it, but I think that's an effect.

11 **Q. Well, maybe the primary reason is then, after**  
12 **putting more of the revenue requirement on the volumetric**  
13 **charge, all other things being equal, that helps promote**  
14 **conservation; correct?**

15 A. Efficiency, yes.

16 **Q. Okay. If the Commission were to accept your**  
17 **proposal, lower the customer charge, increase, if you**  
18 **will, volumetric charge, and the result is somewhat**  
19 **successful in the consumers being more efficient in their**  
20 **use of water and/or conserving, do you think it might**  
21 **also be appropriate to couple that with -- and I hate to**  
22 **use the word couple -- marry that with a revenue**  
23 **stabilization mechanism or a decoupling mechanism?**

24 A. We considered that. And I think the first  
25 part of the answer is that's been agreed not to be

1 offered by the Company or to be proposed -- the Company's  
2 withdrawn that proposal in this case.

3           Setting that aside, when the revenue  
4 stabilization mechanism was still an issue, my filed  
5 testimony -- I'm trying to remember, that might be  
6 surrebuttal. I'll try to find a page for you, if you  
7 want.

8           **Q. Not necessary. It's a pretty simple**  
9 **question. Would you --**

10          A. Well, the position we have is that we  
11 would -- we would agree to look at something, in terms of  
12 tracking the amount of consumption the Company has lost  
13 as a direct result of this efficiency and looking at that  
14 in a future case as something that they could recover,  
15 not a full riveting stabilization mechanism at this time.  
16 But, again, that proposal's been dropped by the Company  
17 as part of the nonunanimous revenue requirement  
18 stipulation.

19          **Q. Would it then be appropriate to perhaps**  
20 **revisit your notion or your proposal of reducing a**  
21 **customer charge in a later proceeding when the two**  
22 **proposals can be considered together?**

23          A. Well, I think any -- the Commission can  
24 consider any new proposals in a future proceeding.

25          **Q. But I can't get you to withdraw it in this**

1 **case; right?**

2 A. Afraid not.

3 **Q. Have you performed a full Class Cost of**  
4 **Service Study in this case, Mr. --**

5 A. No. No, but I have looked at portions of  
6 other parties' Class Cost of Service Study and drawn my  
7 conclusions from there.

8 **Q. Is that kind of like staying at a Holiday**  
9 **Inn?**

10 A. Well --

11 **Q. Never mind.**

12 A. -- depends on if I'm being charged for water  
13 at the Holiday Inn, I guess.

14 **Q. Have you ever performed a water Class Cost of**  
15 **Service Study outside of this case?**

16 A. No, sir.

17 **Q. So it's fair to say your customer charge**  
18 **isn't based on a fully-developed Class Cost of Service**  
19 **Study consistent with the water rates manual of the**  
20 **American Water Works Association; right?**

21 A. No, I don't think I'd go that far.

22 **Q. You've done a full Class Cost of Service**  
23 **Study?**

24 A. I haven't done a Class Cost of Service Study.  
25 But I have looked at others' Class Cost of Service



1 Studies and determined what I think makes sense, based on  
2 the AWWA A1 -- or M1 manual .

3 **Q. You've made one adjustment to the customer**  
4 **cost --**

5 A. That --

6 **Q. Excuse me, I haven't finished the question --**  
7 **to the customer cost makeup; right?**

8 A. Well, as I noted in my testimony, I made one.  
9 But there are certainly potentially others.

10 **Q. But for purposes of this case, you only made**  
11 **one adjustment to the customer cost makeup; correct?**

12 A. In direct filed testimony, that is correct.

13 MR. ENGLAND: Thank you, sir. No other  
14 questions.

15 JUDGE JONES: Questions from the Commission?

16 Mr. Chairman?

17 QUESTIONS BY CHAIRMAN HALL:

18 **Q. Good afternoon.**

19 A. Afternoon.

20 **Q. If the Commission were to determine that an**  
21 **increase in the customer charge was appropriate, would**  
22 **the Division be more supportive of inclining block rates**  
23 **for residential customers?**

24 A. There are a few things to that answer. I  
25 think uniform rates are a better option from the

1 perspective of rate shock, compared -- and gradualism,  
2 compared to the current declining block rates that are  
3 still effective in some of the districts. I think our  
4 position on inclining block rates in general is not  
5 dependent on the customer charge recommendation.

6 **Q. Well -- okay. Well, let's look at this. My**  
7 **understanding is that the Division understands the policy**  
8 **rationale behind inclining block rates, supports that**  
9 **policy rationale, but at least according to my reading of**  
10 **your testimony, is not supporting it in this case because**  
11 **of rates -- because of the potential for rate shock?**

12 A. Yes, that's correct.

13 **Q. Okay. So if the Commission were to determine**  
14 **that some type of increase in the customer charge was --**  
15 **was in the public interest, my understanding is that the**  
16 **Division would view the danger of that would be -- or one**  
17 **danger of that would be to disincentivize conservation**  
18 **and potentially punish low-use users; is that correct?**

19 A. I wouldn't say punish, but I think there  
20 would be an adverse effect.

21 **Q. So would not implementation of inclining**  
22 **block rates alleviate both of those concerns?**

23 A. It would alleviate perhaps the concerns over  
24 efficiency to an extent. But there is always something  
25 to be gained from keeping the customer charge lower from

1 efficiency perspective.

2 **Q. But that's not my point. That's not my**  
3 **question. My question is assuming the Commission were to**  
4 **determine that an increase in the customer charge is**  
5 **appropriate. So then the next thing that we were**  
6 **considering is what is -- is whether to implement**  
7 **inclining block rates. And I'm trying to understand the**  
8 **Division's perspective on whether or not you -- you would**  
9 **be more supportive of implementing inclining block rates**  
10 **in this case than -- than you are right now?**

11 A. I don't think that would change. And the  
12 reason is that there is -- again, like I said, there is a  
13 benefit to some gradualism in changing both -- any aspect  
14 of rate design. And as it is, instituting uniform block  
15 rates would be a first step towards sending an even  
16 better price signal, as opposed to using declining block  
17 rates.

18 In terms of -- and I think part of the issue  
19 would be that you would have the rate shock of both  
20 customers who did not understand and could not change  
21 their usage due to inclining block rates in the immediate  
22 future and you would have the rate shock of a higher  
23 customer charge. So I think it's better to make a -- do  
24 a more gradual approach so that customers can be  
25 prepared.

1           **Q.       There was -- there was some testimony I**  
2 **believe earlier today that there is a relationship**  
3 **between income and consumption. Were you -- were you in**  
4 **the hearing room when there was a discussion of that? I**  
5 **believe it was Mr. Herbert.**

6           A.       I was there -- here.

7           **Q.       Okay. Do you agree with that?**

8           A.       I think there probably is a relationship  
9 between income and the use of any utility.

10          **Q.       Okay. Well, then can you explain to me how**  
11 **on page 6 of your direct testimony, lines 17 and 18, you**  
12 **say that one of the reasons why you are not advocating**  
13 **inclining block rates in this case is because of its**  
14 **impact on lower-income ratepayers?**

15          A.       Well, I think that is precisely the reason,  
16 is that a sudden increase of any sort would affect  
17 low-income ratepayers more so if they do -- are, in fact,  
18 using less --

19          **Q.       But if you compare one system with uniform**  
20 **rates and then another system with inclining block rates,**  
21 **the low-use user is going to pay less under inclining**  
22 **block rates. And if there's a correlation between income**  
23 **and use, isn't that benefiting low-income users?**

24          A.       Well, I think that depends on how the blocks  
25 are designed.

1           **Q.       If they're designed correctly?**

2           A.       If they're designed correctly, then it's  
3 certainly possible.

4           **Q.       Okay. Well, that leads into my next**  
5 **question -- well, certainly possible. Isn't it**  
6 **inevitable? You look at the -- I mean, based upon the**  
7 **assumptions in my question, isn't that inevitable?**

8           A.       Under your assumptions, it would be  
9 inevitable.

10          **Q.       That's all I'm asking. Okay. So looking at**  
11 **the inclining block rate proposals of the Company and**  
12 **Staff, have you -- have you read those proposals?**

13          A.       I'm familiar with them, yes.

14          **Q.       Do you have one that makes more sense to you**  
15 **than the other?**

16          A.       Not at this time. I think that's a matter  
17 that would need to be examined pretty thoroughly based on  
18 what rates and revenue requirements are, in fact,  
19 approved by the Commission.

20          **Q.       Well, the revenue requirement has already**  
21 **been stipulated to.**

22          A.       It has. I don't -- not -- to my knowledge,  
23 the Commission hasn't approved it yet.

24          **Q.       Now, but for the -- for the purposes of these**  
25 **questions, let's assume that we have.**

1           A.       Again, I think you would need to look at that  
2 specific revenue requirement and how exactly the rates  
3 would be designed around it.

4           **Q.       Do you -- do you believe that there -- that**  
5 **the demand curve for water is elastic?**

6           A.       I think there is some elasticity to it.

7           **Q.       Where is it elastic? Is it elastic on the**  
8 **high end?**

9           A.       Probably more so on the high end. I think  
10 the description -- I want to say it was Mr. Herbert --  
11 that there are some sort of minimum uses that most people  
12 will have. Those are fair -- I would agree those are  
13 probably fairly inelastic. And then once you get into up  
14 the discretionary use, that's far more elastic.

15          **Q.       So the goal would be to have the first**  
16 **block -- and I believe this was Mr. Herbert's testimony**  
17 **as well. But the goal would be to have the first block**  
18 **cover that amount of use that's essentially**  
19 **nondiscretionary?**

20          A.       I think that makes sense.

21          **Q.       Okay. What do you believe should be included**  
22 **in the customer charge?**

23          A.       Well, it's my testimony that the customer  
24 charge should only include directly customer-related  
25 costs and that this is not the same thing as a fixed cost

1 from an accounting perspective. Really what you're  
2 looking at are the things such as meters -- the cost of  
3 the meter, that is, meter service, billing and  
4 collection. So it's a fairly limited set of things.

5 **Q. So you think there is a public policy**  
6 **rationale to setting a customer charge according to that**  
7 **criteria for what consists of customer costs?**

8 A. Yeah, I think that is one of the public  
9 policy criteria. People have been saying in this --  
10 throughout this case that you should be basing rates on  
11 cost of service. And I think that is certainly one  
12 component.

13 **Q. Have you done a calculation as to the -- what**  
14 **the appropriate customer charge should be?**

15 A. I don't have a calculation. But I think what  
16 we would support would be something around Staff's  
17 original proposals in the 9 to 12 range. And that's if  
18 they get -- if Staff's district consolidation is  
19 approved. If you go with OPC's stip, then I think we  
20 would be comfortable with the more uniform rate.

21 **Q. Do you have any particular position at all on**  
22 **the value of a uniform customer charge?**

23 A. I don't have any particular position at this  
24 time, no.

25 **Q. You did -- you just essentially want it to be**

1 **as low as possible?**

2 A. Well, as low as it makes sense for purposes  
3 of collecting, yes, and considering collecting  
4 customer-late costs and signal -- correctly signaling  
5 efficiency.

6 CHAIRMAN HALL: I have nothing further.

7 Thank you.

8 THE WITNESS: Thank you.

9 JUDGE JONES: Commissioner Stoll?

10 COMMISSIONER STOLL: I have no questions.

11 Thank you.

12 JUDGE JONES: Commissioner Kenney?

13 COMMISSIONER KENNEY: No questions. Thank  
14 you.

15 JUDGE JONES: Commissioner Rupp?

16 COMMISSIONER RUPP: No.

17 JUDGE JONES: Any recross based on the  
18 chairman's questions? I don't see any.

19 Any redirect?

20 MR. ANTAL: Yes, just a few.

21 REDIRECT EXAMINATION BY MR. ANTAL:

22 **Q. Mr. Hyman, you were discussing the AWW manual**  
23 **with Mr. England. Are you familiar with that manual?**

24 A. Yes, broadly.

25 **Q. Did you rely on that manual in developing**



1 **your testimony?**

2 A. Absolut ely.

3 **Q. Okay. And your recommendations to the**  
4 **Commission are based off of the knowledge you gained from**  
5 **that manual?**

6 A. Yes, si r.

7 **Q. Okay. You were also discussing with**  
8 **Mr. England your review of Class Cost of Service Studies.**  
9 **Approximately how many Class Cost of Service Studies have**  
10 **you reviewed?**

11 A. Well, there are two in this case. So I've  
12 reviewed parts of two Class of Cost Service Studies.

13 **Q. Have you reviewed Class Cost of Service**  
14 **Studies in any other Commission cases?**

15 A. Oh, yes. I don't know -- I couldn't name the  
16 number off the top of my head. But it's probably one  
17 other, since that's the other case that I've been in.  
18 And maybe a bit of one of the Ameren -- old Ameren Class  
19 Cost of Service Study as well. But the one in which the  
20 case I was in, that would have been the KCPL's rate case.

21 **Q. Thank you. Now, you were also discussing**  
22 **with Mr. England that the -- that you only made one**  
23 **adjustment in your testimony to the Company's customer**  
24 **charge. Is there a reason for that?**

25 A. Well, yeah. As I said in my direct

1 testimony, I was trying to reduce, you know, the amount  
2 of argumentation that we would have and the complexity of  
3 the case by picking something that I thought was pretty  
4 clearly not a directly customer-related cost.

5 **Q. And was that cost substantial in relation to**  
6 **other costs that you thought would potentially also be --**  
7 **not supposed to be in the customer charge?**

8 A. I think it certainly is one of the  
9 substantial ones. I think under the Company's original  
10 revenue requirement, it was over \$3 million, both -- and  
11 most of that was for the residential class.

12 **Q. Okay. You were discussing with Chairman Hall**  
13 **the potential for inclining block rates. And I believe**  
14 **he asked you if you agreed with, I believe it was**  
15 **Mr. McDermott's testimony, that there was a correlation**  
16 **between low-use and low-income users. And you said that**  
17 **you believed that there was some correlation; is that**  
18 **correct?**

19 A. Yes, I do think there is.

20 **Q. Does that necessarily mean in your opinion**  
21 **that all low-income users are low-use users?**

22 A. No, I don't think that means that at all. I  
23 mean, that's what statistics is about, is that there tend  
24 to be correlations and trends but not necessarily, you  
25 know, this is how the world is. But I think it would

1 generally hold true.

2 MR. ANTAL: Okay. Thank you very much.

3 JUDGE JONES: You may step down, Mr. Hyman.

4 (Witness excused.)

5 JUDGE JONES: The next witness for OPC?

6 MR. OPITZ: Judge, Dr. Marke has been sworn,  
7 and I believe his exhibits have been admitted. So I  
8 would tender him for cross when he's at the bench.

9 GEOFF MARKE,

10 after having been previously duly sworn, was  
11 examined and testified on his oath as follows:

12 JUDGE JONES: And first on cross-examination  
13 is Missouri Department of Energy.

14 CROSS-EXAMINATION BY MR. ANTAL:

15 Q. Good evening, Mr. Marke.

16 A. Good evening, Mr. Antal.

17 Q. Just getting my papers here. You believe  
18 that sending an appropriate price signal to customers is  
19 important?

20 A. Yes.

21 Q. And is the efficiency of water an appropriate  
22 price signal to send?

23 A. Yes.

24 Q. And does a lower customer charge create that  
25 price signal?

1 A. Does a lower customer charge create an  
2 efficient price signal?

3 Q. Yes.

4 A. I would say it depends.

5 Q. What does it depend on?

6 A. On a -- on a host of things. That's the  
7 basis of the Class Cost of Service Study and exactly what  
8 goes into the cost of actually servicing that water. So  
9 if the question is do I think that there should be a  
10 customer charge, I do think there should be a customer  
11 charge.

12 Q. Okay. If there is a customer charge, do you  
13 believe a lower customer charge is appropriate to send a  
14 price signal to customers to use water efficiently?

15 A. I think a lower customer charge gives  
16 customers more control over their bill and allows them to  
17 go ahead and use water in a more conservation-minded  
18 manner.

19 Q. Okay. Does a lower customer charge also  
20 create more equity between customers?

21 A. I would agree with that.

22 Q. Okay. There's been some discussion in this  
23 hearing about customer-related costs as well as fixed  
24 company costs. Are those terms familiar to you?

25 A. Yes.

1           **Q.       All right. Could you explain the difference**  
2 **between those terms, starting with the customer-related**  
3 **costs?**

4           A.       Mr. Hyman alluded to this, I think, or  
5 directly stated, one version of this can best be  
6 described as incremental costs. So the -- what's it cost  
7 for one more additional person onto the system. A meter,  
8 to put it bluntly, would be one more incremental cost you  
9 have. One more customer, they need another meter. One  
10 more customer is not going to necessitate putting on  
11 another water treatment plant. Water treatment plant  
12 might be a fixed cost -- it is a fixed cost, and that  
13 would be allocated differently in the Class Cost of  
14 Service Study. That -- those costs would not be  
15 allocated within the customer charge because, again, it's  
16 the incremental cost on that.

17           **Q.       So then is it OPC's position that only those**  
18 **incremental costs of serving an additional customer**  
19 **should be collected in a customer charge?**

20           A.       That's been our general position.

21           **Q.       Okay. And it's not OPC's position that all**  
22 **fixed company costs should be charged -- or collected in**  
23 **a customer charge?**

24           A.       No.

25           **Q.       Okay. And there's a -- in your opinion, is**

1 **there a significant difference in the amount of**  
2 **customer-related costs and the fixed company costs?**

3 A. Yes.

4 MR. ANTAL: Okay. I believe that's all the  
5 questions that I have. Thank you.

6 JUDGE JONES: MIEC?

7 MR. DOWNEY: No questions.

8 JUDGE JONES: Brunswick?

9 MR. DRAG: No questions, Your Honor.

10 JUDGE JONES: Joplin?

11 MS. BELL: No questions, Your Honor.

12 JUDGE JONES: Riverside?

13 MR. BEDNAR: No questions, Your Honor.

14 MR. DORITY: No questions.

15 JUDGE JONES: Office of Public Counsel? Oh,  
16 I'm sorry. Let's see. Staff?

17 MS. MYERS: Staff has no questions, Your  
18 Honor.

19 JUDGE JONES: And Missouri American Water  
20 Company?

21 MR. ENGLAND: Yes, Your Honor, a couple of  
22 questions, following up on a question or two from  
23 Mr. Antal.

24 CROSS-EXAMINATION BY MR. ENGLAND:

25 **Q. I believe you said something about basing**

1 **customer charges on incremental costs?**

2 A. Yes.

3 **Q. And I don't -- I can't put my hand on it**  
4 **right -- or my fingers on it right now, but I thought in**  
5 **your surrebuttal testimony you made -- or you, rather,**  
6 **offered criticism of Dr. McDermott's testimony regarding**  
7 **incremental costs, something to the effect that**  
8 **incremental costs had never been used to price utility**  
9 **services. Did I -- was that in your testimony or someone**  
10 **else's?**

11 A. I believe what you're referring to is the  
12 marginal cost study?

13 **Q. Could be.**

14 A. Yes.

15 **Q. Do you draw a distinction between incremental**  
16 **and marginal?**

17 A. No. But within the context of what you're  
18 talking about, I don't think it's a black-and-white  
19 issue.

20 **Q. And you understand that the Company is not**  
21 **proposing to recover all of its fixed charges through its**  
22 **customer charge; correct?**

23 A. Correct.

24 **Q. Okay. Is it also fair to say that neither**  
25 **you nor anyone else with the Office of Public Counsel has**

1 **performed a full Class Cost of Service Study for Missouri**  
2 **American in this case?**

3 A. Not a full Cost of Service Study.

4 **Q. Have you or anyone in your office ever**  
5 **performed a full Class Cost of Service Study for the**  
6 **water company?**

7 A. Present employment?

8 **Q. Correct.**

9 A. No.

10 MR. ENGLAND: Thank you. No other questions.

11 JUDGE JONES: Questions from the Commission?  
12 Chairman?

13 QUESTIONS BY CHAIRMAN HALL:

14 **Q. Good evening.**

15 A. Evening.

16 **Q. I'm going to ask you the question that I**  
17 **started to ask you when we were on consolidation earlier**  
18 **today. OPC now supports a uniform customer charge; is**  
19 **that correct?**

20 A. That's correct.

21 **Q. What is the public policy rationale for**  
22 **having a uniform customer charge?**

23 A. I'm not sure there is a strong public policy  
24 rationale for having a uniform customer charge. We -- we  
25 decided on the 14.42 based off of several different



1 factors. One was just an acknowledgment that the Company  
2 would like to make it simple for their customers across  
3 the board. In part we felt like we were trying to be  
4 reasonable and move towards that.

5 **Q. Well, is there an argument that -- and I**  
6 **believe this is the argument put forth by the Company --**  
7 **that the customer costs are relatively uniform, or at**  
8 **least more so than the noncustomer costs?**

9 A. I would agree with that. If I may --

10 **Q. Please.**

11 A. -- just add a little bit to that?

12 **Q. Sure.**

13 A. We came up with the 14.42, in part, I said,  
14 for a number of factors. We also looked at American  
15 Water's -- their other subsidiaries, and we looked at  
16 what their customer charges were. We felt like American  
17 Water is unique in this situation. It's American Water.  
18 They're operating in many different states. The argument  
19 that they've put forth is that they operate under  
20 economies of scale. So when they buy meters, presumably  
21 they're buying meters for all of their subsidiaries at  
22 once or in part.

23 With that being said, based off of the  
24 customer charges that we looked at, the 14.42 ended up  
25 roughly in the middle of the 16 states and the various

1 customers charges that were being offered there, and we  
2 felt like that was a reasonable customer charge. It's  
3 also the customer charge amount that is currently in  
4 place in St. Louis Metro, which is 81 percent of the  
5 customers.

6 **Q. Do you -- do you believe that inclining block**  
7 **rates for residential customers would -- would result in**  
8 **additional conservation?**

9 A. Yes.

10 **Q. Do you believe that conservation is a public**  
11 **policy good?**

12 A. Yes.

13 **Q. Do you have any position as to the -- the**  
14 **appropriate blocks that we should establish should we**  
15 **decide that inclining block rates are appropriate?**

16 A. I've given this a lot of thought. I think on  
17 the water side it's -- it's a very -- it's a -- well,  
18 it's always complicated, I think, with rate design. If  
19 the Commission wants to move down that path, I would  
20 strongly encourage that they open up a rate design docket  
21 so we could flesh out that issue a little more. It's  
22 just -- my review of inclining blocks in other states, I  
23 guess our concern here for Public Counsel is that we  
24 don't want to be put in a position where the Company's  
25 coming immediately back for a rate case because they're

1 not collecting their revenue requirement based off of  
2 those blocks. I agree with you in principle. I guess  
3 the devil's in the details. I absolutely agree with it  
4 in context of something like a MEEIA, but that's not  
5 here.

6 CHAIRMAN HALL: I have nothing further.  
7 Thank you.

8 JUDGE JONES: Commissioner Stoll?

9 COMMISSIONER STOLL: No questions. Thank  
10 you.

11 COMMISSIONER KENNEY: No questions. Thank  
12 you, Dr. Marke.

13 JUDGE JONES: Any recross based on the  
14 chairman's question?

15 MR. ENGLAND: Yes, Your Honor.

16 JUDGE JONES: Let me go with Riverside over  
17 here first. Then I'll come back to you.

18 CROSS-EXAMINATION BY MR. BEDNAR:

19 **Q. You talked about that inclining block rates**  
20 **might have a potential to affect customers' usage**  
21 **behavior; is that correct?**

22 A. Yes.

23 **Q. At what rate -- average monthly rate do you**  
24 **think that would start, that the customers would notice**  
25 **the increase?**

1 A. What average monthly rate would -- would an  
2 inclining block start to have an effect on customer  
3 usage?

4 Q. Yeah. And I can further explain. If the --  
5 our current rates, you've seen a number of spreadsheets,  
6 38, \$40 a month average residential rate. When does high  
7 become too high to change a customer's behavior?

8 A. Oh, okay, I understand your question now. So  
9 I'm -- maybe I don't.

10 Q. I'll rephrase.

11 A. Okay.

12 Q. If I understand, inclining block rates would  
13 be that the more water you use, you'd kick in a new level  
14 of cost per gallon?

15 A. The more you pay.

16 Q. The more you pay.

17 A. Right.

18 Q. And so where does that -- so is that a  
19 percentage issue or is that a raw dollar amount? Have  
20 you -- do you have a position on that?

21 A. Generally would be you hit a certain  
22 threshold, in terms of your overall usage. And so the  
23 first block would be -- it's commonly referred to as  
24 lifeline rate. So this might be the basic discretionary  
25 usage, just, you know, what -- for example, let's say an

1 apartment would need to go ahead and utilize water for,  
2 you know, cooking and cleaning. This can get very  
3 complicated. You can -- California's got multiple  
4 blocks. Yeah, I would just say it depends.

5 **Q. So really -- I mean, would it be fair to say**  
6 **we really don't know yet --**

7 A. Oh, yes.

8 **Q. -- it goes back to --**

9 A. Yes, absolutely.

10 **Q. -- to your issue about going to rate design**  
11 **blocks; to go to inclining blocks now, we just really**  
12 **don't know enough about customers' behavior to know when**  
13 **it kicks in?**

14 A. Even, Mr. Bednar, I -- I can absolutely agree  
15 with the fact that I don't know a lot about Missouri  
16 American customers' behavior based off of, you know, the  
17 various data sets that we've been given in this case.

18 MR. BEDNAR: Thank you very much.

19 JUDGE JONES: Recross for Missouri American.

20 RE-CROSS-EXAMINATION BY MR. ENGLAND:

21 **Q. Sure. Following up on Mr. Bednar's question,**  
22 **the amount of base usage for a family of two versus a**  
23 **family of four or five or six could be dramatically**  
24 **different, couldn't it?**

25 A. Absolutely.

1           **Q.       Or nondiscretionary use, if you will?**

2           A.       Sure.

3           **Q.       And then another question or another thought**  
4 **on the uniform customer charge, and you were talking**  
5 **about some of the benefits. Would another benefit be**  
6 **that when folks call in to the calling center with**  
7 **inquiries regarding their bill, if there's a uniform**  
8 **customer charge throughout the state, that might make it**  
9 **a little easier for the call center to respond to those**  
10 **inquiries?**

11          A.       Sure.

12                   MR. ENGLAND: Okay. Thank you.

13                   JUDGE JONES: Any redirect?

14                   MR. OPITZ: Just one, Judge.

15                   REDIRECT EXAMINATION BY MR. OPITZ:

16           **Q.       Dr. Marke, in this case you're not proposing**  
17 **inclining block rates; correct?**

18          A.       Correct.

19           **Q.       And you haven't calculated any potential**  
20 **block -- what those potential block rates may be;**  
21 **correct?**

22          A.       Correct.

23                   MR. OPITZ: That's all I have. Thank you.

24                   JUDGE JONES: You may step down, Dr. Marke.

25                   (Witness excused.)

1 JUDGE JONES: Staff witness.

2 MS. MYERS: Staff's calling Mr. Busch. I  
3 believe Mr. Busch is still under oath.

4 JUDGE JONES: He is.

5 MS. MYERS: And all of his testimony has been  
6 offered and admitted, so he's ready for cross.

7 JAMES A. BUSCH,  
8 after having been previously duly sworn, was  
9 examined and testified on his oath as follows:

10 JUDGE JONES: Cross-examination, beginning  
11 with Missouri Department of Energy.

12 CROSS-EXAMINATION BY MR. ANTAL:

13 Q. Good evening, Mr. Busch.

14 A. Good evening. How are you?

15 Q. I'm doing well. Thank you. I asked  
16 Dr. Marke this same question, but I wanted to get your  
17 response to it also. Again, there's been some discussion  
18 about customer-related costs, as well as fixed company  
19 costs. Are you familiar with those terms?

20 A. Yes, I am.

21 Q. And can you explain the difference between  
22 them?

23 A. I think those, as they've been explained by  
24 most of the witnesses prior to me -- and I do not offer  
25 any difference between those testimonies -- the

1 customer-related costs are the meter that services,  
2 collection, billing, those types of costs.

3 And then the fixed costs that has been  
4 referred to as the fixed costs would generally be the  
5 treatment facility, the transmission, distribution,  
6 maintenance, and stuff like that. I think that's  
7 generally what they refer to when they're talking about  
8 the fixed costs.

9 **Q. Okay. And sticking with the Company's fixed**  
10 **costs, the Company has stated throughout this hearing**  
11 **that their fixed costs are approximately 90 percent of**  
12 **their total costs?**

13 A. I believe that's the number that the Company  
14 has been stating.

15 **Q. Do you agree with that number?**

16 A. I have not done any analysis to determine  
17 what we think the fixed costs should be.

18 **Q. Okay. Could it be lower?**

19 A. It could be lower.

20 **Q. And you -- or you sponsored Staff's Class**  
21 **Cost of Service Study in this case; correct?**

22 A. I did sponsor it, yes.

23 **Q. Okay. And even at a common revenue**  
24 **requirement, Staff's customer charges are several dollars**  
25 **lower than the Company's customer charge at that common**



1 **revenue requirement; is that correct?**

2 A. Are you referring to our customer charge that  
3 we filed in our direct position?

4 **Q. Let's stay with the one -- the updated one,**  
5 **with the common revenue requirements. It's my under --**  
6 **well, let's back up one second. It's my understanding**  
7 **that Staff has updated or modified its proposed customer**  
8 **charges based on the revenue requirement that's been**  
9 **agreed upon between the parties?**

10 A. It has. I have rerun the -- our model. And  
11 when I reran the model, as I was looking through it,  
12 going through everything and verifying -- because I knew  
13 this was coming today so I was looking at it last  
14 night -- you know, Mr. Herbert made some criticisms of  
15 Staff's number. And so when I had run that, I had put  
16 those in there, because I agreed with Mr. Herbert we  
17 didn't put enough of the billing collections costs that  
18 we've agreed to as a part of the customer cost. And then  
19 when you add that, plus the agreed-upon 30.1 million as  
20 above our initial filing, which I think Mr. England  
21 pointed out yesterday was lower, we came up with the  
22 customer charge that we've been talking about over the  
23 last week in settlement. And I think the Company has  
24 modeled that based upon rounding our class customer  
25 charge number per district. So...

1           **Q.       Okay. So -- and Staff's current customer**  
2 **charge proposals under its consolidation are what?**

3           A.       For District 1 it's \$16.46, for District 2  
4 it's \$14.83, and for District 3 it's \$14.56.

5           **Q.       Okay. And hopefully you can help me**  
6 **understand this. Even at this common revenue**  
7 **requirement, there's still a difference in the Company --**  
8 **Company's customer charge proposal and Staff's?**

9           A.       That is correct.

10          **Q.       Can you explain why there is that difference?**

11          A.       I believe the Company's at 16.90 on a --

12          **Q.       That's my understanding as well.**

13          A.       -- overall flat, just like the proposal by  
14 OPC and others. That's the comparison. Obviously ours  
15 is a couple dollars lower in Districts 2 and 3 and  
16 slightly lower in District 1. I still think there are  
17 certain costs -- some of the billing collection costs,  
18 and I can't get into the level of detail that -- to get  
19 exactly which ones they are, because there's a whole lot  
20 of calculations and numbers that are in there, but we --  
21 there are some that we didn't agree with. And I don't  
22 believe that we included the fire protection. That's in  
23 the commodity piece, not in the customer charge. And I  
24 think Mr. Herbert testified this morning that -- about  
25 the fire protection.

1           **Q.       Okay.**

2           A.       Those would be the biggest differences.

3           **Q.       Mr. Hyman and Dr. Marke have testified that a**  
4 **customer charge should only collect direct or incremental**  
5 **customer costs. I'm -- do you not agree with that**  
6 **statement?**

7           A.       I think that the customer charge calculation  
8 that Staff has just mentioned today does collect all  
9 those direct customer costs that we've been talking  
10 about.

11          **Q.       Okay. Now, I talked with Mr. Herbert this**  
12 **morning about the difference between directly**  
13 **assignable -- or assignable costs versus allocated. Are**  
14 **there allocated costs within your customer charge**  
15 **proposal?**

16          A.       It's all allocated at some level,  
17 unfortunately. It would be great if -- I think we've  
18 been hearing a lot about cost causation over the last  
19 couple of days. And the best driver for determining any  
20 number would be a direct assignment of those costs, and  
21 we wouldn't be having a lot of discussions. But a lot of  
22 costs are allocated.

23          **Q.       Okay. Are you familiar with the AWWA**  
24 **Principles of Water Rates, Fees, and Charges manual?**

25          A.       I am familiar with it.

1           **Q.       Does that manual set out principles for -- or**  
2 **guidelines for developing customer charges?**

3           A.       It does set out guidelines, yes.

4           **Q.       Okay. Is there some leeway or deference to**  
5 **the person developing rates and what is included in a**  
6 **customer charge?**

7           A.       Even though Staff generally accepts the AWWA  
8 M1 manual and its principles, and I think the Company  
9 does as well, and it's generally recognized throughout  
10 the industry, there are other methods, and any rate  
11 designing analyst has the ability to use what they think  
12 is the most appropriate method to determining rates and  
13 customer charges.

14          **Q.       Okay. So there is discretion?**

15          A.       I think there is discretion, yes.

16          **Q.       Okay. Would you agree with this statement:**  
17 **That it's not an uncommon practice for a -- in the water**  
18 **industry to recover some fixed costs through the**  
19 **consumption charge that varies with a customer's**  
20 **consumption?**

21          A.       Yes, I can agree that there are -- some of  
22 the fixed costs are going to be -- have to be collected  
23 in the commodity charge.

24                   MR. ANTAL: Okay. Thank you very much. No  
25 further questions.

1 JUDGE JONES: Questions from MIEC?

2 MR. DOWNEY: No questions.

3 JUDGE JONES: City of Brunswick?

4 MR. DRAG: No questions, Your Honor.

5 JUDGE JONES: City of Joplin?

6 MS. BELL: No questions.

7 JUDGE JONES: Riverside?

8 MR. BEDNAR: No questions.

9 JUDGE JONES: Public Water Supply Districts?

10 CROSS-EXAMINATION BY MR. DORITY:

11 Q. Good afternoon, Mr. Busch.

12 A. Good afternoon, Mr. DORITY.

13 Q. Were you in the hearing room yesterday  
14 afternoon when I had the conversation with Mr. Herbert  
15 regarding his schedules, I believe they were Exhibits 48  
16 and 49, 50, 51?

17 A. I -- yes, I was in the room. I don't know  
18 that I remember the exact conversation, but I was there.

19 Q. Well, let me refresh your recollection. I  
20 was speaking as to what the Staff's position was, taking  
21 issue with a couple of those exhibits, that they did  
22 not -- why he was suggesting they purported to reflect  
23 what the Staff's hybrid consolidations would reflect,  
24 along with the Public Counsel nonunanimous stip, and a --  
25 I think the third proposal was consolidating all of the

1 districts, save Joplin and St. Joseph.

2 And I was suggesting that the Staff was not  
3 going with a single rate for the sale for resale. And I  
4 just wanted to give you the opportunity to speak for  
5 yourself and confirm what Staff's position is.

6 So let me start. In your direct testimony on  
7 the rate design issue, you indicated that one of the  
8 purposes of your direct testimony was to sponsor the  
9 Staff's Report on Class Cost of Service and Rate Design,  
10 which I believe has been marked as Exhibit 3, which was  
11 concurrently filed with your direct testimony; is that  
12 correct?

13 A. That is correct.

14 Q. Do you have that report, Exhibit 3, with you?

15 A. I do.

16 Q. Thank you. If you could turn to page 6 of  
17 the report.

18 A. I'm there.

19 Q. At Section 3, paragraph B, which is  
20 designated Design of Block Rates?

21 A. Yes, sir.

22 Q. Could you read the last two sentences of --  
23 of that paragraph? I think it starts with Staff proposes  
24 to continue.

25 A. Staff proposes to continue the existing SLM,

1 which means St. Louis Metro, rate structure for Water  
2 District 1 and to continue declining block structure for  
3 all nonresidential customer rate classifications for  
4 Water District 2, Water District 3. Staff's method in  
5 designing the block rates was to keep the existing ratio  
6 between the currently-approved blocks constant.

7 **Q. Thank you, Mr. Busch. And is that still**  
8 **Staff's proposal?**

9 A. That is still Staff's proposal today.

10 **Q. If we can turn for a moment to Staff**  
11 **Exhibit 34.**

12 A. Yes.

13 **Q. And Counsel advised the Commission earlier**  
14 **this afternoon that as far as Staff's current position --**  
15 **we could turn to the last page, I guess page 3, which is**  
16 **reflected at the top Equal Percentage Class Shifts,**  
17 **Including Sewer Shift.**

18 A. Yes, sir.

19 **Q. And if I look at District 2, which would**  
20 **include the City of St. Joseph, it looks like the sale**  
21 **for resale, SFR, would now show a positive \$16,854**  
22 **increase, which would be -- the basis for that would be a**  
23 **.65 percent allocation; is that right?**

24 A. Can I explain a little bit what -- exactly  
25 what that means?

1           **Q.       Yes, sir, please.**

2           A.       When you look at the column that's under  
3 Current for District 1, District 2, District 3, you know,  
4 when you start to consolidate, and regardless of which  
5 method or which plan of consolidation is approved, the  
6 districts -- the different districts have residential,  
7 industrial, commercial, and so forth, the different  
8 customer classes.

9           **Q.       Right.**

10          A.       So what -- what is shown on this chart is  
11 that's the current revenues -- and we'll use the sale for  
12 resale in District 2, that \$2.6 million. That's all the  
13 sale for resale in Platte County, St. Joseph, and  
14 Brunswick. And I think all of them have some to some  
15 different level.

16          **Q.       Okay.**

17          A.       And so that \$16,854 is over what the current  
18 rate revenues are today for all of those combined, which  
19 would then lead to that overall class would get the  
20 2.6 million. The actual increase or decrease when those  
21 get combined --

22          **Q.       Um-hum.**

23          A.       -- is going to be different --

24          **Q.       Okay.**

25          A.       -- because Brunswick has one rate, St. Joseph



1 has one rate, and Platte County has one rate. So when  
2 you start mixing them all together and then increase it,  
3 you're still going to have shifts between those customer  
4 classes within -- from one -- when you go from district  
5 to district.

6 **Q. Yeah, I was going to say, not shifts among**  
7 **the classes, but there could be shifts among the**  
8 **customers within --**

9 A. Yes.

10 **Q. -- that class --**

11 A. Yes. Yeah.

12 **Q. -- depending on which district they're**  
13 **located?**

14 A. Yeah. This is very, very confusing and  
15 very --

16 **Q. It is. It is.**

17 A. -- very difficult to try to explain to make  
18 sure. In about a couple of months the Company and Staff  
19 and maybe the Public Counsel and the others, we get to  
20 design the rates based upon whatever the Commission  
21 decides --

22 **Q. Correct.**

23 A. -- and we're going to have a lot of -- a lot  
24 joy going through all these different rates and making  
25 sure that we get the rates properly and design them

1 correctly. So it's -- it's --

2 Q. Yeah.

3 A. -- extremely difficult.

4 Q. And you heard me compliment Mr. Herbert  
5 yesterday for all of the work that they've done. And I  
6 want to compliment you as well, I mean, for all the  
7 modeling. It's been very helpful. I know you've been  
8 under a lot of stress try to react to the different  
9 scenarios that have been put on the table, you,  
10 Dr. Marke, others, who have the expertise to do that.

11 I guess you bring up a good point, and I'll  
12 just close with that. When I was trying to discern what  
13 would be the impact for my clients, based upon this  
14 Staff -- latest Staff position, the current tariff sheet,  
15 RT 1-6, which is currently in effect, you wouldn't have  
16 that --

17 A. Actually, I think I do have the tariff  
18 sheets.

19 Q. Oh, you do have it. Well, perfect.

20 A. I have a whole slew of papers. I'm trying to  
21 figure out. Oh, maybe I left it at my desk.

22 Q. Okay. Well, it reflects a four --  
23 four-block --

24 A. Yes.

25 Q. -- rate. And so I guess what I'm suggesting

1 is it won't be as simple for me to just look at those  
2 specific rates as they exist today and increase them by  
3 .65 percent, because I'm not going to know what the  
4 Platte County and Brunswick implications are that will  
5 affect that as well?

6 A. That has been -- and from my perspective, I  
7 appreciate the kind words earlier, Mr. Dority. I can't  
8 accept them, because it's just been very difficult to  
9 give a lot of the customers and a lot of the other  
10 districts what they wanted, because it is so hard to make  
11 those precise calculations.

12 Q. Okay.

13 A. You are correct in your -- in your ans-- or  
14 your question.

15 MR. DORITY: All right. Thank you. That's  
16 all I have.

17 JUDGE JONES: Office of Public Counsel?

18 MR. OPITZ: Just briefly, Judge. May I  
19 inquire from my seat?

20 JUDGE JONES: Yes.

21 CROSS-EXAMINATION BY MR. OPITZ:

22 Q. Good evening, Mr. Busch.

23 A. Good evening, Mr. Opitz.

24 Q. Now, I understand you testified earlier that  
25 you worked on Staff's Class Cost of Service Study;

1 correct?

2 A. I worked on the one that is -- that we're  
3 talking about today, yes.

4 Q. **And are you familiar with the Company's Class**  
5 **Cost of Service Study?**

6 A. Vaguely familiar with it.

7 Q. **Are you familiar with how the Company**  
8 **proposes to allocate and recover certain costs of**  
9 **providing service?**

10 A. There's a lot of allocations and a lot of  
11 costs. So I think we're pretty much in agreement with  
12 most of it.

13 Q. **Well, let me, I guess, be more specific. We**  
14 **had asked -- my cocounsel had asked Ms. Norton, I**  
15 **believe, about the Arnold sewer shortfall and how the**  
16 **Company proposed to collect that money. And I don't**  
17 **believe -- and she directed me to Mr. Herbert, and I**  
18 **don't believe Mr. Herbert knew the answer to that. Do**  
19 **you know the answer to how the Company proposes to treat**  
20 **the Arnold sewer shortfall?**

21 A. I -- I don't -- I don't think I know exactly  
22 what the Company's position is. I think we've heard that  
23 they're limiting it to the cap. I think we've heard that  
24 then there's additional dollars that are in dispute that  
25 we discussed last night. And I think the Company has a

1 plan to collect those dollars from other class -- other  
2 groups. I'm not quite sure if it's the sewer and water,  
3 if it's water only, if it's water, how it is divided up  
4 amongst the different potential districts. So I would --  
5 I'd have to defer to the Company. That's my basic  
6 understanding of what I've heard from the Company so far.

7 **Q. Do you understand that the Company -- I guess**  
8 **is it your understanding that the Company doesn't propose**  
9 **to have its shareholders bear any of that shortfall?**

10 A. I don't believe the Company has made that  
11 offer. And they've -- yes, I agree with you.

12 MR. OPITZ: Thank you, Mr. Busch. That's all  
13 the questions I have.

14 JUDGE JONES: Questions for Missouri American  
15 Water?

16 CROSS-EXAMINATION BY MR. ENGLAND:

17 **Q. Mr. Busch, there's been some testimony or**  
18 **suggestions from some parties that we ought to use the**  
19 **customer charges that were developed by your original**  
20 **Class Cost of Service Study filed back in, I believe,**  
21 **January?**

22 A. That's correct.

23 **Q. Would you agree with me that those charges**  
24 **are no longer appropriate when you update for the**  
25 **agreed-to revenue requirement number, as well as make the**

1 **additional corrections to your study that you talked**  
2 **about earlier?**

3 A. Yeah, I agree. Staff supports the dollars  
4 that I just mentioned earlier this evening.

5 **Q. And is there some reason -- I mean, I know**  
6 **you like your three zones. But is there some reason why**  
7 **you wouldn't propose maybe a uniform customer charge for**  
8 **the three -- you know, statewide as opposed to zone**  
9 **specific?**

10 A. Assuming I was going to get this question, at  
11 least from the chairman at some point in time, this is as  
12 good a time as any. Yeah, I like the proposal that we  
13 brought forth. Whereas I agree there are a lot of common  
14 costs that are allocated amongst all customers and,  
15 hence, why we do the consolidation; but, you know, since  
16 we do divide the water districts up into three different  
17 districts that are relatively based upon geography, there  
18 may be, you know, some differences in the cost of putting  
19 in a meter. For instance, the southwest part of the  
20 state is a rocky state, rocky part of the state. It's  
21 much more difficult to place a meter there in the  
22 southwest portion than it is in St. Louis or here in  
23 Jefferson City or maybe up in Platte County. So there  
24 are some differences.

25 And I believe -- I think the Company's

1 getting away from this, but I think there used to be some  
2 meters that were in houses that may not be in all the  
3 districts. St. Louis County may have some of that. And  
4 I also believe that the Company at some level have  
5 automated meter reads that may not be uniform throughout  
6 the state yet.

7 So there may be differences that are more  
8 geographic in the way that we developed our rates. So  
9 that's why I would maintain having different customer  
10 charges through the districts.

11 **Q. Thank you. Let me switch gears a little bit**  
12 **on you. Getting back to Mr. Dority's questions regarding**  
13 **Staff's position on the block rates for the sale for**  
14 **resale customers in St. Joseph. I believe there was the**  
15 **misunderstanding by Mr. Herbert as to the Staff position.**  
16 **Is it fair to say that part of that misunderstanding was**  
17 **due to the fact that the information he got from Staff**  
18 **for purposes of modeling had a single block as opposed to**  
19 **the declining blocks?**

20 A. That's -- that's correct. That's one of the  
21 things that I found we've -- working through Class Cost  
22 of Service Studies and doing them in the past, we're very  
23 intensive by having a lot of data entry. And so all of  
24 Staff, whether or not it's electric, gas, or water, is  
25 starting to use a uniform modeling that has been

1 developed by our IT department, in conjunction with the  
2 different technical experts. And so -- and it's also  
3 then tied in with our -- the Staff EMS run the auto run,  
4 so you can just import the data. So it's a much --  
5 trying to do it quicker, trying to get results quicker.  
6 And, unfortunately, as I was going through that, I  
7 noticed that we -- our declining usage blocks, even  
8 though that's the reason we want, it always spits out  
9 that number. So we got to go back and get that squared  
10 away. So...

11 **Q. Does it at least produce a blended number so**  
12 **that --**

13 A. It's a blended number, yes.

14 **Q. Okay.**

15 A. Yeah.

16 **Q. So Mr. Herbert's study, while not precise, at**  
17 **least on an order of magnitude is probably close?**

18 A. I did have one of my analysts working on that  
19 today, and there were some numbers that were pretty much  
20 right on. There were a little bit of difference because  
21 Mr. Herbert rounded our customer charge numbers, so  
22 that's going to have an impact on the commodity rate.  
23 There were some numbers that were off, and we had not had  
24 an opportunity to understand why. There were some  
25 differences in the numbers. So -- but some were very



1 close. And I think, you know, based upon the information  
2 that Mr. Herbert had, he did the best that he could.

3 MR. ENGLAND: Okay. Thank you, sir. No  
4 other questions.

5 JUDGE JONES: Questions from the Commission.  
6 Mr. Chairman?

7 QUESTIONS BY CHAIRMAN HALL:

8 Q. Good evening, Mr. Busch.

9 A. Good evening, Chairman.

10 Q. Let me start with your rate design rebuttal  
11 testimony, page 11, where you suggest that the Company  
12 should be required to file a five-year capital  
13 expenditure plan for review by the Commission January 31  
14 of each year -- 31st of each year.

15 A. I don't have the exact cite. But I remember  
16 making that statement in my testimony. I think I  
17 discussed that last night.

18 Q. What's the -- what's the -- what's the  
19 rationale for that recommendation?

20 A. For having the Company make a -- come in and  
21 make a presentation of capital? I do not disagree that  
22 there is some level of potential for the Company with --  
23 as you start to consolidate more and more, to invest a  
24 little more, because the rate shock on a going-forward  
25 basis is reduced.

1           So I believe that by requiring the Company to  
2 present to the parties what their plans are in advance  
3 not only for the upcoming year, but a five-year out time  
4 frame, it gives interested parties an opportunity to  
5 review -- not to preapprove, there will be no preapproval  
6 process -- but we could, you know, look at that and maybe  
7 make recommendations that, you know, was this necessary,  
8 is there a cheaper way to do that, is there a new  
9 technology that may be better for the consumers in the  
10 long run.

11           **Q.       What was the reaction of the Company and**  
12 **other parties to that recommendation?**

13           A.       The Company, to the best of my knowledge, has  
14 not weighed in one way or the other if they are -- if  
15 they're in agreement with that. I haven't really talked  
16 to a lot of the other parties. I have talked to Public  
17 Counsel, and seeing what Public Counsel put forth in  
18 their -- in the stipulation, the nonunanimous stipulation  
19 of rate design with MIEC and others, I would assume that  
20 others agree with that kind of proposal.

21           **Q.       Well, I -- it's a recommendation that makes a**  
22 **lot of sense to me, whether or not we ultimately decide**  
23 **to do some type of district consolidation. So I would be**  
24 **interested in the parties briefing that issue,**  
25 **specifically in the post-hearing briefs.**

1                   **On page 25 of your rate design rebuttal**  
2 **testimony, you spend a little bit of time discussing the**  
3 **Triumph Food contract?**

4           A.       Yes, sir.

5           **Q.       Can you explain to me why that contract is**  
6 **highly confidential?**

7           A.       Triumph, as I understand it, has made that  
8 high -- made that highly confidential. They made that  
9 highly confidential in the -- when they filed it. And  
10 there's other contracts that are highly confidential.  
11 The reasoning that I believe that they made it highly  
12 confidential and why I don't necessarily disagree, and I  
13 think Mr. Harden tried to touch on this a little bit  
14 earlier, is that Triumph is competing in a very  
15 competitive environment; and if other competitors know  
16 what some of their costs are, then I think it would  
17 inhibit Triumph's ability to compete in that very  
18 competitive market. So by keeping that -- their cost  
19 structure or their costs as confidential, I think that  
20 would be Triumph's rationale.

21           **Q.       See, I would have thought that the rationale**  
22 **was that Missouri American didn't want other customers to**  
23 **know the kind of deal that Triumph Food got, because they**  
24 **didn't want them -- they didn't want those customers to**  
25 **come to them and ask for the same deal.**

1           A.       Well, the tariff, the Economic Development  
2 Rider, there are specific requirements that the company  
3 that's requesting the development rider has to meet. And  
4 I do not know that there's a lot of companies that could  
5 meet those requirements. And, in fact, I think there's  
6 three companies that have special contracts. And there's  
7 two pieces of the Economic Development Rider; one's a  
8 general and one's an alternative. And I think Triumph is  
9 the only one that qualifies for the alternative one. And  
10 I don't have the tariff with me to -- I'm stretching my  
11 knowledge of all the facts --

12           **Q.       And --**

13           A.       -- of the tariff.

14           **Q.       And you are making a recommendation that**  
15 **before the next rate case the Commission consider or**  
16 **review that contract?**

17           A.       I think Mr. Harden touched on this earlier in  
18 his opening. The tariffing allows for, and I think it  
19 goes in the contract, for Staff and the Office of Public  
20 Counsel to review the calculation of the development  
21 rate. And I think it was in the 2010 case there was a  
22 stipulation and agreement that said that no one could  
23 even bring up the special contract until December 31st of  
24 2015.

25                       Since this case was filed prior to that,

1 Staff did not believe it was appropriate to try to look  
2 at it in the last couple of months. So we would like the  
3 opportunity, and I'm sure the Office of Public Counsel  
4 would like the opportunity, to review that rate on a  
5 going-forward basis.

6 **Q. Do you have an understanding as to the --**  
7 **whether or not the remainder of Missouri American**  
8 **customers are paying more so that Triumph Foods can pay**  
9 **less?**

10 A. It's my recollection that the dollars that  
11 would normally have been assigned through the Class Cost  
12 of Service Studies for the special contracts, they are  
13 redistributed in the St. Joseph area. What I cannot  
14 remember is are they redistributed only in the industrial  
15 class or if it's redistributed to the entire St. Joseph  
16 District. It definitely does not get redistributed to  
17 the other customers throughout Missouri American's  
18 territory. That's to the best of my belief.

19 **Q. All right. So I understand Staff's position**  
20 **on the customer charge for Districts 1, 2, and 3. Has**  
21 **Staff done a calculation on what a uniform customer**  
22 **charge would be?**

23 A. No, Staff has not.

24 **Q. I -- I think that it would be beneficial to**  
25 **the Commission if Staff would do that analysis as to what**

1 a uniform customer charge would be. And I would also be  
2 interested in knowing what specific line items that are  
3 contained in the Company's customer charge Staff does not  
4 believe should be in the customer charge. And I do not  
5 expect you to do that on the stand. But I would -- I  
6 would --

7 A. Thank you.

8 Q. -- I would appreciate that information as  
9 a -- as a post-hearing exhibit, I guess.

10 Judge, is that the appropriate...

11 JUDGE JONES: Hopefully it's post-hearing,  
12 because --

13 CHAIRMAN HALL: Well, I'm just -- I'm just --  
14 either post-hearing or in the post-hearing briefs. But I  
15 think I would like it before that, if possible.

16 THE WITNESS: Chairman, can I just verify,  
17 you want us to do a uniform customer charge for all  
18 customers throughout the state, and then you want us to  
19 go through the specific line items where Company and  
20 Staff -- or Staff disagrees with the Company?

21 BY CHAIRMAN HALL:

22 Q. Right.

23 A. Okay.

24 Q. And you don't need to argue why --

25 A. No.

1           **Q.       -- why it should or shouldn't be. So it's**  
2 **not something that I think necessarily needs to be**  
3 **subject to cross-examination. I would think that there**  
4 **could be some agreement on that between Staff and the**  
5 **Company.**

6           A.       Yes, Staff would be happy to get with the  
7 Company to verify that we've addressed them properly for  
8 you.

9           **Q.       And I guess, actually -- all right. So**  
10 **getting back -- or staying on the uniform customer**  
11 **charge. If I heard your testimony correctly in response**  
12 **to questions from Mr. England, you don't believe that a**  
13 **uniform customer charge makes sense because costs are**  
14 **different around the state -- customer costs are**  
15 **different around the state; is that correct?**

16          A.       I think there may be some customer  
17 differences through the geographic areas and charged,  
18 yeah.

19          **Q.       But wouldn't that argument lead you to**  
20 **support district-specific customer charges as opposed to**  
21 **a consolidated-district --**

22          A.       Well, I think --

23          **Q.       -- customer charge?**

24          A.       I think in my testimony yesterday I  
25 acknowledged that there are some cost difference amongst

1 the different areas that Missouri American provides  
2 service, and that's why Staff doesn't support going to a  
3 full single-tariff pricing.

4 **Q. But if there are differences system to**  
5 **system, then perhaps we should have a different customer**  
6 **charge for each system?**

7 A. That's where we are today. And Staff  
8 believes that if you are going to do some consolidation,  
9 whenever you -- whenever you consolidate, you should have  
10 a uniform customer charge within that consolidation. For  
11 example, when we consolidated the small districts into  
12 District 8, we all put -- all those customers have the  
13 same customer charge. I think it's 22.06. The  
14 difference between those different districts then is  
15 based upon the commodity side.

16 **Q. Do you believe that inclining block rates**  
17 **would promote conservation for residential customers?**

18 A. Inclining block rates would -- you know,  
19 could definitely influence some customers to curtail  
20 usage.

21 **Q. And you have a proposal for a two-block?**

22 A. Chairman, I would not characterize that as a  
23 proposal.

24 **Q. How about a scheme?**

25 A. I'm more willing to accept it as a scheme for



1 inclining block rates structure at this stage. I believe  
2 in that -- in the rate design analysis that you're  
3 referring to, Chairman, Staff used the two-block  
4 structure on the inclining block as just an example.

5 To dig a little further, there's some  
6 rationale for having a uniform cus -- commodity charge.  
7 There's cost rationale for having a declining block.  
8 There's no cost rationale for having an inclining block  
9 structure. The reasoning for inclining block structure  
10 would be to promote conservation or to -- in case there  
11 were some, you know, shortage issues, like was going on  
12 in California.

13 So if -- I agree with what Dr. Marke has  
14 said; if it's something that is really going to be  
15 considered, the proper determination of what the blocks  
16 should be and how much initial usage should be in each  
17 block, you know, and then how much the rate should go  
18 up --

19 **Q. And the price range?**

20 A. Yeah, the price and how big each block should  
21 be and the price for each one and the differential  
22 between the price, that requires a level of data that is  
23 not currently available and could -- and I don't believe  
24 could properly be determined in the course of a rate  
25 case. There are so many, you know, other factors that

1 are going on in a rate case. You know, for example,  
2 there's a lot of the issues with these -- with the rate  
3 design that we really just kind of pushed off, because  
4 we're so focused on trying to get a consolidated rate  
5 that there's not enough time to do it properly.

6 And if you're going to make that type of a  
7 policy shift, we need to get together with the parties,  
8 get with the Company, spell out what type of data we  
9 need, usage data, and really, you know, look at it over a  
10 period of time, be able to look at, you know, any weather  
11 effects, and then look at designing a rate that would be  
12 proper, that would reach the goals that the Commission  
13 may be after.

14 **Q. So -- so -- and so you are not -- you are not**  
15 **and Staff is not philosophically opposed to inclining**  
16 **block rates for residential customers; your position is**  
17 **we don't have the data to craft it appropriately?**

18 A. I will -- I will look at my boss for Staff's  
19 position. Jim's position is that I -- as I sit here  
20 today, I don't think an inclining block structure is  
21 necessary in the state of Missouri.

22 **Q. So even if we were able to craft it**  
23 **appropriately, Jim would -- Jim would not support it?**

24 A. As we sit here today, I don't know that I  
25 would. But I would be willing to participate, obviously,

1 and to determine maybe there is a reasoning for it. But  
2 I would like to really get into the appropriate data to,  
3 you know -- I'm open minded about it, but there's -- it's  
4 a policy decision, and I don't know if it's...

5 CHAIRMAN HALL: Okay. I have no further  
6 questions. Thank you.

7 JUDGE JONES: Commissioner Stoll?

8 COMMISSIONER STOLL: No questions. Thank  
9 you.

10 JUDGE JONES: Commissioner Kenney?

11 COMMISSIONER KENNEY: No questions.

12 JUDGE JONES: Commissioner Rupp?

13 COMMISSIONER RUPP: No.

14 JUDGE JONES: Commissioner Coleman?

15 Any recross based on the chairman's  
16 questions? No one?

17 Okay. Redirect?

18 MS. MYERS: Yes, Judge.

19 REDIRECT EXAMINATION BY MS. MYERS:

20 **Q. Mr. Busch, I'd like to go back and talk about**  
21 **the proposed customer charges.**

22 A. Sure.

23 **Q. Mr. Antal asked you a few questions. He**  
24 **seems to be surprised that the Company and Staff have**  
25 **proposed different customer charges among the different**

1 **three districts. Does that surprise you?**

2 A. Does it surprise me that Mr. Antal is  
3 surprised?

4 **Q. I guess I should word that differently. Are**  
5 **you surprised that the Company and Staff have different**  
6 **proposals?**

7 A. No, that does not surprise me. Sorry.

8 **Q. And in crafting these proposed customer**  
9 **charges, do you believe you are staying true to the cost**  
10 **of service ratemaking principles?**

11 A. I believe so.

12 **Q. You believe so. And as Staff is proposing a**  
13 **hybrid philosophy here, you know, is that consistent with**  
14 **that hybrid philosophy?**

15 A. I think it is.

16 **Q. You also were asked a few questions about**  
17 **Triumph's contract, and you had mentioned that Staff and**  
18 **OPC are interested in reviewing that contract. Could you**  
19 **clarify when you're asking to review that contract? Is**  
20 **it after the commencement of this case?**

21 A. Yes.

22 **Q. Okay. And before the next rate case then, I**  
23 **would assume?**

24 A. Yeah. Because any changes will have to be  
25 addressed in the next rate case.

1           **Q.       Thank you. You were also asked several**  
2 **questions about block rates and inclining block rates.**  
3 **Were you involved in Staff's water utility rate design**  
4 **analysis that was filed?**

5           A.       Yes, I was.

6           **Q.       And do you base some of your answers,**  
7 **particular quest-- answers regarding there's no cost**  
8 **rationale at the moment for inclining block rates for**  
9 **residential uses upon your participation in that**  
10 **analysis?**

11          A.       Yes.

12                   MS. MYERS: Okay. All right. Thank you,  
13 Mr. Busch. I have no further questions.

14                   JUDGE JONES: Mr. Busch, you may step down.  
15 (Witness excused.)

16                   JUDGE JONES: Okay. Let's do opening  
17 statements for low-income tariff and then, if need be,  
18 take a five -- I mean, really like one, two, three, four,  
19 five-minute break, not 10 or 15.

20                   So we have Missouri American, OPC, and Staff  
21 on the low-income tariff issue. So we'll start with  
22 Missouri American Water Company.

23                   MR. DOWNEY: Judge?

24                   JUDGE JONES: Yes.

25                   MR. DOWNEY: May I be excused?

1 JUDGE JONES: Yes. And anyone else who wants  
2 to leave, feel free to do so.

3 Mr. Cooper, whenever you're -- whenever  
4 you're ready, you can go ahead and --

5 MR. COOPER: Okay.

6 JUDGE JONES: -- start.

7 MR. COOPER: Missouri American Water Company  
8 previously proposed a low-income tariff in its general  
9 rate case WR-2010-0131. That tariff didn't go anywhere;  
10 and as a result, MAWC did not propose such a tariff in  
11 either its 2011, 2012 rate case, or initially in this  
12 case.

13 However, during the course of testimony  
14 concerns were raised about affordability of rates that  
15 might result from this case. To the extent that the  
16 Commission may believe that rates resulting from this  
17 case create an affordability problem for low-income  
18 residential users, the Company did propose in its  
19 surrebuttal testimony a low-income tariff.

20 The Company's proposed low-income customer  
21 rate would provide eligible low-income customers with an  
22 80 percent discount on the customer charge for a  
23 residential five-eighths-inch meter. As proposed, the  
24 tariff would apply statewide. And we think the best  
25 method of funding, given then newness of this program,

1 would be a deferral of the discounts given, along with  
2 any third-party administrative costs there might be  
3 associated with that program.

4 Having said this, I should further state that  
5 Missouri American is very flexible in regard to this  
6 program. If the Commission believes that something less  
7 than statewide is appropriate as a pilot program, the  
8 Company would have no objection to that and would  
9 certainly work with the Commission in implementing such a  
10 thing.

11 Thank you.

12 JUDGE JONES: Thank you. Any -- just a  
13 moment, Mr. --

14 MR. COOPER: Yes.

15 CHAIRMAN HALL: First of all, I want to  
16 express appreciation for the Company bringing this  
17 proposal forward. I think it has a great deal of value.  
18 It makes -- has a lot of public policy rationale behind  
19 it. But, obviously, the question is the legality. And I  
20 know that Missouri Amer-- or American Water subsidiaries  
21 in three or four other states have such a program, but we  
22 have nothing like it in Missouri.

23 So could you give me what -- give me the best  
24 legal argument or idea why we can do it?

25 MR. COOPER: Well, I am familiar with some

1 programs that have existed in Missouri. I personally  
2 have some familiarity with an experimental low-income  
3 program that the Empire District Electric Company had in  
4 the electric industry.

5 In that case I think the best -- the best  
6 defense of that program was that the Commission has  
7 some -- has some authority for experimental-type  
8 programs. It was -- it was implemented -- it was  
9 implemented with tariffs. It ran for a period of time,  
10 and it provided the Commission with information on how to  
11 run programs, how effective they might be, those sort of  
12 things, funding levels, a variety of things. To me  
13 personally that's probably the best way to go about this,  
14 from a legal standpoint.

15 CHAIRMAN HALL: Would it be some kind of  
16 pilot project?

17 MR. COOPER: Yes.

18 CHAIRMAN HALL: So you think that -- that  
19 making it a pilot project increases the likelihood of its  
20 legality?

21 MR. COOPER: At least on a temporary basis,  
22 yes. Yes, Chairman. There is a little bit of case law  
23 that says the Commission has some discretion in that  
24 regard. And I think that would be the approach that  
25 under that theory that one would follow, yes.



1 CHAIRMAN HALL: Okay. What -- I mean, my  
2 understanding is that the legal arguments against it are  
3 that it's unduly discriminatory; that you've got two  
4 similarly-situated ratepayers receiving the same service,  
5 causing the same costs to the Company, but one of them  
6 paying less than the other.

7 MR. COOPER: Yes. And is income  
8 differential, is that a -- an appropriate reason to  
9 discriminate amongst those customers?

10 CHAIRMAN HALL: Well, what kind of factual  
11 basis do you think would be necessary in order to support  
12 such discrimination? Because -- because the question is  
13 discrimination's okay; it's undue discrimination. So --

14 MR. COOPER: Right.

15 CHAIRMAN HALL: So what kind of basis would  
16 be necessary so that it would just be discrimination and  
17 not undue discrimination?

18 MR. COOPER: Well, ultimately, I don't know  
19 the answer, because the Court of Appeals, I guess, in  
20 that situation, if it were taken up, would be -- get the  
21 first cut at what was appropriate or not.

22 You know, if the question is can one take the  
23 income factors that are -- that are being incorporated  
24 into the tariff here and can one make, I think, a valid  
25 argument, a straight-faced argument that would make the

1 Court of Appeals make a decision that as to whether or  
2 not those income factors were undue discrimination or  
3 not, I think the answer is yes, I think those would form  
4 the basis for a good argument. Ultimately, though, like  
5 I say, I don't know where the Court would go with it.

6 CHAIRMAN HALL: The program that you're  
7 recommending, is that similar to the program in other  
8 American Water states?

9 MR. COOPER: I believe it is in terms of the  
10 approach to a discount from the customer charge, from the  
11 fixed charge. That piece is, is similar. And part of  
12 the reasoning being that that leaves the volumetric in  
13 play and continues to provide an incentive.

14 CHAIRMAN HALL: That makes sense as well.

15 MR. COOPER: Yeah.

16 CHAIRMAN HALL: But what about determining  
17 eligibility, basing it on LIHEAP participation?

18 MR. COOPER: I cannot tell you whether that's  
19 the same or not.

20 CHAIRMAN HALL: Okay.

21 MR. COOPER: I just don't know the answer to  
22 that.

23 CHAIRMAN HALL: Do you know how many  
24 customers -- how many Missouri American customers  
25 participate in LIHEAP?

1 MR. COOPER: Well, the Company's done a bit  
2 of an estimate. And I don't know that it's directly  
3 based on LIHEAP, but it's based upon percentages of -- or  
4 percentages of persons that are -- that would meet these  
5 standards within the counties where the Company provides  
6 service. So we do have a number of customers statewide  
7 that potentially would fit into that band.

8 CHAIRMAN HALL: And Ms. Tinsley will speak to  
9 that?

10 MR. COOPER: She can. She has that  
11 information.

12 CHAIRMAN HALL: Okay. All right. Thank you.

13 COMMISSIONER KENNEY: Excuse me.

14 CHAIRMAN HALL: Mr. Cooper.

15 MR. COOPER: Oh, sorry.

16 COMMISSIONER KENNEY: I just have a couple of  
17 questions. Were you part of that 2010 case?

18 MR. COOPER: I was.

19 COMMISSIONER KENNEY: Was -- what hap-- was  
20 the legality of this discussed at that time, the  
21 low-income rider? Do you remember what took place?

22 MR. COOPER: I don't know that the opposition  
23 at this time -- and, actually, Mr. Busch testified, I  
24 think, in 2010, maybe, on that. But I think the -- the  
25 opposition was more based upon whether that program was

1 necessary, you know, a variety of practical logistical  
2 policy sort of --

3 COMMISSIONER KENNEY: More of policy  
4 socialize --

5 MR. COOPER: Yes.

6 COMMISSIONER KENNEY: Okay. Thank you.

7 JUDGE JONES: Office of Public Counsel?

8 MR. OPITZ: May it please the Commission.

9 JUDGE JONES: I realize that Staff was  
10 supposed to go.

11 MR. OPITZ: Oh, if you'd like, you can go  
12 ahead.

13 MS. MUETH: It doesn't matter. Go ahead.

14 MR. OPITZ: May it please the Commission.  
15 Public Counsel appreciates the concern of the Company  
16 about the affordability of the rates, and we're -- I'm  
17 giddy that the Commission is concerned about the  
18 affordability of rates. How -- however -- as you can  
19 tell. However, you know, at this time with this proposal  
20 we cannot support this tariff.

21 There are a number of unresolved issues here.  
22 Primarily, as the chairman touched on, is the questions  
23 about the legality of a low-income tariff. A second  
24 concern is, you know, the testimony on this was in the  
25 surrebuttal testimony of Ms. Tinsley, and there is a --

1 you know, a one-page tariff. I learned a few more  
2 details about what they are suggesting in the opening  
3 statement of Mr. Cooper that I couldn't find within their  
4 testimony anywhere. So this is an evolving proposal,  
5 from what I can see.

6 And I would point out that I think that this  
7 Commission is acutely aware of problems of implementing a  
8 low-income-type exemption, based on the recent MEEIA  
9 low-income exemption. Now in that case it was -- we even  
10 had more direction because there was a specific statute  
11 allowing the Commission to do so, to have a low-income  
12 exemption from that surcharge. And as you're aware there  
13 were still issues with implementation, how we would  
14 determine who was low income, the cost to maintain that  
15 program, how customers would decide to participate. Now,  
16 to that electric -- Ameren's great credit, they worked  
17 with us and with their customers to resolve those  
18 concerns. But I think -- keeping that in mind, I think  
19 it should give us caution about jumping head first into  
20 another program and one wherein the legality of doing so  
21 is even more in question.

22 I guess the third point is my worry with this  
23 proposal is that it's a distraction. To be sure, a  
24 low-income tariff that benefits customers who are low  
25 income is a great thing for the newspaper. It's a great

1 headline. But I think and what I hope this Commission  
2 wants is something with more substance that will actually  
3 help low-income customers. For example, in this proposal  
4 we don't know how many low-income people it will benefit.  
5 We don't know the burden -- cost burden it might place on  
6 other customers. I understand there's a mention of a  
7 regulatory asset. Well, that's going to place some cost  
8 burden on other customers, potentially even other  
9 low-income customers who are not able to necessarily  
10 qualify for these whatever restrictions might be placed  
11 on here.

12           Again, I cannot emphasize enough how much I  
13 appreciate the concern and recognition that affordability  
14 is an issue in this rate case, as anytime there's a rate  
15 increase. However, you know, I would suggest that if the  
16 Commission is inclined to give relief to low-income  
17 customers, and I hope that it is, the Company's proposal  
18 sort of gives away the game. It's a proposal to offer a  
19 low-income reduction to the customer charge. And I don't  
20 know if that's intentional or not. But in my mind that  
21 gives away the game that the customer charge certainly  
22 impacts low-income customers quite a bit.

23           So if the Commission is inclined to give  
24 low-income customer relief, I would suggest that you all  
25 do so in a way that we know that the law allows, and

1 that's to minimize the amount of customer charge that is  
2 possible for all customers.

3 With that, I'm happy to answer any questions.

4 CHAIRMAN HALL: Well, to start, I do not  
5 think the Company brought this proposal forward as a  
6 distraction. I do not believe the Company brought the  
7 proposal forward seeking headlines. I think if you open  
8 up the paper tomorrow, you will not see any headlines  
9 about this proposal. I think it was a good-faith belief  
10 that there was perhaps something that the Company and the  
11 Commission and any other parties could do to benefit  
12 low-income ratepayers.

13 Moving on though, the MEEIA low-income  
14 provision that you referred to a moment ago, you said  
15 that there's a specific statutory authorization for that?

16 MR. OPITZ: Yes, sir. It is Section  
17 393.1075.1 -- excuse me, I believe that would be .6. And  
18 the language there says, The Commission may reduce or  
19 exempt allocation of demand-side expenditures to  
20 low-income classes, as defined in an appropriate rate  
21 proceeding as a subclass of residential service.

22 And if you may recall -- I don't believe all  
23 of you were here at the time for Ameren's last rate  
24 case -- that was the rate case wherein that was adopted.  
25 There was a stipulation agreement among certain parties,

1 and then it was implemented shortly thereafter.

2 CHAIRMAN HALL: Okay. All right. Thank you.

3 COMMISSIONER KENNEY: Thank you. Yeah, I  
4 also would like to commend the Company for doing this. I  
5 know they do it in several states. And I too have been  
6 looking at this, because I think it's something we hear  
7 about the customer charge and the Company needing to meet  
8 certain obligations. I think we might all differ on  
9 them, but it's necessary. And I understand the need for  
10 low income and keeping the rates as low as possible.

11 On the legality of it, what's the difference  
12 between -- we just had a KCP&L rate case, and we  
13 passed -- we included a low-income weatherization program  
14 in there, and the Company pays 50 percent of it and the  
15 customers pay 50 percent of it. What's the difference  
16 between that? This might be a bigger program, but it's  
17 still only benefiting low-income customers.

18 MR. OPITZ: I apologize, Commissioner Kenney.  
19 I don't know the particular details of that program.  
20 What I can tell you is when I look at 393.130, talking  
21 about the undue discrimination in rates, that causes  
22 concerns here about this proposal. In what was filed,  
23 you know, it says it's an experimental service charge  
24 billed for low-income customers. You know, I think  
25 there's a lot of ambiguity here that may have been in the



1 KCPL case hashed out through various rounds of testimony,  
2 negotiation among the parties.

3 And to your point and to the chairman's  
4 point, Public Counsel appreciates the Company's efforts  
5 to look at ways to address the struggles of low-income  
6 customers. You know, I think that it's a conversation we  
7 hope that they're willing to continue to have with us.  
8 But here there's -- I don't think there's enough details  
9 to say whether or not there is a legal justification to  
10 do it.

11 COMMISSIONER KENNEY: I think one of your  
12 best arguments was the fact it was not in the direct  
13 testimony; it was brought late to the table. So I would  
14 agree with that.

15 Thank you.

16 JUDGE JONES: Thank you, Mr. Opitz.

17 MR. OPITZ: Thank you.

18 JUDGE JONES: Staff.

19 MS. MUETH: May it please the Commission. My  
20 name's Marcie Mueth, and I'm representing the Staff of  
21 the Public Service Commission tonight.

22 This issue arose late in the case, after a  
23 concern was raised by the Office of Public Counsel  
24 regarding affordability surrounding the Department of  
25 Energy's efficiency proposal. The Company responded by

1 stating it would support consideration of a low-income  
2 rate for qualifying customers and further proposed a  
3 low-income customer rate that would offer a discounted  
4 fixed charge or minimum bill for residential customers  
5 with a five-eighth-inch meter.

6 While Staff supports the concept of a  
7 potentially discounted rate for low-income customers, the  
8 details of a proposal like that suggested by Missouri  
9 American in this case are substantially lacking. For  
10 example, there's no information about who would subsidize  
11 the low-income customers' bills. It is also unclear how  
12 such a rate would be implemented fairly when Low Income  
13 Home Energy Assistance Program, which Missouri American  
14 identified as the only way to qualify customers for  
15 participation in a low-income tariff, does not reach all  
16 low-income customers.

17 Because there are too many details to still  
18 be determined, Staff cannot support a low-income tariff  
19 for Missouri American customers at this time. Staff may  
20 be willing to support a pilot program to study the  
21 impacts of implementing a low-income tariff.

22 And Staff Witness Jim Busch will be available  
23 to answer any questions you may have, and I'll field any  
24 that I may be able to answer here.

25 CHAIRMAN HALL: I have no questions. Thank

1 you.

2 COMMISSIONER KENNEY: No questions. Thank  
3 you.

4 JUDGE JONES: All right. Thank you.

5 Now I suggested that we take a break. Do we  
6 need to take a five-minute break? No one does.

7 We'll keep going with the first witness.  
8 Missouri American Water Company.

9 MR. COOPER: Missouri American would call --  
10 we're not taking a break? Was that the result of that?

11 JUDGE JONES: I was really just talking about  
12 the court reporter.

13 MR. COOPER: Oh, okay. Missouri American  
14 would call Jeanne Tinsley then.

15 JUDGE JONES: Would you raise your right  
16 hand.

17 JEANNE M. TINSLEY,  
18 after having been first duly sworn, was  
19 examined and testified on her oath as follows:

20 JUDGE JONES: Thank you. You may be seated.

21 DIRECT EXAMINATION BY MR. COOPER:

22 **Q. Please state your name.**

23 A. Jeanne Tinsley.

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

1 A. I am employed by American Water Works Service  
2 Company, and I am the manager of rates and regulation.

3 Q. Did you cause to be prepared for the purpose  
4 of this proceeding certain direct, rebuttal, and  
5 surrebuttal testimony in question and answer form?

6 A. I have.

7 Q. And is it your understanding that that  
8 testimony has been marked for identification as MAWC 35,  
9 MAWC 36, and MAWC 37, respectfully (sic)?

10 A. That's correct.

11 Q. Is it correct that you're also adopting a  
12 portion of other testimony in this case?

13 A. I am.

14 Q. And does the portions of testimony you're  
15 adopting include Exhibit MAWC 40, direct testimony of  
16 Phil Wood?

17 A. That's correct.

18 Q. And in that piece of testimony are you  
19 adopting page 26, line 2, to page 29, line 20,  
20 consolidated water tariff?

21 A. Yes.

22 Q. Are you also adopting a portion of Exhibit  
23 MAWC 41, rebuttal testimony of Phil Wood?

24 A. That's correct.

25 Q. And is that portion of testimony page 8, line

1 **12, through page 9, line 12, consolidated tariffs?**

2 A. It is.

3 **Q. Okay. Do you have any changes to any of that**  
4 **testimony at this time?**

5 A. Yes, I do.

6 **Q. Okay. Would you identify the first -- first**  
7 **of those changes?**

8 A. Sure. My direct testimony, Exhibit 35, page  
9 4, line 9 and 10 should be eliminated.

10 **Q. Should just be deleted?**

11 A. Deleted.

12 **Q. Okay. What's the next change?**

13 A. The next change is direct testimony, page 36,  
14 line 7, the dollar amount reading 1,161,014.75 should be  
15 changed to 1,160,255.75.

16 **Q. Are there other changes on that page?**

17 A. There are. Line 12, the number 1,161,014.75  
18 should also read 1,160,255.75. And on line 14, the first  
19 number 116,101.48 should be 116,026. And, again, the  
20 1,161,014.75 should be 1,160,255.75.

21 **Q. Is that all the changes in your direct**  
22 **testimony?**

23 A. In my direct testimony, yes.

24 **Q. Is there a change in your rebuttal testimony**  
25 **as well?**

1           A.       Yes, I have one change. Page 27, line 18,  
2 the dollar amount that reads 50 should actually be 150.  
3 And on line 19 the dollar amount reading \$20 should  
4 actually be 120.

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

6           A.       That's all.

7           **Q.       If I were to ask you the questions which are**  
8 **contained in Exhibits 35, 36, 37 and those portions of 40**  
9 **and 41 that you're adopting today, would your answers as**  
10 **now amended be the same?**

11          A.       They would.

12          **Q.       Are those answers as amended true and**  
13 **correct, to the best of your information, knowledge, and**  
14 **belief?**

15          A.       Yes, they are.

16                 MR. COOPER: Your Honor, I would offer at  
17 this time Exhibits MAWC 35, MAWC 36, and MAWC 37.

18                 JUDGE JONES: Any objection to those  
19 exhibits? Seeing none, Missouri American Water Company  
20 Exhibits 35, 36, and 37 are admitted to the record.

21                         (MAWC Exhibits 35, 36, and 37 received into  
22 evidence.)

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

25                 JUDGE JONES: Okay. Any cross-examination

1 from the Department of Energy?

2 MR. ANTAL: Yeah, just a few questions.

3 CROSS-EXAMINATION BY MR. ANTAL:

4 Q. Ms. Tinsley, it's my understanding from your  
5 counsel that the low-income tariff would be available to  
6 customers who currently participate in LIHEAP; is that  
7 correct?

8 A. No, it would be cus-- any low-income customer  
9 could actually contact their local Community Action  
10 Agency, and they would determine the eligibility of the  
11 customer to participate in the low-income program, based  
12 upon the same qualifications that are used by LIHEAP.

13 Q. Okay. So, to clarify, it would be available  
14 to anyone -- any customer who qualifies for LIHEAP?

15 A. That's correct.

16 Q. Okay. Does the Company have any estimates  
17 about how many customers in its service territories would  
18 qualify?

19 A. I do. Based on the 2014 poverty levels, it's  
20 estimated that approximately 57,900 customers would be  
21 eligible.

22 MR. ANTAL: Okay. Thank you very much. No  
23 further questions.

24 JUDGE JONES: Any questions from Riverside?

25 MR. BEDNAR: No.

1 JUDGE JONES: Any questions from Public Water  
2 Supply Districts?

3 MR. DORITY: No, Judge. Thank you.

4 JUDGE JONES: Let's see. Office of Public  
5 Counsel?

6 MR. OPITZ: Thank you, Judge. May I inquire  
7 from my seat?

8 JUDGE JONES: Yes, you may.

9 CROSS-EXAMINATION BY MR. OPITZ:

10 **Q. Good evening, Ms. Tinsley.**

11 A. Good evening.

12 **Q. Again, I want to emphasize how much Public**  
13 **Counsel appreciates the Company's concern for low-income**  
14 **customers. And you -- you mentioned to Division of**  
15 **Energy Counsel that you've got an estimate of 57,900**  
16 **customers under here?**

17 A. Correct.

18 **Q. Do you know how many dollars that would --**  
19 **would be, I guess what it would cost to operate this**  
20 **program, or do you have some estimate of that?**

21 A. It's basically an estimate. And of the  
22 57,900 customers, we anticipate that 17,376 would  
23 actually participate, which is 30 percent of the  
24 qualifying customers. And the annual amount is estimated  
25 to be approximately 960,000. That's if all customers --



1 all of those 17,000 customers participated.

2 **Q. And what is the basis for your estimate that**  
3 **only 30 percent will participate?**

4 A. It's just an estimate. I had to start  
5 somewhere.

6 **Q. I guess -- I guess I'm asking why wouldn't it**  
7 **be that everybody who's eligible participates? Is it**  
8 **just the administration of going to the Community Action**  
9 **Agency or...**

10 A. That's part of it. I basically use the  
11 percentages that we've seen in other of our states.  
12 Pennsylvania, for example.

13 **Q. Now, am I correct in understanding that**  
14 **Missouri American currently offers certain bill**  
15 **assistance programs?**

16 A. We do.

17 **Q. And can you tell me what those might be?**

18 A. We have the H2O Help program, which is a  
19 grant-type program, and you're eligible to receive \$120  
20 in assistance once per year.

21 **Q. And do you know how that is funded?**

22 A. I do. The Company funds a large portion of  
23 it, and then we also get voluntary donations from  
24 customers.

25 **Q. So that's sort of like a Dollar More program,**

1 something to that effect?

2 A. Correct. H20 Help.

3 Q. And is it your understanding that that  
4 program is -- has -- is allowed because it's not  
5 necessarily a rate that's charged; it's more of an  
6 assistance?

7 A. I'm not sure if it's allowed, you know, what  
8 the reasoning is. That would be a legal question.

9 Q. Okay. And -- but there's no particular rate  
10 that's set in any tariff anywhere related to the H20  
11 program that is a set rate, is there?

12 A. No, there is not.

13 Q. So you've got the H20 Help program. Did you  
14 have any other programs?

15 A. We do. We have budget billing, and we also  
16 have payment plans.

17 Q. And for, I guess, budget billing, is that a  
18 program where low-income customers receive some amount of  
19 money credit towards their bill or is that just budget  
20 billing as in the payment's leveled out?

21 A. Right. Correct. Payment leveled out.

22 Q. Okay. And what was the other -- name of the  
23 other program you mentioned?

24 A. The payment arrangements. So we work with  
25 customers to set a level of payment that they can afford.

1 Typically they're usually delinquent on their bills, and  
2 we set up a repayment plan.

3 Q. And under that do the customers get some -- I  
4 guess, some discount or do they get some credit towards  
5 their bill?

6 A. No.

7 Q. Okay. So is there -- so for budget billing  
8 and the payment arrangements, those are, I guess, zero  
9 cost, other than the administrations of those programs?

10 A. Correct.

11 Q. For the, I guess, low-income tariff, does the  
12 Company have an estimate of what the administrative costs  
13 might be?

14 A. That I do not.

15 Q. Okay. Is it something that you believe the  
16 Company would be able to do with current staff or it  
17 would require hiring more staff?

18 A. We would contract with our Community Action  
19 Agencies to administer the program.

20 Q. Okay. So I heard your counsel talk about  
21 that you would defer -- or the Company proposes to defer  
22 the costs related to this proposal into a regulatory  
23 account. Can you, I guess, provide me some more details  
24 about how you -- how Missouri American proposes to do  
25 that?

1           A.       We propose to do that -- because this is a  
2 new program, we have no idea what the actual costs will  
3 be or the participation rates, so we believe that by  
4 putting it as a regulatory asset and having it looked at  
5 in the next rate case is the best way to go.

6           MR. OPITZ: Thank you, Ms. Tinsley. That's  
7 all the questions I have. I appreciate your --

8           THE WITNESS: Thank you.

9           MR. OPITZ: -- responses.

10          JUDGE JONES: Any questions from Staff?

11          MS. MUETH: Yes, Your Honor.

12 CROSS-EXAMINATION BY MS. MUETH:

13          **Q.       Good evening, Ms. Tinsley.**

14          A.       Good evening.

15          **Q.       What customer charge did you use to determine**  
16 **that annual cost of \$960,000 for this program?**

17          A.       I used the 16.50.

18          **Q.       16.50. And why did you choose that customer**  
19 **charge for determining that number?**

20          A.       When I was putting together the estimate,  
21 that was the customer charge that Staff had proposed.

22          **Q.       You indicated the Company would use LIHEAP**  
23 **eligibility criteria to determine which customers would**  
24 **be eligible to participate in this low-income program; is**  
25 **that correct?**

1 A. Yes, that's correct.

2 **Q. What process would you anticipate that**  
3 **qualifying customers would need to do in order to**  
4 **participate, once it's determined that they qualify under**  
5 **LIHEAP?**

6 A. The Community Action Agency would contact the  
7 Company and give us the information that this customer  
8 has qualified, and then they would start receiving the  
9 credit on their next bill.

10 **Q. So does the customer have to do anything**  
11 **to --**

12 A. They'll apply through the Community Action  
13 Agency.

14 **Q. Okay. Once they've applied, is there any**  
15 **reason that a customer -- a qualifying customer who**  
16 **applied would not be included in the low-income tariff?**

17 A. No. If they're -- if they qualify, we would  
18 include them.

19 **Q. Is it possible that in the next rate case**  
20 **where these dollars would be evaluated for inclusion in**  
21 **rates that the customers who participated in the**  
22 **low-income program after -- following this rate case, if**  
23 **it's implemented, that they would end up having to pay**  
24 **some of those rates back? That was kind a complex**  
25 **question, but hopefully you followed.**

1           A.       Right. Well, if the customer charge did go  
2 up; then they would still get their 80 percent of that  
3 customer charge.

4           MS. MUETH: Okay. Thank you. I have nothing  
5 further.

6           JUDGE JONES: Questions from the Commission.  
7 Mr. Chairman?

8           CHAIRMAN HALL: Yeah, just a few.

9 QUESTIONS BY CHAIRMAN HALL:

10          **Q.       Good evening.**

11          A.       Good evening.

12          **Q.       The proposal put forth by the Company, I**  
13 **believe you said -- well, I think maybe your counsel**  
14 **said, is based upon programs in other states?**

15          A.       That's correct.

16          **Q.       What other states?**

17          A.       This is based on the Pennsylvania program.  
18 But we also have programs in New Jersey, California, and  
19 West Virginia.

20          **Q.       And how does this proposal differ from the**  
21 **low-income tariff in New Jersey, California, and West**  
22 **Virginia? And you don't have to be incredibly specific,**  
23 **but if you can tell me just generally how it's different.**

24          A.       I'm not really familiar with New Jersey, but  
25 California is quite complicated, and I know West Virginia

1 is some kind of tax credit.

2 Q. Okay. So did I hear your testimony correctly  
3 that your estimate that there would be 30 percent  
4 participation is based upon how the tariff is played out  
5 in Pennsylvania?

6 A. Yes.

7 Q. Okay. And how long has the tariff been in  
8 place in Pennsylvania?

9 A. Since 1997.

10 Q. Do you have a sense as to how successful it  
11 has been? And I don't know exactly what parameters  
12 should be used or what criteria should be used to  
13 determine whether it's successful. But I'm just  
14 wondering if you have any sense of how successful it's  
15 been?

16 A. I believe it's been very successful, just  
17 based on the fact that it's been in place for over  
18 18 years.

19 Q. Do you know if it's been challenged legally?

20 A. That I do not know.

21 Q. Okay. Do you know if -- if there's any  
22 connection between having a low-income tariff and a  
23 reduction in bad debt?

24 A. That is a possible outcome.

25 Q. Why -- why would that be a possible outcome?

1           A.       Because if the customer is paying their  
2 volumetric and their -- the remaining base charge, that  
3 part of that bill will not be -- go into bad debt  
4 expense.

5           **Q.       So it makes sense to you that there might be**  
6 **a reduction in bad debt, but the Company hasn't done any**  
7 **analysis as to a direct correlation between a low-income**  
8 **tariff and a reduction in bad debt?**

9           A.       That's correct.

10          **Q.       Do you think that is something -- and I'm not**  
11 **asking the Company to do it. But is that some-- is that**  
12 **an analysis that would be relatively simple for the**  
13 **Company to do, to see if there's some correlation?**

14          A.       It might be quite difficult to do that  
15 because there are other factors that could reduce bad  
16 debt expense.

17          **Q.       But you've got some crafty economists and**  
18 **accountants that can probably figure out how to hold**  
19 **certain variables constant. And that's not really a**  
20 **question. We can move on.**

21                   There was some suggestion by your counsel  
22 **that a pilot project might withstand a legal challenge**  
23 **better than a service-territory-wide program. Do you**  
24 **have any suggestions at all as to how we might establish**  
25 **a pilot, either a specific system or a geographic area or**



1 **any advice at all?**

2 A. Yes. I would start with the St. Joseph  
3 District. There were a lot of customers who brought up  
4 the affordability issue at the public hearings.

5 **Q. So that recommendation is just based on the**  
6 **number of individuals at that local public hearing who**  
7 **raised concerns?**

8 A. That's correct.

9 **Q. Would there be any other criteria that we**  
10 **might employ to determine an appropriate geographic area**  
11 **or appropriate system to pilot this? Are there certain**  
12 **systems where there is a high number of low-income**  
13 **ratepayers or any other -- any other criteria that you**  
14 **might use to recommend a geographic area?**

15 A. Maybe a geographic area that has a higher  
16 customer charge than other areas or go by, you know,  
17 poverty rates in certain counties and pick the counties  
18 where our districts are that have the higher poverty  
19 rates.

20 **Q. Would you agree that if -- if there was --**  
21 **and I'm jumping around a little bit, and I apologize for**  
22 **that. But would you agree that if there was -- if it**  
23 **could be established that there was a direct correlation**  
24 **between a low-income tariff and a reduction in bad debt,**  
25 **that implementing some type of low rate -- of low-income**

1 **tariff could provide a benefit for all ratepayers?**

2 A. I do agree with that.

3 CHAIRMAN HALL: I have no further questions.

4 Thank you.

5 THE WITNESS: Thank you.

6 JUDGE JONES: Commissioner Kenney?

7 QUESTIONS BY COMMISSIONER KENNEY:

8 **Q. Hello, Ms. Tinsley.**

9 A. Hello.

10 **Q. How many customers are there in American**  
11 **Water's system statewide?**

12 A. Approximately 470,000.

13 **Q. 470,000. Okay. And so the cost of this**  
14 **could be determined by -- I'm just trying to get the**  
15 **numbers right. Costs could be determined by the customer**  
16 **charge in this rate case times the number of users;**  
17 **right? So if we had -- if this Commission granted a**  
18 **\$16.90 customer charge, which is what the Company wants,**  
19 **and let's say -- let's round it up to 500,000, we**  
20 **would -- or then the low-income customer charge would be**  
21 **\$3.38, which is 20 percent of that, according to your**  
22 **suggestion; right?**

23 A. That's correct. But it would only be  
24 available to residential customers --

25 **Q. Right.**

1 A. -- with a five-eighths-inch meter.

2 Q. **How many residential customers with**  
3 **five-eighths are there?**

4 A. I believe there's probably 400 plus.

5 Q. **400,000. So if we decided to put a million**  
6 **dollars into a pilot program and just say -- and let all**  
7 **the stakeholders decide how to run it, that would cost**  
8 **the average residential consumer \$2.50 a year; is that**  
9 **right, 400,000 divided into a million?**

10 A. That sounds about right.

11 COMMISSIONER KENNEY: Wow. Sounds pretty  
12 good. Thank you.

13 JUDGE JONES: Commissioner Rupp?

14 Commissioner Coleman?

15 COMMISSIONER COLEMAN: No.

16 JUDGE JONES: Any recross based on questions  
17 from the Commission?

18 Well, it looks like Staff and OPC. Let's  
19 see, I think we should go with Staff first.

20 MR. OPITZ: I have none.

21 JUDGE JONES: Nothing. Okay.

22 MS. MUETH: I have just -- just a few, Your  
23 Honor.

24 RECROSS-EXAMINATION BY MS. MUETH:

25 Q. **Ms. Tinsley, you were discussing with**

1 **Chairman Hall the possibility that bad debt expense could**  
2 **be reduced. I'm -- I'm assuming you mean for the**  
3 **participating low-income customers; is that right?**

4 A. It would be for all customers.

5 **Q. For all customers. So if other customers --**  
6 **nonparticipating customers were to subsidize the costs**  
7 **for the low-income participating customers, it wouldn't**  
8 **be possible that bad debt might increase for those**  
9 **customers subsidizing that?**

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

11 MS. MUETH: Okay. I have nothing further.

12 JUDGE JONES: Okay. And redirect for  
13 Missouri American?

14 MR. COOPER: Thank you, Your Honor.

15 REDIRECT EXAMINATION BY MR. COOPER:

16 **Q. Ms. Tinsley, in discussing the H2O Help**  
17 **program, you talked about a grant. Is that a one-time**  
18 **grant?**

19 A. It is.

20 **Q. You were asked some questions about**  
21 **administrative costs. In regard to the H2O Help program,**  
22 **does the Company already work with Community Action**  
23 **Agencies in implementing that program?**

24 A. We do.

25 **Q. Is the Company charged anything by those**

1 **Community Action Agencies? Is there a percent fee or**  
2 **that sort of thing?**

3 A. There is a small fee that we pay.

4 **Q. You were asked about the deferral and what**  
5 **the Company proposes to defer. Is it the actual**  
6 **discounts that the Company proposes to defer?**

7 A. Yes.

8 **Q. And how about any -- any administrative**  
9 **charges it might receive from the Community Action**  
10 **Agencies, is that a part of what it would propose to**  
11 **defer as well?**

12 A. Yes.

13 MR. COOPER: That's all the questions I have,  
14 Your Honor.

15 JUDGE JONES: Thank you, Ms. Tinsley. You  
16 may step down.

17 THE WITNESS: Thank you.

18 (Witness excused.)

19 JUDGE JONES: And OPC has Dr. Marke as a  
20 witness. I'll remind you that you remain under oath.

21 GEOFF MARKE,

22 after having been previously duly sworn, was  
23 examined and testified on his oath as follows:

24 MR. OPITZ: Counsel tenders Dr. Marke for  
25 cross.

1 JUDGE JONES: Cross-examination from Missouri  
2 Department of Energy?

3 MR. ANTAL: Yes, just a few questions.

4 CROSS-EXAMINATION BY MR. ANTAL:

5 **Q. Dr. Marke, are you familiar with other**  
6 **low-income programs in the state of Missouri?**

7 A. I am.

8 **Q. Which are?**

9 A. Of the low-income programs, utility-sponsored  
10 low-income programs generally come in two flavors;  
11 weatherization programs or bill assistance programs. And  
12 there's the third flavor that we're talking about here,  
13 would be low-income rates, which is something that's  
14 being pondered here. But there isn't any low-income  
15 rates currently in place.

16 **Q. Let's stick with that for a moment. Is it**  
17 **your understanding that the Company is promoting -- or**  
18 **proposing a bill credit for these customers?**

19 A. My understanding is that the Company is  
20 proposing roughly what half -- I would say a hybrid --  
21 we've been throwing that term around a lot -- of what  
22 takes place in Pennsylvania, which is an 80 percent  
23 discount on the service charge. Pennsylvania also offers  
24 a 15 percent discount on their total bill. There's some  
25 other things that Pennsylvania does too. I think there's

1 a particular program in terms of cost matching with the  
2 shareholders, but that doesn't pertain to the bill  
3 assistance.

4 **Q. Okay. So for this program, what they're**  
5 **proposing is a percentage decrease in the customer's**  
6 **monthly customer charge?**

7 A. Correct.

8 **Q. Okay. So their rate wouldn't change; they**  
9 **would still be billed the same rates as everyone else?**

10 A. Their volumetric rate would be the same.

11 **Q. Their vol-- so their -- their rate would not**  
12 **be discriminatory, under your understanding?**

13 A. I guess that's the big question, right.

14 **Q. I would agree. Going back to the other types**  
15 **of existing low-income programs that you're familiar with**  
16 **in this state, are you aware of any administrative**  
17 **challenges in any of those programs that are offered by**  
18 **utilities?**

19 A. Yes. I think the Commission's well aware  
20 we've had a lot of problems trying to implement a  
21 low-income program with MEEIA for multi family. I think  
22 that's -- for Public Counsel -- and I understand we got  
23 this proposal in surrebuttal. But just speaking with  
24 other low-income advocacy groups, I'll cite specifically  
25 National Housing Trust, when I asked them point blank

1 what do you think about the low-income rate, it was  
2 approach with caution, and it was it's important to get  
3 it right the first time. And I think from our office's  
4 point of view, we want to make sure that we get it right.  
5 This is sort of a one-shot opportunity. There's a window  
6 within the context of a rate case.

7 I go back to the renters as being a prime  
8 example. The literature that I've seen on renters right  
9 now is that there's an enormous amount of evictions  
10 taking place compared to, you know, previous decades.  
11 You've got a lot of just low-income families that are  
12 getting kicked out.

13 With a utility bill for -- all right. So  
14 let's step back. A low-income renter has to cover rent,  
15 usually the first month rent or some other deposit.  
16 Utility bills is a huge chunk of that overall -- of their  
17 overall bill. It just represents for that family of  
18 already starting behind. Often with utility bills it's  
19 baked in. So because these buildings are served on a  
20 mass meter basis, you don't understand -- those customers  
21 don't have an idea of what they're actually paying for  
22 water. That's built into their rate -- or rent rate --  
23 their rent.

24 Our biggest concern -- and this is -- again,  
25 this is what we were expressed to, you know, through the



1 National Housing Trust, is that we don't want to be  
2 hurting those families, renters specifically, low-income  
3 renters.

4 I can go on more, you know, if need be. But  
5 we've had problems with it. We -- all I can say is that  
6 we're trying. You know, there's been several different  
7 convenings of intervenors and groups to talk about the  
8 low income and, you know, we're positively moving forward  
9 with that.

10 **Q. Thank you for that answer, Dr. Marke. I**  
11 **wanted to ask you another question. In regards -- you**  
12 **mentioned the MEEIA exemption for low-income customers**  
13 **and the difficulties that were experienced there from**  
14 **your perspective. Was part of that challenge due to the**  
15 **Company's, let's say, inability with its current billing**  
16 **system to identify people who qualified for LIHEAP but**  
17 **were not enrolled?**

18 A. It's in part. On average one of four  
19 families that are eligible for LIHEAP actually get some  
20 sort of assistance. So how many of those families or  
21 groups actually, you know, have the wherewithal to apply  
22 for something, to go through the channels to do that, I  
23 guess is subject to debate. But that had been an issue  
24 that had been expressed to us by Ameren.

25 **Q. Okay. And I guess the challenge with that**

1 program was that it only applied to -- or let me scratch  
2 that. One of the problems with the LIHEAP program is  
3 that there's a limited amount of funding and an excess  
4 demand for that -- for that program; correct?

5 A. For LIHEAP, absolutely.

6 Q. Okay. And at least the Company has stated  
7 here today that they would allow any customer who  
8 qualified for LIHEAP and I guess applied for the program  
9 through their local Community Action Agency to  
10 participate; is that correct?

11 A. That's as I understand it, yes.

12 Q. Okay. You're familiar with the  
13 weatherization programs also?

14 A. Yes.

15 Q. And those are, at least in part, ratepayer  
16 funded?

17 A. Yes.

18 Q. And those ratepayer funds are used to  
19 weatherize customers' homes?

20 A. Yes.

21 Q. And at least for the useful life of those  
22 weatherization upgrades, are those low-income customers  
23 getting a reduced bill?

24 A. The studies we've seen with weatherization  
25 support reductions in bad debt, customer arrears, to that

1 extent. That has been one of the primary positions our  
2 office has taken to support weatherization moving  
3 forward.

4 MR. ANTAL: Okay. Thank you. No further  
5 questions.

6 JUDGE JONES: Questions from Riverside?

7 MR. BEDNAR: No questions, Your Honor.

8 JUDGE JONES: Public Water Supply Districts?

9 MR. DORITY: No questions. Thank you.

10 JUDGE JONES: Staff?

11 MS. MUETH: No questions.

12 JUDGE JONES: Missouri American Water?

13 MR. COOPER: No questions.

14 JUDGE JONES: Any questions from the  
15 Commissioners?

16 CHAIRMAN HALL: No questions. Thank you.

17 COMMISSIONER KENNEY: I just have a couple.

18 QUESTIONS BY COMMISSIONER KENNEY:

19 **Q. You mentioned the low-income weatherization**  
20 **program. We just finished that bill with KCP&L. And,**  
21 **actually, there was -- I think it was Staff wanted to not**  
22 **give them as much money, because they hadn't used it all**  
23 **in the previous time. I believe we kept that in. But I**  
24 **think those are good programs.**

25 **Now, you mentioned a couple of different**

1       communications. I thought you mentioned the problem with  
2       the multifamily MEEIA. I know DOE just asked you about  
3       the MEEIA program and the problems. But you had  
4       mentioned the multifamily MEEIA programs and how they  
5       haven't been working; is that correct?

6           A.       That's correct.

7           Q.       Yeah. And can you understand why?

8           A.       Yes, absolutely.

9           Q.       Because the landlord doesn't get anything out  
10       of it.

11          A.       Absolutely.

12          Q.       So I think KCP&L in that case had one person  
13       who had participated. Maybe four. But it was pretty  
14       low. I just have a -- and you mentioned about the  
15       low-income utilities that did not -- that because the low  
16       income who have rent and utilities included, it doesn't  
17       benefit them, and any reduction -- or any addition could  
18       be harmful to them. I hadn't thought about that, but  
19       that's true.

20                 Now, if we did a million-dollar pilot program  
21       for 400,000 and there are 400,000 customers, that comes  
22       out to those other 400,000 customers would have to  
23       subsidy -- subsidize at 21 cents per month. Do you think  
24       that would cause any rate shock?

25          A.       No.

1           Q.       Okay. So you would think maybe OPC could  
2 consider a pilot program if it were put together -- in  
3 the future or this year that was put together in a way  
4 that was constructive and wasn't just -- that we don't  
5 just jump into, but that's planned out, OPC would be  
6 supportive of something like that?

7           A.       Absol utely.

8           COMMI SSIONER KENNEY: All right. Thank you.

9           JUDGE JONES: Any recross based on questions  
10 from the commi ssi oner?

11           Redi rect?

12           MR. OPITZ: No, thank you, Judge.

13           JUDGE JONES: You may step down, Mr. Marke.

14           (Wi tness excused.)

15           JUDGE JONES: Staff, your wi tness.

16           MS. MUETH: Staff call s Mr. Jim Busch.

17           JUDGE JONES: Mr. Busch, you remain under  
18 oath.

19                        JAMES A. BUSCH,

20                        after having been previously duly sworn, was  
21 examined and testi fied on hi s oath as follows:

22           MS. MUETH: And I'll tender the wi tness for  
23 cross.

24           JUDGE JONES: Any questi ons from Mi ssouri  
25 Department of Energy --

1 MR. ANTAL: No questions. Thank you.

2 JUDGE JONES: -- Division of Energy?

3 Riverside?

4 MR. BEDNAR: None, Your Honor.

5 JUDGE JONES: Public Water Supply Water

6 Districts?

7 MR. DORITY: No questions.

8 JUDGE JONES: Office of Public Counsel?

9 MR. OPITZ: No, thank you, Judge.

10 JUDGE JONES: Missouri American Water

11 Commission?

12 MR. COOPER: No, thank you, Your Honor.

13 JUDGE JONES: Any questions from the

14 Commissioners?

15 CHAIRMAN HALL: Thank you, Judge. As much as

16 I would enjoy asking Mr. Busch additional about this

17 topic, I will refrain.

18 COMMISSIONER KENNEY: I'm going to take over.

19 I'm the relief pitcher.

20 THE WITNESS: Wouldn't you be the backup

21 quarterback? That's okay.

22 QUESTIONS BY COMMISSIONER KENNEY:

23 **Q. Okay. I know you don't support this program,**

24 **I mean, as it has come in pretty late. But what I was**

25 **talking about, when you look at these numbers, a pilot**

1 program with the million dollars into it, 400,000  
2 customers, that's \$2.50 a year, about 21 cents a month --  
3 actually, a little less than 21 cents a month. What's  
4 Staff's thoughts -- or Jim's thoughts -- tell us what it  
5 is -- what's Jim's thoughts regarding something like  
6 that?

7 A. My initial thought is would this be a million  
8 dollars that is included in this rate case or would it be  
9 a deferral amount?

10 Q. The Commission could decide that.

11 A. That's --

12 Q. I mean, you take it thirty-one million six  
13 hundred, if we put it in rates, if we defer it, we defer  
14 it.

15 A. My initial thought is if -- if we're going to  
16 do some sort of a pilot program that I would like to see  
17 it in a smaller area to really determine how well it  
18 works.

19 Q. Is 21 cents a month too much?

20 A. No, I don't think that's too much at all. I  
21 just -- I think that we would like to see it in a smaller  
22 area to determine how we're going to come up with that  
23 million dollars, amortize it or not amortize.

24 Q. In the past pilot programs, what size -- what  
25 did we do with sizes and things? You've been -- I'm

1 mean --

2 A. I've been around awhile.

3 Q. I'm just not thinking just water. So...

4 A. I think Mr. Cooper brought up the Empire  
5 Electric, the ELIP. And I was at Public Counsel at the  
6 time. And that was a limited proposal. I can't remember  
7 exactly what part of their -- of the service territory,  
8 but it was a limited part of their service territory.  
9 So...

10 COMMISSIONER KENNEY: Okay. Thank you.

11 JUDGE JONES: Any recross based on  
12 Commissioner Kenney's questions?

13 Any redirect?

14 MS. MUETH: No, Your Honor.

15 JUDGE JONES: You may step down.

16 (Witness excused.)

17 JUDGE JONES: Okay. I think the only thing I  
18 need to remember to do is admit Exhibits 48, 49, 50, 51,  
19 and 52 for Missouri American Water Company. There was  
20 some concern about the accuracy of those numbers. As was  
21 discussed, that goes to the credibility and weight of  
22 that evidence.

23 (MAWC Exhibits 48, 49, 50, 51, and 52  
24 received into evidence.)

25 JUDGE JONES: Is there anything else that we



1 need to do before we go home today?

2 MR. OPITZ: Judge, while we're on the record,  
3 I have a list here from my cocounsel, and I understand  
4 that some of these were included or within the  
5 stipulation agreement related to the revenue requirement  
6 that they would be admitted. But I'd like to offer  
7 certain OPC exhibits at this time so that they could be  
8 admitted into the record.

9 JUDGE JONES: Go right ahead.

10 MR. OPITZ: I would offer OPC Exhibit 1,  
11 which is the direct testimony of Mr. Gorman. I would  
12 offer OPC Exhibit Number 2, which is the surrebuttal  
13 testimony of Mr. Gorman. I would offer exhibit -- OPC  
14 Exhibit Number 3, which is the direct testimony of  
15 Mr. Hyneman. OPC 4, the rebuttal testimony of  
16 Mr. Hyneman. OPC 5, the surrebuttal testimony of  
17 Mr. Hyneman. OPC 6, the direct testimony of Ms. Mantle.  
18 OPC 7, the rebuttal testimony of Ms. Mantle. OPC 8, the  
19 surrebuttal testimony of Ms. Mantle. OPC 13, the direct  
20 testimony of Ms. Roth. OPC 14, the direct testimony on  
21 revenue requirement of Mr. Smith. OPC 15, the direct  
22 testimony on rate design of Mr. Smith. OPC 16, the  
23 rebuttal testimony of Mr. Smith.

24 JUDGE JONES: Is there any objection to the  
25 admission of those?

1 MR. OPITZ: And OPC 17, Smith surrebuttal .

2 JUDGE JONES: Is there any objection to the  
3 admission of OPC's prefilled testimony? I don't see any.  
4 OPC Exhibits 1 through 8 and 13 through 17 are admitted  
5 to the record.

6 (OPC Exhibits 1 through 8 and 13 through 17  
7 received into evidence.)

8 MR. OPITZ: Thank you, Judge.

9 JUDGE JONES: Anything else anybody --  
10 Mr. Antal .

11 MR. ANTAL: Judge, I would do the same. We  
12 would offer MoDOE Exhibit 1, the direct testimony of  
13 Ms. Jane Epperson, and MoDOE 2, the surrebuttal testimony  
14 of Ms. Jane Epperson.

15 JUDGE JONES: Any objection? MoDOE Exhibits  
16 1 and 2 are admitted into the record.

17 (MoDOE Exhibits 1 and 2 received into  
18 evidence.)

19 JUDGE JONES: Is that it? Anything else?

20 MR. ENGLAND: Yes, Your Honor. Missouri  
21 American would offer the exhibits that it prefilled. And  
22 I could go through them one at a time; but since there  
23 were 47 of them, my thought is to just offer those that  
24 haven't already been offered. And if anybody has an  
25 objection, let me know, and we can talk about it.

1 JUDGE JONES: Yeah. Certainly don't offer  
2 the ones that have already been offered. I think  
3 everything that's been offered has been admitted though,  
4 hasn't it?

5 MR. ENGLAND: Well, my summary sheet tells me  
6 that 7, 8, 9, 10, 11, 12, 13, and 14 have been offered  
7 and admitted, 22 and 23 offered and admitted, 35, 36, 37,  
8 38, 39 offered and admitted, 46, 47 offered and admitted.  
9 So my offer is for everything that hasn't been offered  
10 and admitted between 1 and 47.

11 JUDGE JONES: So it would be 1 through 6, 15  
12 through 21, 24 through 34, 40 through 45.

13 (MAWC Exhibits 1 through 6, 15 through 21, 24  
14 through 34, and 40 through 45 received into evidence.)

15 MR. ENGLAND: And 40 through 45.

16 JUDGE JONES: Correct.

17 MR. ENGLAND: Oh, he did? I'm sorry. Thank  
18 you.

19 JUDGE JONES: Does anyone have any objection  
20 to those exhibits?

21 Staff, you have a concern?

22 MS. MUETH: No, Your Honor. I was just going  
23 to follow up with a similar request --

24 JUDGE JONES: Oh, okay. You're waiting --

25 MS. MUETH: -- with Staff exhibits.

1 JUDGE JONES: -- to speak on your behalf,  
2 not --

3 MR. ENGLAND: Before we move on to Staff,  
4 though, we did note a couple of errors in those Exhibits  
5 48, 49, 50 and 51, and we are going to take a crack at  
6 trying to correct that and submit them as late-filed  
7 exhibits. My proposal would be we would give them new  
8 numbers.

9 JUDGE JONES: Instead of giving them new  
10 numbers, why don't you give them the same number  
11 that's -- of the exhibit that's being corrected and just  
12 add an A after it or --

13 MR. ENGLAND: Revised?

14 JUDGE JONES: Or revised is fine --

15 MR. ENGLAND: Okay.

16 JUDGE JONES: -- so that I can tie it back to  
17 the corrected exhibit -- or to the incorrect exhibit.

18 MR. ENGLAND: That's a good idea. We'll do  
19 that.

20 JUDGE JONES: Okay. And Staff.

21 MR. OPITZ: Judge, before we move on --

22 JUDGE JONES: Mr. Opitz.

23 MR. OPITZ: -- I don't want to foreclose any  
24 opportunity my cocounsel might have about -- to question  
25 those revised exhibits. May we have -- I believe the

1 rule provides ten days to respond to the time they're  
2 filed?

3 JUDGE JONES: Of course you can.

4 MR. OPITZ: Thank you, Judge.

5 JUDGE JONES: And Staff.

6 MS. MUETH: Your Honor, Staff would also like  
7 to move to admit the evidence -- or the exhibits that  
8 have not yet been offered but that were premarked. So  
9 that would be Exhibits 1, 2, 4 through 8, and 13 through  
10 31.

11 JUDGE JONES: That's all prefiled testimony;  
12 right?

13 MS. MUETH: Yes, Your Honor.

14 JUDGE JONES: Any objection to those exhibits  
15 being admitted?

16 Seeing none, Staff's Exhibits 1, 2, 4 through  
17 8, 13 through 31 are admitted.

18 (Staff Exhibits 1, 2, 4 through 8, and 13  
19 through 31 received into evidence.)

20 JUDGE JONES: Anything else?

21 Okay. Well, we're off the record.

22 (Off the record.)  
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CERTIFICATE OF REPORTER

I, Angie D. Threlkeld, a Certified Court Reporter, CCR No. 1382, the officer before whom the foregoing hearing was taken, do hereby certify that the foregoing hearing 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 hearing 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.

*Angie D. Threlkeld*

Angie D. Threlkeld, CCR



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