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On-The-Record Proceeding

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In The Matter Of The Review Of Economic, Legal And Policy Considerations Of District-Specific Pricing And Single Tariff Pricing	)	File No. SW-2011-0103

HAROLD STEARLEY, Presiding
SENIOR REGULATORY LAW JUDGE

ROBERT M. CLAYTON, III, Chairman,
JEFF DAVIS,
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COMMISSIONERS

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JUDGE STEARLEY: All right. Good afternoon. Today is Tuesday, November 9th, 2011 [sic]. I suppose I ought to start up our webcasting here, see what other technology can fail for me today. My e-mail had failed once. All right.

Good afternoon. It's Tuesday, November 9th, 2011 [sic]. The Commission has set this time for the -- for an on-the-record proceeding in File Number SW-2011-0103, captioned: In The Matter Of The Review Of Economic, Legal And Policy Considerations of District-Specific Pricing and Single Tariff Pricing.

My name is Harold Stearley, and I'm the regulatory law judge presiding over today's hearing. Our court reporter this afternoon is Lisa Banks. And we will begin by taking entries from counsel who are in attendance, starting with special invitation, Aqua Missouri, Incorporated.

MS. JOYCE: Good afternoon, Your Honor. It's Kimberly Joyce from Aqua America. My business address is 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania, that's B-r-y-n M-a-w-r. Phone number is 610.645.1077.

JUDGE STEARLEY: All right. Thank you, Ms. Joyce.

And Missouri American Water Company, who also received an invitation from the Commission.

MR. REICHART: Thank you, Judge. Appearing on behalf of Missouri American Water Company, John J. Reichart. My address is 727 Craig Road, St. Louis, Missouri 63141.

JUDGE STEARLEY: Okay. Thank you, Mr. Reichart.

And the Commission had also issued two separate notices encouraging any other interested participant to attend today, and I know we had an entry of appearance from Timber Creek. Did counsel appear today for Timber Creek Sewer Company?

MR. SHERRY: No.

JUDGE STEARLEY: All right. Thank you. And I believe you're our subject matter expert, though, for Timber Creek. Is that correct, Mr. Sherry?

MR. SHERRY: Correct.

JUDGE STEARLEY: All right. For the City of Joplin. Do we have counsel present for City of Joplin?

MS. HEISINGER: Yes. Khristine Heisinger with Stinson Morrison Hecker. The address is 230 West McCarty, Jefferson City, Missouri 65101.

JUDGE STEARLEY: Thank you, Ms. Heisinger.

For the Staff of the Missouri Public Service Commission.

MR. DEARMONT: Thank you, Judge. Eric

Dearmont, Jennifer Hernandez and Rachel Lewis on behalf of the Staff of the Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri 65102.

JUDGE STEARLEY: Thank you, Mr. Dearmont.

And for the Office of the Public Counsel?

MS. BAKER: Thank you. Christina Baker, P.O. Box 2230, Jefferson City, Missouri 65102, appearing on behalf of the Office of the Public Counsel and the ratepayers.

JUDGE STEARLEY: All right. Thank you, Ms. Baker.

Are there any other participants appearing through counsel today? Okay.

Hearing none, very well.

I did want to emphasize, this is not a contested case. This is an investigatory docket of the Commission. There are no contested issues between the participants here today, at least in this matter, that require a decision from the Commission.

And this is not a type of proceeding from which there will be a decision forthcoming. The commissioners plan to maybe have some other hearings or proceedings in this matter. There may be some cause for additional briefing.

But at this point in time, this is not a matter where there will be a decision necessarily flowing from this hearing itself.

I do want to advise you all to please turn off your cell phones, BlackBerrys, other electronic devices which can interfere with our recording and webcasting.

And I know some of the participants today have brought with them subject matter experts to answer the commissioners' question. I'm going to run quickly through the list of subject matter experts that were listed out for us:

Mr. Stan Szczygiel for Aqua Missouri; Frank Kartmann and Don Petrie for Missouri American; Mr. Derek Sherry for Timber Creek; for Staff, Jim Busch, Jim Russo and Kim Bowen; for the Office of the Public Counsel, Barbara Meisenheimer and Ted Robertson.

Did I call all the subject matter experts? Is there anyone else here for any other participant that I did not note?

MR. DEARMONT: Staff -- I would note, Judge, that Mr. Jim Merciel is here for Staff, as well.
Mr. Merciel is a licensed engineer, and will be available to answer any engineering questions.

JUDGE STEARLEY: All right. Very well. I am going to, at this time, swear all the subject matter experts in en masse. However, there's -- this is not a proceeding where there will be cross-examination going on between the participants.

This is designed to allow these subject matter experts and counsel to ask -- answer questions for the commissioners themselves.

So if all the subject matter experts would please raise their right hands.

Do you solemnly swear or affirm that the testimony that you're about to give in this proceeding will be truth, the whole truth, and nothing but the truth?

(James Merciel, James Russo, James Busch, Barbara Meisenheimer, Frank Kartmann, Don Petrie, and Derek Sherry were sworn.)

JUDGE STEARLEY: All right. Thank you very much.

Do any of the participants wish to make an opening statement?

MR. DEARMONT: I have one prepared, Judge. I'd be happy to deliver that, or not, at the request of the Commission.

JUDGE STEARLEY: All right. Mr. Dearmont, you may proceed. And I will note that in terms of this docket, the Commission rolled into this docket briefs that were filed post-determination in the Aqua Missouri rate cases from last year briefing this very issue, as well as a filing from -- a joint filing involving Missouri American Water Corporation on the types of pricing they use in their districts, as well.

At the end of this proceeding, though, for the other participants here, we will give them an opportunity to brief this issue, as well, and I'll set a deadline for that.

And Mr. Dearmont, with that, you may proceed.

MR. DEARMONT: Thank you, Judge. Do you mind if I deliver my opening from counsel table?

JUDGE STEARLEY: You certainly may.

MR. DEARMONT: Thank you very much. May it please the Commission. Staff is optimistic that today's on-the-record presentation will allow various stakeholders in the water and sewer industries to engage in an open and honest discussion regarding the use of a single tariff versus district-specific pricing in the state of Missouri.

Although one can apply the concept of single-tariff pricing to differing degrees and scopes, when I use the term single-tariff pricing, I'm referring to a price structure that combines the costs to serve all of the customers served by a multi-system water or sewer corporation into a single, uniform cost of service, and then redistributes that total cost by customer class across the customer base regardless of any geographic or district distinctions.

On the other hand, when I use the term district-specific pricing, I'm referring to a price structure that combines the cost to serve all customers located with a smaller geographical area, and then redistributes those costs by customer class, across the customers located within only that geographic area.

As indicated in the brief filed by Staff in the recent Aqua Missouri rate case, single-tariff pricing and district-specific pricing both have their positives and their negatives.

Single-tariff pricing lowers administrative costs to the utilities, arguably administrative costs to the Commission. It aids in mitigating rate shock, and also helps address small system viability issues by providing utilities with incentives to seek acquisitions.

Staff would, however, remind the Commission that despite these advantages, it's important to note that single-tariff pricing is a pricing strategy and not a costing strategy. Single-tariff pricing, or STP, can appear to lower costs, when in reality, it simply allocates those same costs in a different manner.

District-specific pricing also presents a number of advantages, and admittedly, a few disadvantages. DSP helps keep a check on investment and infrastructure, sends accurate price signals to consumers, and is more consistent with traditional cost-of-service principles.

As to the latter of these advantages, Staff emphasizes that a basic economic principal embodied in traditional cost-of-service ratemaking is that of cost causation.

Fundamentally, this means that the payer of a regulated service should be the entity that causes the cost. In Staff's opinion, the recovery of costs, in correlation with their cause, is the most equitable manner to determine the appropriate rates for water and sewer service in the state of Missouri.

Staff would concede that economic principles do not always prove to be realistic in practice, however. And for reasons including rate stability, rate shock, and need for investments, other pricing structures may need to be considered in certain system-specific circumstances.

Leaving policy for a moment and turning to the Commission's legal responsibilities, regulators must focus not on whether rate design principles are discriminatory, but upon the extent to which they are discriminatory. This concept is codified in the state of Missouri in Section 393.130, which prohibits not mere discrimination but undue or unreasonable discrimination.

Although these concepts are explored, to a certain extent, in the analysis contained in Staff's brief filed in the Aqua Missouri cases, the bottom line is that, unfortunately, it appears that there exists no one controlling legal standard that can be used to evaluate what constitute quote "undue or unreasonable prejudice or disadvantages."

Based upon certain guiding cases, the Commission can, however, discern a number of helpful principles to apply in exercising its discretion. First and foremost, the Commission has a duty to set just and reasonable rates.

Any Commission decision, including those involving single-tariff versus district-specific pricing, must be supported by competent and substantial evidence.

Any group of ratepayers -- any time -- excuse me -- a group of ratepayers pays an average rate, some amount of rate discrimination will always exist.

This discrimination can, however, be deemed to become overly burdensome in cases in which differences in pricing are not based upon factors affecting service and/or rational distinctions and costs incurred in providing those services.

Finally, due to system-specific cost causation factors, there is likely no one rate design philosophy that can be appropriately applied to all companies and all consumers at all times.

For these legal reasons, and those policy positions mentioned previously, it is Staff's position that the need for a single-tariff pricing structure should be evaluated by the Commission on a case-by-case basis.

Staff would note that in situations where district-specific pricing currently exists, should the Commission elect to switch to a single-tariff rate, Staff believes that customer education should be an essential component in the ratemaking and rate implementation process.

In two recent cases, the Commission has requested additional information on this topic, and this docket was opened in an effort to facilitate further discussion on these issues.

Individual briefs and a Joint Report were filed by the parties in these cases, and Staff would be happy to answer any questions that the Commission may have regarding any of the information contained in those documents.

While it is evident that the Staff opposes single-tariff pricing as opposed to Aqua Missouri, Staff did present for the Commission a number of what I will call hybrid scenarios for the Commission to consider, should it decide to move in that direction.

Although Staff did not take a position in the joint material filed on behalf of the parties to the recent Missouri American case, I would note that the information filed in that case serves as a fine illustration of system-specific factors that will and do effect system-specific costs.

Thank you for your time and attention. I would be available and happy to answer any questions that you might have.

JUDGE STEARLEY: All right. Thank you, Mr. Dearmont.

And Ms. Hernandez, I believe you had some copies of some of the charts that were included with Staff's brief.

MS. HERNANDEZ: We do. We do have some color copies. If that would answer any of your questions today, we can provide those to the commissioners.

JUDGE STEARLEY: Yes. If you wouldn't mind bringing those forward. Is there any other participant today who would like to make an opening statement?

MR. KARTMANN: Frank Kartmann with Missouri American Water Company.

JUDGE STEARLEY: All right. Very good. Mr. Kartmann, I'm glad you introduced yourself there. I did want to make a point to ask subject matters expert speak or address question or counsel today, if you'd preface your remarks by identifying yourself for our court reporter, because this is a little bit looser format than our traditional putting witnesses on the stand, so for clarity for our court reporter, please do identify yourself each time that you do offer comments.

And please proceed.

MR. KARTMANN: Okay. Thank you. And thank you to the Commission for allowing Missouri American Water Company to make these remarks today and respond to any questions you might have on the topic of single-tariff pricing.

First off, Missouri American Water Company supports single-tariff pricing, and there are a number of reasons for this. One of them, most importantly being, that water is an absolutely necessary utility service to life itself, and is essential to public safety, public health and economic opportunity.

Our communities and economies are built on safe and reliable water service, and as such, it is only fair and necessary that water utility service be provided to all at a reasonable price.

Water utility service is at the foundation of our communities and our society, and it should be -- and it's a launchpad for so many other things -- for economic opportunities, for health and safety. And there shouldn't be a disparity in what customers pay for such a fundamental and basic service.

In its brief and scenarios, the docket -- in the docket for this case, Staff uses an example of single-tariff pricing, which is first-class postage. And in that case, no matter where you live or work, no matter how far out of the way you are located, or how far your letter needs to travel, or where it needs to go to, the price for every first-class letter delivery is the same.

Similarly, we all pay taxes for roads and bridges. Many of those roads and bridges most of us will never travel on.

But these are all basic forms of public service and/or infrastructure that, again, require a level playing field for everyone to start from in pursuing the things that, in the case of water service, allow us to pursue.

These examples and others, including utility service, are about what is in the public interest and what should be reasonably priced for all. Water utility service, too, should be reasonably priced for all, as it is a basic necessity for life itself, and facilitates economic development and societal advancement.

Utility regulation in Missouri has tended to limit single-tariff pricing to those customers physically connected to the same distribution system. This is a convenient way, and the most simplistic way, of drawing boundaries between groups of customers for the purpose of attempting to distinguish between different groups of cost causers.

The fact of the matter is, customers attached to the same distribution system do not share equally in cost causation or benefit received. A storage tank constructed in part of a water distribution system may do nothing for customers in a different part of the same distribution system, yet all customers in that system are assumed to benefit equally and charged equal rates within their customer class.

A fire hydrant repaired on the east side of a distribution system doesn't benefit customers on the west side of that same system, yet all customers of the distribution system are assumed to benefit equally from that fire hydrant repair and charged accordingly.

A repair to replace service line benefits only the customer whose service line is repaired or replaced, yet all customers in the system -- in the same distribution system share equally in that cost.

Over time -- and I use that phrase with emphasis -- all customers in the examples above -- and these are examples of customers connected to the same distribution system -- will, at some point, benefit directly from the construction of a storage tank, the repair of a hydrant, or the replacement of a service line.

Therefore, the regulatory practice in this state has been to treat all customers of the same class and connected to the same distribution system as equal cost causers, and assumes over time that all such customers will roughly equally benefit, so they should all pay the same rate.

I put emphasis on this phrase "over time" because I know people in opposition to single-tariff pricing like to point out that the "over time" argument, that all customers experiencing single-tariff pricing at some point in time receive the benefit of some capital improvement, or some expense increase that occurs because it's spread across all the customers, and other customers benefit at other times.

This is true whether you're all connected -- whether we're all connected to the same distribution system or separate distribution systems. This idea that being connected to the same distribution system makes you an equal cost causer in that context, I believe, is, in large part, a fiction.

Just to give you an example, back at the office, we crunched a few numbers, and if you look at, say, a $100,000 investment in our Brunswick district, and make a $100,000 investment in our St. Louis Metro district, and the same in our St. Joseph district, the average customer bill in Brunswick from that $100,000 investment will be a dollar -- the increase in their average bill $1.62; in the St. Louis Metro district, you don't even see that $100,000 -- it doesn't even raise the customer's bill by a penny; and in St. Joseph, it raises it about two cents.

Looking at it differently, how much investment would it require in the St. Louis Metro district and the St. Joseph districts to increase the average customer bill by a $1.62? Well, compared to the $100,000 in Brunswick, it would be about $11 million in St. Louis Metro; and in St. Joseph, it would be about $1.6 million.

Contrasting that with the Joint Report of on Cost of Service submitted by Staff, Missouri American Water Company and the Office of the Public Counsel as follow-up to the stipulation in Missouri American's most recently stipulated rate case, if we just take the stipulated rates in that case and shift them to single-tariff pricing, every district in Missouri American's rates go down, except the St. Louis Metro district.

In -- the St. Charles customers of that district would see, on average, about $1.81 per month increase in their bill. And if St. Louis County were billed on a monthly basis, it would be about $1.20.

I submit that those are reasonable changes in average customer bills as a result of single-tariff pricing, and reasonableness is important in this -- in this context.

My comments would not be complete if I didn't include a discussion about small systems in Missouri beyond the Brunswick system, and really Missouri in particular. Missouri is a state filled with small systems.

There are 700 wastewater treatment facilities, and over 800 wastewater collection systems in Missouri. And 600 of those systems serve fewer than 350 customers.

On the water side, there are 1,400 drinking water systems, and over 1,000 of these systems serve fewer than 500 connections, Brunswick being one of them.

There are only 12 water systems in Missouri that have more than 10,000 connections. We are a state filled with small systems. Small systems, like large systems, will have and do currently have infrastructure -- aging infrastructure issues that require attention and investment.

The Safe Drinking Water Act continues to become increasingly stringent, and those small systems need to make investments in meeting those Safe Drinking Water Act requirements, or -- and/or the increased operating expense associated with meeting those requirements.

Certainly, if single-tariff pricing were in place in Missouri, this would serve as an incentive for companies like Missouri American Water to acquire these systems and facilitate the improvements needed and the changes and expenses at affordable rates for these customers through single-tariff pricing.

In closing, just a couple of summary highlights of the benefits of single-tariff pricing: It mitigates rate shock; provides incentives for utility regionalization and consolidation; addresses small system viability issues; improves service affordability for customers; provides ratemaking treatment similar to that for other utilities, such as electric utilities; facilitates compliance with drinking water standards; and promotes regional economic development.

Thank you.

JUDGE STEARLEY: All right. Thank you, Mr. Kartmann.

Is there any other participant here today who would like to make an opening statement?

Yes, Ms. Joyce.

MS. JOYCE: Thank you, Judge. And first of all, I wanted to thank the Commission for inviting us to talk today. We're really happy to be here and answer any questions that you have.

I think Mr. Kartmann did an excellent job of giving us a preview, and Staff as well, of the positives and beneficial policy considerations that single-tariff pricing can bring to the water and wastewater industry.

Aqua is very supportive of a consolidated rate structure. I'll just add one sort of more technical piece as we begin to talk about this.

We talk about single-tariff pricing -- when Aqua talks about single-tariff pricing, we really view it as three separate prongs to a stool, but we think you need all three pieces to generate a good consolidated rate structure policy going forward. So I'll just lay those out on the table as we sort of begin the discussion.

And the first part of that prong is when we talk about single-tariff pricing, part of that is establishing one revenue requirement for water, and one revenue requirement for wastewater.

What that does is, if you do not establish one revenue requirement for water and wastewater, you're essentially running multiple different companies within your system. And when you consolidate that revenue requirement, that really compliments the single-tariff that you put in place under such a, you know, policy.

The second piece is when you get to one

revenue requirement, you would consolidate your books and records, so you're only filing, you know, one annual report for each company for each revenue requirement in your system.

And then the third piece, which most people have a tendency to focus on, is the actual tariff itself. But just as we start this dialogue, when we talk about that, we're talking about all those three things coming together under one policy.

So thanks again for the opportunity, and we're happy to answer any questions as we move along.

JUDGE STEARLEY: All right. Thank you. Are there any other participants who'd like to give an opening statement?

Seeing none, we will open the proceeding up to questions from the bench.

Gentlemen, who would like to start?

CHAIRMAN CLAYTON: I'm ready, but I was late, and --

COMMISSIONER DAVIS: No. I --

COMMISSIONER CLAYTON: Go ahead.

COMMISSIONER DAVIS: And Ms. Baker, Ms. Meisenheimer, did you want to respond to anything that Mr. Kartmann said, or Ms. Joyce? Or are you just proud to be here this afternoon? Or --

MS. BAKER: Our position is in our brief that was filed in Aqua. And basically a synopsis of that brief is that, yes, there are two different structures that are available to the Commission; district-specific pricing, single-tariff pricing.

Each one has their own problems. It's not a panacea to move between the two of them and think that everything is going to be just fine for the ratepayers, because there are gives and takes on each one.

Basically, public counsel supports the district-specific pricing because the most reasonable pricing for the customers are the costs a causer pays. It's very common to go in front of -- to go into local public hearings and hear the people say, I don't want to pay for improvements that are done in St. Louis; I don't want to pay for improvements that are done in St. Joseph.

Improvements that -- where they see a benefit, that's a different story. But improvements where they see no benefit, they have a very difficult time with the single-tariff pricing, knowing that they are not going to be getting benefits from some of the things that they're paying for.

COMMISSIONER DAVIS: Thank you, Mr. Chairman. Thank you, Ms. Baker.

CHAIRMAN CLAYTON: Judge, thank you. I

apologize for being late today. I was at another event, and I apologize for not getting here and considering -- you can blame this hearing in part on me.

I wanted to walk through a number of issues, and I need help working through some of the scenarios that are listed in the back of Staff's brief. And I want to start asking Staff this question.

Have you sworn witnesses, or are we just going to attorneys, or what's the --

JUDGE STEARLEY: The subject-matter experts are sworn --

CHAIRMAN CLAYTON: Okay.

JUDGE STEARLEY: -- and the -- counsel is present. You can direct your questions at whoever you wish.

CHAIRMAN CLAYTON: Okay. Well, let me -- let me direct my questions initially here of Mr. Busch, if that's possible, the manager of the water and sewer division.

Mr. Busch, it is the policy of the Staff at this time to maintain district-specific pricing. Would you agree with that general statement?

MR. BUSCH: As of right now, yes, we have -- there's nothing out there that indicates that we want to move away from district-specific pricing.

CHAIRMAN CLAYTON: When looking at water

districts under Scenario 1, which is Appendix A-1 of Staff's brief, it appears that if you go to -- from existing district-specific pricing to a single-tariff rate for current water-metered rates, you have four groups that benefit, and you have two groups that are harmed, or that are negatively affected. Is that -- would you agree with that --

MR. BUSCH: Yes. I would agree.

CHAIRMAN CLAYTON: -- assertion? Okay.

Looking at that ratio of who benefits and who is not -- who is not receiving benefits, does that go into your analysis of whether Staff believes district-specific is more appropriate than single-tariff?

MR. BUSCH: Do we look at who is benefitting?

CHAIRMAN CLAYTON: Let's say -- let's say if you had everybody but one district was -- I'm trying to get an example. Do you compare who benefits and who is harmed, or is your -- is your philosophy that, We want cost causer to pay the appropriate rate?

MR. BUSCH: As of right now, we do look at the cost causer paying. I can't say that we've looked at it and said, Well, it only impacts one district, so let's put it all in that -- you know, it's only one district, so we don't really care. We don't look at it, you know, in that situation at all.

In the Aqua case, if you look at those numbers, you know, the Maplewood district would have a 312 percent increase in rates. That would definitely be something that we would -- make us step back and go, you know, Is it really fair to those customers to make their rates triple so everybody else has a -- you know, a -- so other people can get a decrease in rates?

CHAIRMAN CLAYTON: Well, is it fair that people in Maplewood pay $5.79 customer charged compared to Lakewood Manor that pays 36.89 under a district-specific scenario?

MR. BUSCH: I would say that as these were developed, those were developed based upon the just and reasonable rate of the cost of service --

CHAIRMAN CLAYTON: Sure.

MR. BUSCH: -- of service to those areas in Missouri, so yeah.

CHAIRMAN CLAYTON: Do the customers get to choose the infrastructure that serves each of the districts? The customers in Lakewood, do they have a vote in determining what type of infrastructure that they have, or how many customers are living in that area?

MR. BUSCH: I don't know the history of when -- of those -- when those systems were built. I would assume probably not if they were all under a private ownership type of corporation back in the beginning. I would say probably not.

CHAIRMAN CLAYTON: Do you know what amount of notice that customers in the different districts actually receive when they buy their properties? Or if they buy a brand-new lot, do they receive notice of what their prospective utility rate will cost under -- under either a water or sewer charge?

MR. BUSCH: I'm not aware. I know when I purchase my homes that I've not received any -- there might be a little something about what an average bill is, but I don't think there's any other notification from the companies that would say what --

CHAIRMAN CLAYTON: Okay.

MR. BUSCH: -- the rates are. You could look into it, though. I think it's -- it would be public knowledge.

CHAIRMAN CLAYTON: Has Staff determined a water rate, or an average water bill, per month at which it believes customers will be facing real problems in paying their bill, or facing real hardship? Is there a threshold that Staff has set to say, A rate is just too much?

MR. BUSCH: No. We don't have a specific rate in mind that says, We do not want rates to go over X amount. When you start getting rates over $50 a month, I think you really start having some serious questions about, Why are those rates so high?

But it also depends on, you know, the population. Different areas are going to have different income levels; that, you know, a $30 rate may be more harmful than a $50 rate in a different -- in a more --

CHAIRMAN CLAYTON: If we look at Aqua Missouri's different territories, how many of those territories have an average $50 bill per month, in total, or greater?

MR. BUSCH: Aqua Missouri?

CHAIRMAN CLAYTON: We're just looking at Aqua Missouri.

MR. BUSCH: An average bill based upon --

CHAIRMAN CLAYTON: And just give me a total number -- total number of districts, approximately.

MR. BUSCH: It looks like four. Four have over $50 on an average basis.

CHAIRMAN CLAYTON: Okay.

MR. BUSCH: That's based on 6,000 gallons of usage on water.

CHAIRMAN CLAYTON: So there are four that would be greater than approximately $50 a month. And then at the low end of that spectrum, you would, what, the Maplewood, Lake Carmel territory. And what is its average bill?

MR. BUSCH: We calculated it at 22.89.

CHAIRMAN CLAYTON: So less than half would be that bill?

MR. BUSCH: Yes.

CHAIRMAN CLAYTON: Do you ever believe that there is a threshold at which it would be appropriate to finding some amount of equity in rates among different customers when they're served by the same company?

MR. BUSCH: I think that --

CHAIRMAN CLAYTON: Is there any other criteria other than just looking at a district's own costs that would persuade you that, we should look at pricing in a different way? Say, a two-to-one ratio, a three-to-one ratio?

If, say, some of these districts -- pick one of the four that are greater than $50 a month. Let's say they have a plant fail; they have to recycle out an entire treatment facility. You only have 100 customers, and their rates go to $100 a month.

MR. BUSCH: Uh-huh.

CHAIRMAN CLAYTON: Would there be a threshold at some point to say, you know, this just isn't working out; those customers are really getting hit too hard?

MR. BUSCH: I think -- if that scenario

happened, I think that we would -- that's in the threshold that we would really start looking at other ways to mitigate those rates.

I don't -- I haven't calculated a dollar amount that says, we will not go over 80 or $90, whatever. But you get up to that level in that scenario, we would really look hard at trying to do something to help those customers.

CHAIRMAN CLAYTON: Okay. Well, when you say "help those customers," what would be the options on the table?

MR. BUSCH: You know, I think, really, the options are, you can do -- you can do some sort of single-tariff pricing or some regional-based pricing, lumping some of the systems together. It doesn't have to be all the systems.

CHAIRMAN CLAYTON: So moving to fewer tariffs, but not a single tariff?

MR. BUSCH: Right. You could also look at potentially phasing in those rates over a period of time, depending upon the -- you know, what type the investment was. Maybe it's a three- to five-year process to get those rates back to help keep those costs down at the beginning.

CHAIRMAN CLAYTON: Okay.

MR. BUSCH: Just off the top of my head.

CHAIRMAN CLAYTON: Would it be a fair statement that the districts that pay the most in water or sewer rates are districts that probably have the fewest of customers? Is that a fair statement?

MR. BUSCH: I think that's a -- logically that makes sense, but I don't know if that is necessarily true, because there are other factors that could impact why certain districts' rates could be higher, even though they might have more customers to spread out those higher costs.

CHAIRMAN CLAYTON: Can you give me some other factors that would suggest a higher rate, just generally speaking?

MR. BUSCH: Different sorts of supply have to have more chemical expense, more pumping expense, you know, electrical costs. That would cause that to be higher. Even though you're spreading it out from 100 -- over 150 instead of 50 would cause the overall impact to be higher for that -- for that district.

So I don't think you can blanket say that all the smallest districts will have all the highest rates.

CHAIRMAN CLAYTON: Okay. Does Staff engage with customers in the different districts to kind of evaluate where they stand economically? Can a district handle rates of a certain magnitude?

Can they -- is it a -- is it a -- an affluent retirement community, or is it a -- is it a blue-collar, fixed-income or a low-income or -- I mean, do you evaluate in any way, or is this just blinder's up, we're looking at the costs of a particular district when setting these rates?

MR. BUSCH: You know, we evaluate when we get the comments that come in, when we go to the local public hearings. But, you know, it's very difficult because the comments are, I'm on a -- you know, I'm on a fixed income, Social Security didn't get an increase over the last two years, and, you know, these rates are going up.

And then we also get comments that say, Well, you know, this is my third, you know, vacation home. I'm going to pay more at this one than I do at my other two locations, and this is the exact same district.

So it's really difficult to, you know -- I mean, I don't even know if you go out to, like, the University of Missouri website to look at, you know, incomes for cities, if they would break it down.

Because a lot of times what we're dealing with, we're dealing with just a subdivision or other small area within a relatively small area; the data just doesn't get down to that level of detail.

So it is -- we basically just, you know, read the customer comments and, you know, we pay attention at the public hearings. We get phone calls; we talk to people that way.

CHAIRMAN CLAYTON: Do customer comments differ among the varying districts, or are the comments pretty much the same? I mean, maybe you have specific concerns about water quality, or maybe there's a billing error, or maybe your meters aren't being read properly.

But when it comes to the economics, the bill that they're paying, are comments from local public hearings similar or are they different by district?

MR. BUSCH: When you limit it to just the economic impact, they're very -- they're similar.

CHAIRMAN CLAYTON: They're similar?

MR. BUSCH: Yeah. There are obviously differences they have -- we have hard water versus it smells funny -- but for the most part, if it's economics, it's too high, or we don't mind a small increase, but this increase is just way too much.

CHAIRMAN CLAYTON: Do you have the tools or the wherewithal to determine what district would pay -- should be subsidized versus what district should not be subsidized? Do you look at what an average income would be, or an employment rate in a community, size of the community, urban versus rural?

Does any of that go into the analysis in looking at rates? And I'm talking specifically about Aqua

Missouri. But, I mean, there are other circumstances that --

MR. BUSCH: Uh-huh. I would say at this stage, since we haven't really considered moving to a single-tariff rate that we have not looked at that -- at those economic factors.

But I believe hearing you say them, those would definitely be ideas that we would want to look into, because that would have an impact as to, you know, if we don't go to a full single-tariff pricing, if we're trying to maybe do -- go to some regionalization other than geographic, that would -- those would be issues that we'd be interested to know.

CHAIRMAN CLAYTON: I want to ask -- help me work through your scenarios, because I -- I think what I was anticipating in response to this was looking at a single-tariff rate, and of course I ignored the difference between your flat-rate districts and your metered-rate districts.

Scenario 1 sets out the current water mater rates versus uniform rates under a single-tariff methodology. Can you get me to your scenarios that discuss flat-rate districts?

MR. BUSCH: If you don't mind, Mr. Russo --

CHAIRMAN CLAYTON: Yeah. Whoever. Whoever's -- that's fine.

MR. BUSCH: -- will respond.

CHAIRMAN CLAYTON: -- whoever is most knowledgable.

MR. RUSSO: Thank you. Jim Russo, for the court reporter.

It's Scenario 2, Chairman -- Mr. Chairman.

CHAIRMAN CLAYTON: Give me a page.

MR. RUSSO: Appendix 85.

CHAIRMAN CLAYTON: There we go. Okay. Now, can you tell me why we have some districts in Aqua Missouri territory that are -- that are metered and not metered? Is it by the simple reason that the houses don't have meters here? Is that why it is?

MR. RUSSO: Well, it's more than that, in the case of, for instance, White Branch.

CHAIRMAN CLAYTON: Can you just give me a little background --

MR. RUSSO: Yeah.

CHAIRMAN CLAYTON: -- on these?

MR. RUSSO: Well, the best I can from what our field guys have told me. In the case of White Branch, it's not a matter of just being able to go in and put meters. That's a system that when Aqua acquires was already existing.

And a lot of the water lines are such that you have to have a pit, and they're too high. There's a lot of rock. It's just -- they just can't go in and put meters into --

CHAIRMAN CLAYTON: So they're engineering issues?

MR. RUSSO: It's -- yeah.

CHAIRMAN CLAYTON: I mean, I -- just say they're an engineering --

MR. RUSSO: Okay.

CHAIRMAN CLAYTON: I'll believe you. I believe you.

MR. RUSSO: In the case of Rankin Acres, they are presently putting in meters. I believe it's like -- like -- yeah, 2012 they're going to be completed. So that is a system that they're going that direction.

They have some in; they're doing so many a year. So over time, that will be a metered system. Don't know about White Branch, if that ever will be.

CHAIRMAN CLAYTON: Okay. When it comes to -- and so you have no idea what customers in those areas would be using on a per-capita basis, because there are no -- there's no equipment to determine that right now?

MR. RUSSO: I don't know what they are using. You have other factors. You have to consider water losses, too, if there are some. There is a master well reading, and you could do a simple math calculation there. That would don't include water lost, which all systems have, but --

CHAIRMAN CLAYTON: You just basically do -- it's basic division and --

MR. RUSSO: Right.

CHAIRMAN CLAYTON: Okay. Okay. Do you know whether the usage there is on par with other districts, or is it out of -- is there -- do we have an example of greater usage because it's not metered, or is it on par with other districts?

MR. RUSSO: I do not have that for White Branch. Back on Rankin Acres, in a preceding case, I went ahead and developed a commodity rate, and I did look at that data.

CHAIRMAN CLAYTON: Uh-huh.

MR. RUSSO: And it didn't look out of line to me at that point in time.

CHAIRMAN CLAYTON: Do you have -- I'm looking -- do you have a graph -- not a graph -- a table that would be similar to Scenario 1 on Appendix A-1 that would set out the districts that are flat rate in comparison with that per-capita analysis that you have? I kind of get lost in the graphs. There are a lot of graphs, and --

MR. RUSSO: No. We do not, sir. We can -- I can --

CHAIRMAN CLAYTON: No. That's all right.

MR. RUSSO: -- make one if --

CHAIRMAN CLAYTON: If it's not in here, that's fine.

MR. RUSSO: It's not in here, but yeah, I could make one if you need one.

CHAIRMAN CLAYTON: Okay. Going back to Mr. Busch, if that's -- if I can. Right now under district-specific pricing, if there's a -- an investment in infrastructure that's necessary for the integrity of a given district, the costs of those investments would be borne entirely by those within that district, under current pricing. Correct?

MR. BUSCH: Correct.

CHAIRMAN CLAYTON: Okay. Does Staff have a threshold at which investments being made or needed to be made in a given district would suggest a need for consolidation, at least, in part of districts?

MR. BUSCH: Again, we do not have a threshold but if, you know, there were issues of DNR or if based upon, you know, an engineering report that said, we've got to redo everything, and it's going to cause rates to go up -- you know, triple from $50 to 150 -- then we would -- you know, that would be a definite red flag for us to start thinking. But right now, we do not have a threshold that we are looking at.

CHAIRMAN CLAYTON: If you had at least some degree of consolidation, whether it be in a single tariff or fewer tariffs, with partial consolidation, significant infrastructure investments would be borne by multiple districts; the costs would be spread out over a greater number of customers. You'd agree with that general statement?

MR. BUSCH: Yes.

CHAIRMAN CLAYTON: Okay. Does Staff believe there's any value in spreading costs out among a greater number of customers to protect customers from higher rates?

MR. BUSCH: Yes. I think there is, at some level -- when you get to those high levels, there is some benefit to that. But, you know, there's also fear that, you know, these companies are very, you know, sophisticated and they know the way to make money is to invest in more infrastructure.

And if -- it's easier to get a 10 percent rate increase passed to a bunch of a customers than a 40 percent increase to a smaller subset. So if they can spread out those infrastructure costs to a wider variety, you know, what's going to stop them from doing that?

Now, if they were talking about a necessary, this broke and they need to fix it, you know, that's one thing. But just a constant putting a plant in the ground because that's how they make their money, that's -- you know, that's something that we also are very concerned about.

CHAIRMAN CLAYTON: But in many cases, we want to encourage investment, don't we, in systems, especially, that are older?

MR. BUSCH: In the older systems, we would like to see -- you know, especially the -- our smaller systems, they do need more investment.

CHAIRMAN CLAYTON: So -- okay. Now -- so if some of these smaller systems are in need of investment, then it seems to me that you've suggested a -- maybe a conflicting position, that basically, we have systems that need infrastructure, but we don't want to encourage utilities to invest in that infrastructure.

MR. BUSCH: Well, we don't want to -- we don't want to encourage over-investment. We want to encourage proper investment.

And a lot of our -- you know, the -- a lot of our smaller districts are not -- systems are not the ones that are really going to be in for single-tariff pricing at this point in time, because it's just single systems by one owner. Those are the ones that need the -- need investment.

CHAIRMAN CLAYTON: Well, let's ignore those.

Systems that are within Aqua Missouri's territory, any off the top of your head that you know are going to have needed significant investment infrastructure -- investments in infrastructure in the near future?

MR. BUSCH: I'm not aware of any that are in need of significant. I know some of the sewer ones that are located in and around the Cole County area, I think those are going to have to start moving to a -- moving away from lagoons and towards more mechanic-driven plants. But they're already on a single-tariff rate for that for this area.

CHAIRMAN CLAYTON: If you have a single tariff, what you're arguing is that, well, it's easier for the company to spread -- it's easier for them to ask for more, and they can spread it out over more people, there's less rate shock; maybe it's less offensive.

But doesn't the regulatory process allow for Staff's ongoing input and prudence review in those investments?

I mean, is there anything really taken away -- maybe the company may feel a little more comfortable doing it, but doesn't the Staff play the same role in evaluating those investments for gold plating, or over-investment, or excess capacity, or --

MR. BUSCH: I think not only does the Staff, Public Counsel and intervenors all have the ability to look at investment to determine the pudency and take an argument before the Commission, but, you know, I've been around for a few years now, and those are very, very difficult arguments to make.

CHAIRMAN CLAYTON: So if I'm hearing you correctly -- and I may be interpreting what you're saying incorrectly, so fix me if I'm broke, here -- that didn't make any sense. I'm not sure why I said that.

The first reason -- the first policy reason that Staff believes that we should be district-specific pricing, basically is that cost causers should be the ones to pay; that each district should pay its own way -- no subsidies across the line. That's number one.

Second is that single-tariff pricing encourages too much investment, or maybe over-investment, or perhaps would allow companies or give them the signal to invest more than Staff believes would be appropriate. Is that --

MR. BUSCH: I -- yeah. I would say that it could lead to an encouragement of over-investment in those districts.

CHAIRMAN CLAYTON: Okay. Are there any other policy reasons, or are those basically it?

MR. BUSCH: I think when you go -- you

know -- you know, in our brief, we pointed out some of the things that are the disadvantages of single-tariff pricing, and the advantages. For the -- but for the most part, the two that you just mentioned, I think, are -- they're at the top of my list.

CHAIRMAN CLAYTON: Let me stop you right there. Let me go to Public Counsel. Are there -- from your-all's perspective, either Christine or Barb, Ms. Meisenheimer's perspective, are there any other specific policy reasons other than the two that I just mentioned with Mr. Busch that Public Counsel would have a concern about converting to either fewer districts or a single tariff for a company such as this?

MS. MEISENHEIMER: Okay. One other that comes to mind immediately is that within the context of rate cases, we've been reviewing all relevant factors in determining what's a just and reasonable rate for each district.

We have seen participants come in from various communities, industry; we get a broader range of interest groups coming in to evaluate and scrutinize what costs the company is seeking to recover.

And so I think that we lose -- as you diminish the starkness of a rate increase in the district, you diminish the -- maybe the interest of participants, or the willingness -- since they have to look at cost benefit -- of participating in these cases. And --

CHAIRMAN CLAYTON: But if they're not as harmed -- I mean, if they're not getting burned or affected or -- they're -- I mean, they're not getting popped with a huge rate increase -- it's more of a mild rate increase -- and that doesn't spur them to participate, is that a negative or is that a positive?

MS. MEISENHEIMER: Well, I think that you can -- that you can view it in multiple ways. There are benefits as well as harms that occur due to it. If you have more parties, then often, in a Missouri American Water case, you're familiar with how heated those discussions can be, and the negotiations turn out to be.

And there are a lot of folks really scrutinizing what the costs are. And there's a spillover benefit, not just looking at your own district costs, but also how -- what the overhead costs are that are allocated among districts. So I view -- I view it as just a greater level of scrutiny given to all costs throughout --

CHAIRMAN CLAYTON: But even with a single tariff, you still have the ability to apply that scrutiny, and you can apply all relevant factors system-wide, or at least in a larger area.

For example, you -- if you have increased revenues over here, you could apply that if there's a shortfall over here. Does Public Counsel look at that as a positive or a negative in all relevant factors in looking at all districts?

MS. MEISENHEIMER: I think that all relevant factors should be looked at in the context of a company in a district. Certainly, there are certain costs that are spread across districts, and over time, as a company, say, acquires a small district, costs over time can tend to converge.

In other words, of the -- if a large company buys small districts, they may be buying pipe at discounted rates to lay in the ground. They may get other types of economies by using systems that serve their entire larger company.

And over time, the costs incurred to each of the districts that they serve should fall for those elements. The primary differences, over time, are the costs in infrastructure.

And I -- I mean, I think you're doing it right the way you're doing it now: You look at each company; you look at each of its districts, and you weigh those factors.

And, you know, I pointed out that in recent cases, what you have received from the parties in the way of stipulations, has elements of both single-tariff pricing. And where the costs are prohibitive, we've negotiated to allow some subsidies, some support to flow between districts, with a goal in mind of trying to --

CHAIRMAN CLAYTON: So we're not entirely district-specific, then? Basically, somebody's getting subsidized right now -- at least, in Aqua Missouri, is anyone being subsidized?

MS. MEISENHEIMER: I'm familiar with Missouri American --

CHAIRMAN CLAYTON: Missouri American.

MS. MEISENHEIMER: -- because I worked in that directly and filed testimony. In Aqua Missouri, I kind of played a just behind-the-scenes role, more than involved in the specific ratemaking in the district.

So I can speak to Missouri American. But yes, in Missouri American, we have aspects -- we have aspects of both. So --

CHAIRMAN CLAYTON: How many -- how many -- excuse me. I'm going to let you finish.

MS. MEISENHEIMER: Well, I could also, you know, tell you, practice that same policy of as costs converge, you tend to allow districts to merge in other utility areas; gas, electric. Even in telecommunications, way back when, we had -- communities that had like characteristics would have like rates.

CHAIRMAN CLAYTON: Do you -- so you don't agree with the idea that merger of costs or consolidation of costs -- that it doesn't reduce overall cost? I mean, if you -- do you -- I'm -- I'm maybe not following what you're saying.

Do you believe when you consolidated, or perhaps you merge into one tariff or fewer tariffs -- you don't believe there are any savings that would go with such a consolidation?

MS. MEISENHEIMER: There may be savings. And over time, I think those become greater, actually, as --

CHAIRMAN CLAYTON: Okay.

MS. MEISENHEIMER: -- as a company can buy pipe to serve more territory --

CHAIRMAN CLAYTON: So if you had savings that would come from that -- so you've got a piece where, potentially, there's savings, or there -- there are cost reductions that would benefit all customers throughout the system, or even individual systems, where would you see the potential for greater costs, where you'd have potential for harm on customers by having fewer tariffs or having fewer districts?

MS. MEISENHEIMER: And I've already talked about -- I don't think that Public Counsel necessarily sees harm from fewer districts, looking at individual cases, to determine where that's appropriate.

If they have similar characteristics of the geography, similar characteristics in the customer attributes, and similar characteristics in cost -- some of that may be a legacy issue -- then Public Counsel hasn't necessarily opposed consolidating districts. We've done that in a number of cases.

It's more an issue of, we think it's more appropriate to look at those on a case-by-case basis rather than to adopt a blanket policy of -- for a company, You should --

CHAIRMAN CLAYTON: Okay.

MS. MEISENHEIMER: -- have a single --

CHAIRMAN CLAYTON: So Public Counsel is not opposed to some degree of consolidation; it's the overall concept of moving to just that single tariff, one rate, district -- or company-wide, that would be problematic for you.

But looking at certain case-by-case potential mergers of districts would be appropriate under certain circumstances?

MS. MEISENHEIMER: Yes. And in particular, I think one of the areas that I would recommend that maybe you look more closely at, if you're trying to find, are there ways that might describe costs as being more similar, you can look at how the overhead allocations are made.

CHAIRMAN CLAYTON: Would overhead allocations change if you were to go to a single tariff or a reduction in the number of service territories or service districts? I mean, those are allocated right now. Aqua Missouri's overhead is allocated at each of its districts right now. Missouri --

MS. MEISENHEIMER: I --

CHAIRMAN CLAYTON: -- American -- I think. And if I'm wrong, tell me why. How would that change if you had fewer areas?

MS. MEISENHEIMER: What I was really talking about is, let's say you have overhead costs that are allocated to each district based on the number of customers in the district.

That tends to get a higher allocation to low density service areas -- relatively higher allocation -- whereas if you were --

CHAIRMAN CLAYTON: So -- so -- hang on. So -- so that means a higher allocation of overhead costs going to districts that have lower density, which means fewer customers?

MS. MEISENHEIMER: Yes.

CHAIRMAN CLAYTON: Okay. So under current pricing, they are getting too much of a hit, in your opinion, perhaps, of allocated costs?

MS. MEISENHEIMER: If you reviewed and found that there were other appropriate ways to allocate overhead costs, say for example, based on sales in each district, that might lead to a lower allocation of the overhead costs and more uniform cost across the entire service area.

But the key again is that you look at it on an individual case basis as a company comes in, see -- make that determination based on the evidence that's presented to you.

But one of the -- one of the things that I can't remember having been done in the 15 years that I've been with Public Counsel is that, over time, we tend to move toward only one way of doing something, and we kind of stop looking at the alternatives and considering them.

And so I think this was a good idea that the Commission have this investigation to broaden the view. And I think you can do the same thing looking at how costs are allocated within a -- within a rate case.

CHAIRMAN CLAYTON: Flattery will get you everywhere. I said that the other day. But we're happy to be -- we're happy to be of assistance.

Let me ask you this question: Do you believe that it's good public policy if a district faces geographic restrictions, let's say they're located far away from a water supply, or they're located close to a water supply that requires greater treatment; there are just higher costs associated with it -- do you think it's good public policy that those customers should be held accountable for that when it's no fault of their own; that those customers should pay higher rates just because they had the bad luck of living in an area that had more costly water?

MS. MEISENHEIMER: Having come from the phone world -- my background is in telecommunications, and this was a big issue in telecommunications -- we had low density geographic areas where you'd have a very small calling scope, and so you would not get much value for the rate you paid.

In those instances, there was actually a mandate at the federal level and cooperation historically between companies in the state, to support, but it was more of an explicit support. And I'm not sure you have that at this point in water. I don't think you have an explicit statement that you should provide subsidy from --

CHAIRMAN CLAYTON: In the telephone --

MS. MEISENHEIMER: -- from one geographic --

CHAIRMAN CLAYTON: -- in --

MS. MEISENHEIMER: -- to another.

CHAIRMAN CLAYTON: In the telephone world, you have examples of areas that were low density in terms of population, but received incentives or support to actually build out into those areas, because --

MS. MEISENHEIMER: That's --

CHAIRMAN CLAYTON: -- they were not economically feasible from a -- from a telecommunications standpoint. Correct?

MS. MEISENHEIMER: Yes. And a two-way nature of service that more reasonably allocated the costs among both ends of the call, because both ends of the call benefit -- both the caller and the receiver.

CHAIRMAN CLAYTON: So do you think water is different; that basically, if you live out in a -- within a rural area, or maybe an area that's out beyond the reaches of corporate boundaries, and receives a subsidy for telephone service, that their -- their water service isn't subsidized -- pay a higher rate because it's more costly to get there?

Do you think that's good public policy that we subsidize or I did in the past phone service but not water or sewer service?

And I say subsidy in this instance not to have a universal service fund for water or sewer, but potentially you have subsidies that would come from including more customers in a bigger pot when -- when allocating costs.

MS. MEISENHEIMER: In this one, I think that there are actually -- you know, there are differences in costs between low density and high density.

In a low density, rural area, you may pay more for some services, like water, but you probably pay less, on average -- if you live in an urban area, you probably pay less for some things and more for other things.

You pay more for housing, you pay less for transportation, you pay less for utilities. I think it's an issue of that in different geographic areas, due to the characteristics of those areas, costs can differ. So I don't -- I don't -- I guess my answer would be no.

CHAIRMAN CLAYTON: Mr. Busch?

MR. BUSCH: Jim Busch from Staff. What's interesting about that -- that concept, though, is -- let's say you have a Missouri American or an Aqua America who owns this one system way out in the middle of nowhere, and they have the ability to subsidize or single-tariff pricing.

But you may have another situation where you just have some single provider, and those people are going -- there's nobody to subsidize them.

And so you're looking there at two very similarly situated customer groups, one because just by luck, a Missouri American or an Aqua or Liberty or some other big company who purchased them, those costs get spread out.

But, you know, this town right next door, sorry, nobody chose to buy you, so you're going to have to pay a lot more, even though the characteristics are a lot more similar to them than that small district compared to, say, St. Louis County.

CHAIRMAN CLAYTON: So it begs the question at that point: Is it good or bad public policy by using mechanisms such as going to a single or fewer tariff pricing, or consolidation of certain districts with larger companies, is it good public policy?

Do we want to be incentivizing these companies to be taking up these companies that are out there struggling, where you've got companies that have two half FTEs operating a facility, they're drawing five or six thousand out of it, for a hundred customers?

Is that -- do -- is that really a bad thing? You talk about -- I think you're suggesting that it's unfair to the small district in Aqua Missouri's territory that they be subsidized when someone right next to them -- maybe Osage Water or one of the other hundred or so companies that are out there -- should we be putting out incentives that allow for those customers to receive the same benefit?

MS. BAKER: If I can make a comment about this.

CHAIRMAN CLAYTON: What do you got?

MS. BAKER: My comment is, quite frankly, your public policy question is a little bit late, because I think your public policy question needs to be back whenever these systems are given their certificates to operate.

Because you know when they come in here and they give you an application to operate out while there is no -- is no infrastructure, there is nothing to support them, but yet they want to be out in the boonies, they want to be out where there is nothing else there, they want to build, they want to have 50 people -- you know that there's going to be a problem in the future.

So the public policy question is back at the point that these systems are certificated.

CHAIRMAN CLAYTON: So the sins of prior Commission -- I am just stuck with those sins?

MS. BAKER: I mean, certificates come through since you've been here, I mean, they --

CHAIRMAN CLAYTON: Believe me --

MS. BAKER: -- they are continuing.

CHAIRMAN CLAYTON: -- we've talked -- we're talking a lot --

MS. BAKER: I know.

CHAIRMAN CLAYTON: -- about those certificates --

MS. BAKER: I know.

CHAIRMAN CLAYTON: -- right now. And we look for -- we have to balance economic development versus -- versus these utility costs. We're trying to address that.

MS. BAKER: Right. Right. But your question of, is it -- is it against public policy, or is there going to be a problem in the future, also needs to come back into whenever these systems come in.

CHAIRMAN CLAYTON: I agree. I think my question -- and I'll get -- Mr. Kartmann, I'll get to you -- my question was: Is -- should we be working on a public policy today in light of what the Commission has done in the past, the problems that we face, the problems that we will face in the future?

Because ultimately, single-tariff pricing, I think, does encourage having these smaller systems that perhaps are not being subject to equal treatment. Maybe they don't have the subsidy, or they don't have the ability to be absorbed into a larger company.

Is it good or bad public policy today to be providing those incentives to pick up those smaller companies?

Let me start with Mr. Busch and come to you guys.

MR. BUSCH: I think single-tariff pricing is just one potential way of that public policy to encourage the larger companies to come in and start picking up these smaller utilities. I think that that would be one of those instances where Staff is moving towards thinking about maybe that's what we need to do, is if we can get a Missouri American or an Aqua or Liberty, or any of our other larger companies, to take a troubled system -- not just any system, and not just a system necessarily that some guy decided, I'm just going to take as much money out of this as possible, and then run from it.

But to -- those are the situations where Staff would look, you know, at the potential of putting those rates together with maybe another district to help encourage that to happen.

So I don't think it's a -- it's a -- it's not a bad public policy per se, but there are other, I think, public policies that could also encourage larger companies to take smaller troubled systems that are not necessarily single-tariff pricing issues.

CHAIRMAN CLAYTON: Okay. Let's go to Public Counsel, and then we'll go to the attorney for Aqua Missouri. Oh, wait a minute. You're not with Aqua Missouri. Go ahead.

MR. KARTMANN: I'm not an attorney either.

CHAIRMAN CLAYTON: He's more concerned with being called an attorney than being identified with the wrong company. Go ahead.

MS. BAKER: I mean, in the public policies you're looking at, those who are being asked to subsidize, no, they do not feel that that is good public policy. Those who are being subsidized, of course they're going to think that that's great public policy.

But whenever you -- when it comes down to it and you're asking the customer to pay for a service that they are not being given, that, to them, is not good public policy.

CHAIRMAN CLAYTON: Doesn't that happen today in, say, Ameren Missouri's service territory? Don't they have a single tariff, and the costs are completely absorbed among various districts around eastern Missouri?

MS. BAKER: The difference --

CHAIRMAN CLAYTON: Isn't that going on?

MS. BAKER: The difference between electric and -- a lot of times, and natural gas is you have a strong backbone that goes throughout the state, where electric is connected and it's connected all over the United States, whereas water is not.

Water sits by itself. You can have a system that's sitting out in the woods all by itself. It has no connection; it has nothing. People do choose to live there, they do choose to build there, and so it cannot be connected quite as much to the way Ameren works as what you'd like.

CHAIRMAN CLAYTON: How many customers -- how many customers contacts has Public Counsel had from the Aqua Missouri service territory, say, over the last 12 months? Do you have any idea?

MS. BAKER: We --

CHAIRMAN CLAYTON: Customers calling up, sending in comments to you, raising concerns, how many would you guess?

MS. BAKER: I --

CHAIRMAN CLAYTON: 500? 100? 1,000?

MS. BAKER: Well, since the last rate case, I mean, we had -- we had hundreds --

CHAIRMAN CLAYTON: And --

MS. BAKER: -- from the last rate case. And since then, we do get some for shut-offs and for problems with their water and problems with billing and problems with customer service.

CHAIRMAN CLAYTON: If you look at -- if you look at Scenario 1 on Appendix A-1, just the current water meter rates versus uniform rates, you've got four districts that would get not insignificant reduction by going to a single-tariff rate.

What do you think those customers think? Do you think it would be a good idea to go to a single-tariff rate?

MS. BAKER: I mean, they would not think that that would be so great if one of the other systems got a huge new treatment plant and they were --

CHAIRMAN CLAYTON: I understand.

MS. BAKER: -- asked to pay for it.

CHAIRMAN CLAYTON: I understand that. But just looking at these figures, they would get a reduction. Those customers would look at this fairly positively, wouldn't they?

MS. BAKER: There would be some who would -- who would benefit.

CHAIRMAN CLAYTON: There are some winners, some losers?

MS. BAKER: -- this time -- this time. Next time may be different.

CHAIRMAN CLAYTON: Right.

MS. BAKER: That's true.

CHAIRMAN CLAYTON: Maybe you -- maybe you --

MS. BAKER: But --

CHAIRMAN CLAYTON: -- maybe you get a benefit this time, and maybe -- maybe you don't get such a good benefit the next time. But isn't that the nature of smoothing out costs and sharing of expenses --

MS. BAKER: Well --

CHAIRMAN CLAYTON: -- make sure everybody can get service?

MS. BAKER: -- a 312 percent increase is quite a bit.

CHAIRMAN CLAYTON: They're paying $5 a month, compared to some people in this state paying $80 a month.

MS. BAKER: Right. But they don't have --

CHAIRMAN CLAYTON: Where are the --

MS. BAKER: -- the same --

CHAIRMAN CLAYTON: Where's --

MS. BAKER: -- they don't have the same --

CHAIRMAN CLAYTON: You see no --

MS. BAKER: -- infrastructure.

CHAIRMAN CLAYTON: -- nothing inequitable about that, at all?

MS. BAKER: I see that the rates that they have now are based on costs of the individual districts --

CHAIRMAN CLAYTON: So no --

MS. BAKER: -- the individual --

CHAIRMAN CLAYTON: -- there's nothing -- nothing inequitable about that, with difference in rate between someone paying 5 or $10 or $15 a month versus $75 a month? That doesn't cause you -- as long as it's specific cost to that district, that doesn't give you any heartburn or concern at all?

MS. MEISENHEIMER: That would give us concern, and it has in past cases. Again, the Missouri American is a case in point. Public Counsel was concerned about the potential -- potentially high increases.

And in -- on an individual case basis, we -- we participated in a settlement that brought those extremely high cost districts more in line, while trying to balance that with the urban districts not having to pay substantially more.

CHAIRMAN CLAYTON: We've been trying to explain this concept to some constituents up in the -- I think the Platte area, part of Kansas City, Parkfield, Riverside; have engaged political leadership; we've been getting numerous letters. Mr. Busch is aware of. We're trying to communicate. And I'll tell you, the message really doesn't get through. They don't believe these costs are that high.

MS. MEISENHEIMER: For that -- for that particular district, is that the one where they were using the residential usage that was probably not characteristic of an individual residential household, but was instead probably a multi --

CHAIRMAN CLAYTON: Well, they think we're corrupt and we're -- we got duped by the company. And, I mean, it's just -- they have a great lack of trust, because the rates have gotten so high.

And when they look at -- someone who is not even affiliated -- a municipality that's within 100 miles, and their rates are a third or less, it raises concern. Anyway, I won't get into that.

I want to give Mr. Kartmann a chance to --

MR. KARTMANN: Thank you.

CHAIRMAN CLAYTON: You raised your hand, so --

MR. KARTMANN: Yes. Yes. Thanks. Again, I'm Frank Kartmann with Missouri American Water Company. I guess, boy, I have a lot of things swirling around in my head that I've been listening to here that I want to respond to.

With respect to Christina Baker's comment about -- in my words -- the horse has left the barn on public policy, I -- and the discussion about, you know, we missed the boat years ago when this system was established; should it have been established in the first place?

What does that say for the customers of that system? That wasn't their choice. They had nothing to do with that. We may want to penalize or take a tough road with respect to the owner of that system, but that's not in the best interest of those customers.

Also, there were comments made earlier about investment, and maybe my word again, that single-tariff pricing might cause unnecessary investment to occur.

I think that is so far from the truth, because we make our investments based on the needs in our districts. We're building a new intake facility in Jefferson City. We're replacing pipelines in St. Louis county.

We're doing something different in different districts, because the needs of the district are different and we're investing what needs to be invested. It's not motivated by, gee, will this cause a 10 percent rate increase, or a 15 percent rate increase?

You were asking questions of Mr. Busch relating to the effect of, are the higher rates in the smaller districts? I would like to answer that for Missouri American. That answer is yes.

In Brunswick, our 411 -- roughly 411-customer system, they pay about $62 a month for 3,500 gallons. St. Louis, in contrast, pays about half that for four times -- no, for more than twice the water. So on a gallon -- per-gallon basis, you're talking four times the cost in Brunswick versus St. Louis County.

Hartville is -- also has high rates, at about $66 per month, and then -- which is a smaller district with about 5,500 customers. And then Warren County Water with about 330, 350 water customers, those customers pay about $65 a month.

All of our other districts, which are of various sizes but certainly larger than those, range from the upper 20s to the upper 30s dollars per month for water rates.

Also, I think there were questions about complaints and where do the complaints and comments come from in the district. Certainly, they come, in my experience, from the smaller districts with the higher rates.

Brunswick, we had a open house there in January of last year, and they came to complain about rates. We were there to try and show them what's driving the costs and what we're doing to provide them good service, but we got an earful about the rates.

We only invest what we have to there. And when a system is that small, there's only so much you could do managing the rates, unless you go to something like single-tariff pricing.

CHAIRMAN CLAYTON: When you were at that open house, were Staff and Public Counsel invited to that open house?

MR. KARTMANN: I don't recall. I don't think so. And that probably would have been a good idea.

CHAIRMAN CLAYTON: I don't know if it would have been. It would have been -- it would have caused these guys grief, is what it would have caused them.

I mean, really, what I have found is -- I mean, we're talking about relative unhappiness here. We're talking about, how unhappy are customers now, and do they have a right to be unhappy? And how unhappy would they be if you were to go to a single-tariff rate?

I mean, then you have to respond -- well, you're -- some are subsidizing others, some are being subsidized; some will believe it, some are not believing it.

And really, that's what regulation is all about, is relative unhappiness, because we're still raising rates. Even if we slash a rate increase, people are still not happy with it: Thanks for only raising my rates 10 percent, or 5 percent.

Did you have something you wanted to add?

MR. KARTMANN: Yeah. You asked the question, is it good public policy to hold specific customers accountable for high cost of water service? You gave the example of very expensive source of supply.

I want to go back to the Brunswick example.

And I think it's -- when we're talking public policy, we can very easily take too narrow a view. And we have to understand that not all of these small water systems are in the sticks, or, I mean, literally in the woods.

Some of them are in farming communities, like Brunswick. That farming community depends -- the farming -- the greater farming area depends on that community. We depend on the farming industry in this state.

If we take a broader public policy view, I think it's easier for us to understand the value of making rates affordable in small systems that provide an economic foundation for a rural region.

CHAIRMAN CLAYTON: Interesting point.

Let me ask Public Counsel this question: Does it matter to Public Counsel if you're talking about a potential subsidy, or maybe just cutting somebody a break on rates, if --

Does it matter to you whether the community is, say, a whole town, like Brunswick -- which is there, probably incorporated in the 1800s, it's been there -- versus a subdivision created 30 years ago with a bunch of, you know, small ranch or bungalow houses of some retirees that moved out to a subdivision?

Does it matter in terms of the question of whether a community or a subdivision is more entitled to assistance or a subsidy?

Using an example such as Brunswick versus, say, Aqua Missouri, that may have subdivisions that are not really incorporated communities, is that -- is there any difference there?

MS. MEISENHEIMER: I mean, when we negotiate and look at the cost and the rates that are to be proposed, we certainly have in our minds -- I mean, I've been to Brunswick for public hearings; I know that area -- that geographic area.

And, you know, we don't come to the table with a clean slate about what is involved in the community. I have a sense of varying income levels across the state and those kinds of things.

So the issue of affordability based on income, I would say that that's something that I've taken to the table with me as a consideration in negotiating what the rates ought to be in different areas.

Whether the community itself is being -- is the only customer served, or whether there might be a -- other water districts that buy in that district, I think that can have an impact as well on to what extent we would be comfortable subsidizing all classes in a particular district.

So I think we take into consideration a

number of factors, and it varies based on the district and based on the company.

CHAIRMAN CLAYTON: Let me ask Staff this question. I want to go -- I want to talk about, if possible, the Missouri American circumstances, and a little bit of history. This was before all of our time, the sins of a prior Commission. Not the sins of this Commission, but the sins of a prior Commission.

Basically, you had a circumstance in 2000 or 2001 where you had multiple districts within the Missouri American family that were converted into a straight single-tariff rate; is that correct? Was it a straight single tariff?

MR. BUSCH: No. I believe in the '90s --

CHAIRMAN CLAYTON: '90s. Yeah, I don't --

MR. BUSCH: -- it was -- it was -- they were moving towards a single-tariff rate, and -- but I don't believe it ever got to single-tariff, from what I understand. It -- it was a little bit before my time, but I don't --

CHAIRMAN CLAYTON: Jim is -- sure. We've got to bring in the big guns. I mean, we've got to bring in the reinforcements.

MR. MERCIEL: You mean the old timers.

CHAIRMAN CLAYTON: I wasn't going to say that, either. We've got a policy around here.

MR. MERCIEL: Just historically, that was Missouri Cities Water Company, which is -- American has since acquired. They're the ones who went to single-tariff pricing in the '90s. It was phased in over, I don't know, maybe three or four rate cases, but it -- it did get to fully single-tariff pricing.

CHAIRMAN CLAYTON: And was that the same entities that are in the Missouri American family today?

MR. MERCIEL: Five of them, yes, including Brunswick.

CHAIRMAN CLAYTON: Did it have St. Louis County in it?

MR. MERCIEL: No.

CHAIRMAN CLAYTON: So the move to single-tariff was not -- it didn't have the -- it didn't have a big number of customers out of St. Louis County?

MR. MERCIEL: No. It did not. It was -- it was -- St. Charles was the biggest one. St. Charles was --

CHAIRMAN CLAYTON: St. Charles --

MR. MERCIEL: -- was the biggest one.

CHAIRMAN CLAYTON: -- Jeff City, Joplin --

MR. BUSCH: No, no, no. Not Jeff City. Jeff City was not --

MR. MERCIEL: St. Charles, Mexico, Brunswick, Warrensburg, and Platte County.

CHAIRMAN CLAYTON: Joplin and Platte County.

MR. RUSSON: Joplin in there?

MR. MERCIEL: No, not Joplin.

CHAIRMAN CLAYTON: Okay. Then that was -- so that was the move -- that's what really caused --

MR. MERCIEL: Yeah.

CHAIRMAN CLAYTON: -- the most controversy?

MR. MERCIEL: And it was also Brunswick that kind of started this one, when they built the plant there. That was very financially traumatic. It was an older plant, basically obsolete; it had to be rebuilt. And that's what caused the rates to really spike in Brunswick.

And that was one of the driving factors to go to single-tariff pricing.

CHAIRMAN CLAYTON: Okay.

MR. MERCIEL: So American kind of inherited the single-tariff pricing concept when they acquired Missouri Cities Water Company.

CHAIRMAN CLAYTON: When was that? How soon after that -- go ahead.

MR. KARTMANN: They bought them in '94.

MR. MERCIEL: Okay. '94. I will find out later. American was Joplin and St. Joe at the time, where St. Louis and Jeff City have since been added.

CHAIRMAN CLAYTON: So Missouri American didn't actually do the move to single-tariff pricing? I thought that it did.

MR. MERCIEL: Correct. No, it was Missouri Cities Water Company.

CHAIRMAN CLAYTON: So it was Missouri City. So was there ever a single tariff for Missouri American or was it just a single tariff for the Missouri City, and then you had other rates --

MR. MERCIEL: They --

CHAIRMAN CLAYTON: -- for the --

MR. MERCIEL: Right. They -- they -- they acquired Missouri Cities, which had single-tariff pricing among those particular districts. And let me think. I'm not sure if -- I can't remember if they actually went to full single-tariff pricing or -- I don't think they ever went there for all of American's. I think we got away from it in 2000.

CHAIRMAN CLAYTON: Well, then there was a subsequent rate case that said, well, we're going to back off single tariff, and went back to kind of a modified --

MR. MERCIEL: Right.

CHAIRMAN CLAYTON: -- district-specific is what I recall.

MR. BUSCH: That was --

MR. RUSSO: -- that was the --

MR. BUSCH: -- the 2000 case.

MS. MEISENHEIMER: There was flash cut to districts.

CHAIRMAN CLAYTON: Yeah.

MR. BUSCH: The WR-2000-281 case where it was St. Joe's plant --

MR. MERCIEL: Right.

MR. BUSCH: -- was what it --

MR. MERCIEL: I call it the St. Joseph rate case. That was when the St. Joe plant got built.

CHAIRMAN CLAYTON: So St. Joe and Joplin and St. Charles didn't want to pay for St. Joe's plant, and --

MR. MERCIEL: Right.

CHAIRMAN CLAYTON: -- so we kind of went back to a hybrid. It -- because it didn't go back to straight district-specific.

MR. MERCIEL: It was as close to straight district-specific as we could get, but Brunswick was still out there. And what it amounted to is Brunswick got subsidized.

CHAIRMAN CLAYTON: They were getting subsidized. But somebody was paying more in.

MR. BUSCH: Joplin was -- I think showed

some -- that they were probably overpaying a little bit, and --

CHAIRMAN CLAYTON: St. Charles?

MR. BUSCH: -- the Commission decided not to lower Joplin's rates at that time --

CHAIRMAN CLAYTON: Okay.

MR. BUSCH: -- to the discomfort of Joplin.

CHAIRMAN CLAYTON: Now, Joplin has since gotten a new plant?

MR. BUSCH: Yes.

CHAIRMAN CLAYTON: Added new costs into the system. So is there a way to calculate, if we would have been at a single tariff, where would -- where would St. Joe have stood -- where would they be standing, where would Joplin be standing, where would Jefferson City be standing if we -- if the Commission would have just stuck with a single-tariff rate, or gone to a single-tariff rate?

MR. BUSCH: Well, I think that's tough, and I'll let anybody else kind of fill it in, but --

CHAIRMAN CLAYTON: Brunswick's costs would have been shared with everybody; St. Joe's costs would have been shared; Joplin's costs would have been shared.

MR. BUSCH: But you also added St. Louis County in, I think, 2003.

CHAIRMAN CLAYTON: Which would have probably been --

MR. KARTMANN: 2000 -- 1999.

MR. BUSCH: Okay. So shortly after that, you added St. Louis County.

MR. KARTMANN: But they were -- St. Louis County was not a part of that 2000 rate case.

MR. BUSCH: Right. They're not part of -- so subsequently, you would have had 300,000 customers or so in the St. Louis area, which would have -- that would have had impacts, as well, so I think it would be very difficult to show where the St. Joseph rates would have been over time, when you added St. Louis County, you added Jefferson City. So --

CHAIRMAN CLAYTON: So -- and many of us went out and saw where the new intake thing here in Jefferson City -- so Jeff City is getting its investment right now.

MR. BUSCH: Yes. It is.

CHAIRMAN CLAYTON: So Mr. -- we heard discussion about shock in Brunswick with the new treatment plant. We got shock that came out of St. Joe.

MR. BUSCH: But we --

CHAIRMAN CLAYTON: The idea with this single tariff is that if everybody would have had it -- been sharing in the cost, then there never would have been a huge spike on anybody's rates.

And I guess responding to that specifically, is that bad public policy, when everybody is going to have needed investment?

And now you got Jeff City that's got, I think, lower than average in the family, but they're going to have a spike with this intake thing. Doesn't it make sense, assuming that everybody's going to need investment, that -- to smooth that out?

MR. BUSCH: I guess it depends from Staff's perspectively -- at least, from my perspective -- there is some sense to that, but there's also some sense to, if I can enjoy paying lower rates for five years, then I have to jump up, I get the benefit of having those dollars today to spend on other needs and other goods and services.

So I don't necessarily -- you know, maybe I don't mind paying, you know, a higher increase in my rates because I enjoyed the lower -- the benefits of having lower rates up until when I needed it.

So to make a blanket statement that it's better off, somebody may not be -- somebody may prefer to have those dollars. I mean, I'm not saying they're going to invest and then come out equally. I'm not, you know, trying to make that argument, you know.

But, you know, some people may say, I prefer as low rates as possible, and I'll take my chances with a larger increase at some time in the future.

CHAIRMAN CLAYTON: Do you all want to offer anything to that? Nothing new.

MS. BAKER: I guess I'd just say --

CHAIRMAN CLAYTON: Ms. Baker's going ot get on me, here.

MS. BAKER: It's not black and white. You're not going to be able to say one is public policy, one is not. You're not going to --

CHAIRMAN CLAYTON: Well, wait. When you say "one is public policy and one is not" --

MS. BAKER: One is good public policy, one is bad public policy. You're not going to get that from either single-tariff pricing or district-specific pricing, because there are good things and there are bad things in both.

CHAIRMAN CLAYTON: So there -- it's relative unhappiness, and Public Counsel believes that it's going to err on the side of just everybody paying their own way?

MS. BAKER: That's right.

MS. MEISENHEIMER: You know, I don't want our position being mischaracterized or oversimplified.

Certainly we have indicated in the past that we primarily support attempting to do district-specific pricing; however, Public Counsel in the past has proposed phase-ins to get there.

We have proposed support for certain districts under certain circumstances. And so I think that Public Counsel takes a more gradual approach to it, and does have a concern for affordability and avoiding rate shock. So I don't want us to be characterized as --

CHAIRMAN CLAYTON: Fair.

MS. MEISENHEIMER: -- on the district-specific in all cases. We're not on that bus entirely.

CHAIRMAN CLAYTON: I understand. I understand. And I appreciate that clarification.

THE COURT REPORTER: Sir, can I get your name this time?

MR. MERCIEL: Yeah. Judge -- and you can -- and Chairmen, my name is James Merciel. I'm in the water and sewer department of the Staff. I just want to make a clarification.

I think I told you that Missouri Cities went completely to district-specific pricing. That may not be the case.

We were kicking around some facts, and I think what happened, Missouri Cities did start the concept, but American may have acquired the company before we actually got there. As I said, it was a phase-in over several cases.

CHAIRMAN CLAYTON: I remember that. The heat was on Missouri American. I -- I mean, being across the street. I just remember it being focused on that company and not the older one.

MR. MERCIEL: Well, they -- it -- at least, American did acquire what Missouri Cities did, and they may have finished the complete process. So I just wanted to make that clarification.

CHAIRMAN CLAYTON: Were they British or German at that point?

MR. MERCIEL: They were American at that point.

COMMISSIONER CLAYTON: I'm not sure. I'm not sure.

MR. MERCIEL: I think it was German later on.

CHAIRMAN CLAYTON: Yeah. Mr. Kartmann, go ahead.

MR. KARTMANN: Maybe I misunderstood your question, but a few minutes ago you asked the question, Where would rates be today if we had single-tariff pricing?

In the Joint Report on Cost of Service, if you look toward the -- was it the third-to-last page in that -- the far right column shows you what rates would be, and the adjacent column to that shows what they are per the stipulation.

MR. BUSCH: Right.

MR. KARTMANN: And I guess to counter Jim Busch's point about, you know, would I rather have five bucks in my pocket now to do with what I want --

MR. BUSCH: Something like that.

MR. KARTMANN: -- I just want to point out that if we shifted from the stipulation to single-tariff pricing, St. Louis County customers would see a $1.20 per month increase in their cost for water service. That seems very reasonable to me.

CHAIRMAN CLAYTON: $1.20. And everybody else would --

MR. KARTMANN: Go down.

CHAIRMAN CLAYTON: -- would drop.

MR. KARTMANN: Except St. Charles -- the other part of that St. Louis Metro district; they would go up $1.81. But to me those are both reasonable, and certainly in the interest of public -- public policy.

CHAIRMAN CLAYTON: In all candor, I remember going through the last Missouri American rate case, going to the local public hearings, going out, which we were trying the new outreach program and educating people, and really trying to explain this stuff.

But I remember this -- is this the exhibit that we had? This is an -- this is similar to the exhibit that was handed out at the hearing. I'm not sure if this is the same one.

MR. BUSCH: I think -- yeah, it's the same one.

CHAIRMAN CLAYTON: Basically, it had Staff's recommendation on the rate, and it was looking down at Staff's recommended rate, which I think was district-specific, for Warren County Sewer.

MR. BUSCH: Yes.

CHAIRMAN CLAYTON: And it suggested that the district-specific cost for Warren County Sewer would be $173.20 per month. And, you know, if we're talking about district-specific -- I mean, the question was: Is that really good public policy, for those folks in Warren County?

Maybe it's their fault for living -- I mean, I don't -- I don't spend time in Warren County. But $173 per month was stark. So obviously that this the threshold that suggests that that's not fair and we need to do something about it.

And, you know, there are some other areas -- you know, Brunswick ought to be around $100 per month; there's some other -- this isn't an HC document, is it? It's a public document. Right?

MR. BUSCH: Yeah. It's public.

CHAIRMAN CLAYTON: So, I mean, it just suggests that we ought to be looking at different options, because when I was at a local public hearing in Mexico, I remember asking former city official, educated person -- and I asked him the question, and he said, we don't want to pay more, and, we want to pay our own way.

And I said, Well, let me ask you a question, here. Warren County customers are paying $173 a month. You're mad over -- was it $34? They had a -- they had a 12 -- what was it? A -- it was less than a dollar increase. 33.23 going up to 34.21 -- it was 98 cents' increase. Warren County was facing a 300 percent increase.

And I asked the gentleman, I said, Do you think that's fair? He said, as long as we don't have to pay more. And I know we have to deal with those issues with customers, and we have a responsibility at educating.

But I think everybody agrees that that fee is just out of whack and is inappropriate. I'm going to stop asking questions and defer to my colleagues. I may have come back. I -- is Aqua Missouri even here?

MR. SZCZYGIEL: We're here.

MS. JOYCE: We're in this row.

CHAIRMAN CLAYTON: Is there anything you all want to add? I apologize for -- I didn't mean to leave you out of the equation. Is there anything you want to add before I turn it over to my colleagues?

MR. SZCZYGIEL: Well, first of all, not to flatter you, but this has been a fascinating conversation, because I personally have lived through basically two states that wrestled with this with us, in Florida as well as in Virginia.

In addition to that, we have continued to move forward towards standard tariff pricing in North Carolina, Pennsylvania and other states.

So I, first of all, find this very, very fascinating, that we're having a discussion before a rate case where we can kind of get different opinions and different ideas out on the table.

I agree with Mr. Kartmann that our practical world is not one of over-investing, it is just being able to afford to make investments without dramatically increasing rates.

When we do our five-year capital planning -- and, I mean, we -- I -- I'm in finance, but I literally go out to the field, meet with the operators, look at the facilities -- we have to limit them, because, honestly, we can't afford the rates. We do our rate modeling, and we see that our rate modeling wouldn't permit it.

In Florida, we had systems just like -- our wastewater systems had an operating cost that was going to go well over $100 a month. Each state has dealt with this on a different basis.

But the one consistent theme that we've seen that basically anchors you into success is at first you establish a single cost of service, because that allows the utility the flexibility to put the dollars where it needs to put them, when it needs to put them.

The tariff design and the migration to a -- what may be a final single tariff, may be a tiered tariff -- these things are the elements that have taken us anywhere from ten years, fifteen years, to just a few years. And that's just based upon perhaps the facts and circumstances of the operating characteristics of the systems we have here.

We operate in these states similar to what you've talked about here -- many, many small systems. In states where we have a few large systems, they may be carved out of separate cost of services. So everybody has kind of dealt with this issue based upon the facts and circumstances here.

I find that for Aqua Missouri, with 3,800 customers spread over many systems, and the unpredictability of where the requirements for the investments are, I would be a very strong advocate of moving towards single-tariff pricing as soon as possible.

Kim, do you have any comments?

MS. JOYCE: Yeah. I just wrote down a couple of notes and thoughts as the conversations were taking place. I heard some concern, as Stan mentioned, and Mr. Kartmann, about over-investment.

And also, as you move to a consolidated tariff, that you can't see costs. I think for Aqua Missouri -- I don't know if everybody is aware -- but we file our rate cases under a single water and wastewater tariff. So the Staff literally puts those cases together.

And if we consolidate and move to a single-tariff, we would still file under those requirements. They review each and every invoice; they review all the capital projects.

So to say that you can't see the costs or they're hiding costs, I don't think that's true at all, particularly when you have that mechanism for small water and wastewater cases like we do here in Missouri.

And, you know, we have instances where we have larger consolidated cases, and we have some cases that have single-district pricing. The level of scrutiny remains the same, and the level of detail that we provide regulators and consumer advocates is the same.

So to the extent that that's a reason or a policy reason for why you might not want to go that route, I think there is arguments to the contrary.

Someone mentioned that, you know -- this going this indirect -- this sort of direction, it's sort of too late. I think what's happened is 40 or 50 years ago, there was a policy decision in the electric and gas and telephone industry, we're going to go to single-tariff pricing. And that largely came from FERC or the FCC.

Here, water and wastewater, it's a state issue. The Commissions are the policymakers. You can do that at any time. You could have done it 50 years ago, and you can do it today. It's just a timing issue that's within your discretion.

I think the differences are, it's 50 years; people said, let's go this way in electric and gas. And there's really nothing prohibiting you from doing that in the water and wastewater industry going forward.

And the last thing -- I think the consumer advocate talked about, you know, this backbone; there's an electric backbone, there's a grid, there's a larger grid, and on the gas side -- you know, for public policy reasons, as a state, I think you, as commissioners, want to create a healthy water and wastewater grid for the future.

And I think the only way you can do that is through single-tariff pricing. If you want to encourage larger utilities -- American, just not Aqua -- any utility from coming in and investing in those smaller and troubled water systems, in our view, the only way you get there is through a consolidated rate structure and single-tariff pricing.

I'm not aware of any other mechanisms out there that would get you to that place, where you have a healthy, strong water and wastewater system throughout the state, and not just in certain pockets.

MR. SZCZYGIEL: Can I just make one last comment? Along with the single cost of tariff, I just want to also emphasize, one of the other elements that we've had in each state -- and we totally agree with it -- is that we maintain our CPR -- our asset records at a system level, so they can be reviewed for pudency.

It's not like they're lumped together. Each asset record is assigned to its specific location, and the staffs or the appropriate engineering groups can come in and make investment -- analysis and investment, or the audit staffs could come in and vouch appropriately to make sure the assets are appropriate, not over-investing, or what the activities may be.

CHAIRMAN CLAYTON: Judge, I'm going to stop right now. I have more questions, but I'm going to let my colleagues -- if they have any questions.

JUDGE STEARLEY: Commissioner Davis? Commissioner Jarrett?

COMMISSIONER DAVIS: Commissioner Jarrett?

COMMISSIONER JARRETT: Go ahead if you have any questions. Or I can go if you don't.

COMMISSIONER DAVIS: Go ahead.

MS. BAKER: Your Honor, can --

COMMISSIONER JARRETT: Go ahead.

MS. BAKER: -- I make a statement? I know that it's going on 4:30. I have an expert who has to leave at 5:00, so --

JUDGE STEARLEY: All right. Which expert?

MS. BAKER: Ms. Meisenheimer.

JUDGE STEARLEY: Ms. Meisenheimer.

MS. MEISENHEIMER: I have a class. I have a class tonight.

JUDGE STEARLEY: Mr. Robinson is here as well.

COMMISSIONER DAVIS: Robertson.

MS. BAKER: Robertson.

COMMISSIONER JARRETT: All right. Well, thank you, Commissioner Davis. Thank you, Judge.

I wanted to explore, I guess, the last point that Ms. Joyce was talking about, was -- I think one of the big things we're seeing in the last couple of years -- have seen in the last couple of years is some of these troubled water companies coming in, some going into receivership.

What would be the effect of single-tariff pricing -- I assume it would be for companies like Aqua, Missouri American -- to take over some of those troubled companies; is that correct? It would be more of an incentive under a single-tariff pricing for --

MR. KARTMANN: Yes.

MR. SZCZYGIEL: Yes.

MS. JOYCE: Yes. Yes, Commissioner.

COMMISSIONER JARRETT: All right. And what are some of the impediments between the specific district pricing that would cause you not to be able to do that?

MS. JOYCE: I can start off. I mean, I think if we do not -- well, I'll take the example: If we do have a consolidated revenue requirement and one single-tariff price, what we can do is we can -- and we're usually working in cooperation with the regulators and the consumer advocate when we've identified a particular troubled system.

What we can do is bring that particular system into the larger company. They can either maintain the rate that they're currently with, or they can move up to sort of the main division's consolidated tariff price. But that -- say it's a 1,000 customer system.

If we don't have a consolidated rate or consolidated rate structure, that is literally like taking on a separate company into the fold, if you will. There would be separate accounting requirements for that separate company; you know, separate pay structures.

It's adding on a significant amount of cost, and you're just multiplying your costs by adding separate corporate entities under the fold. So if you have a consolidated revenue requirement, you can bring that system in quicker, easier.

If there are capital improvements that you can be -- need to be made, you can do them quickly and more efficiently, rather than keeping that troubled system as a separate entity and having to file its own rate case, you know, right off the bat.

Stan, you can probably talk a little bit more about the accounting.

MR. SZCZYGIEL: Well, not just the accounting, it's, again, taking some experiences that we have in both North Carolina and Virginia.

In Virginia, when we do an acquisition of a troubled company, again, it's also the staff of the Commission working together to try to solve a problem.

In Virginia, they're very willing to basically migrate to pricing without a rate case. So in other words, they may give us existing prices immediately. And again, we have to notify the customers. At the time, they can have their say to the Commission. Or there might be a phase-in, as Kim indicates.

However, in the next rate case, they are a part of the cost of service, they are a part of the revenue requirement. And if they continue to receive a subsidy, that subsidy honestly is carried on by the next group of people.

In North Carolina, it's a little bit different. They basically say, You can acquire a troubled company, but you won't get the rates until the next rate. They have to stay at their existing rate until that time.

But they do give us an incentive. They give us an incentive that might be equal to one times the purchase price, plus the capital improvements that we have to make as a bonus to our rate base. That's our incentive to get there. And I think that's -- there's similar incentive mechanisms in Pennsylvania, as well, if I'm correct. I just don't them specifically.

So each state, again, kind of gets there in a different way, but they basically want the large company to solve these problems and create a platform that's both beneficial to the company as well as to the ratepayer.

COMMISSIONER JARRETT: Mr. Kartmann.

MR. KARTMANN: And can you state your question again, please?

COMMISSIONER JARRETT: Well, I just was exploring, you know, if single-tariff pricing versus district-specific, you know, what are the impediments for you if you want to acquire a company under district-specific pricing versus if you had the single-tariff pricing?

MR. KARTMANN: Yeah. Well, Kim and Stan make good points. In addition, I would say that, you know, under district-specific pricing -- I think Kimberly Joyce said this -- that you're essentially taking in a separate company, and if it needs investment, and it's a small system, which most in Missouri are, the rate -- you could drive the rates to an unaffordable level.

If public policy has any merit here at all, it would kick in in that scenario.

If you -- just a twist on your question, if you had sort of a hybrid of single-tariff pricing, say, a system near or adjacent to Brunswick, and the Commission said, hey, why don't you roll those two together, there probably wouldn't be much benefit there, because they're both small systems.

And if you made an improvement, you're not spreading those costs over a large enough customer base to really mitigate the rate increase substantially.

COMMISSIONER JARRETT: All right. Ms. Meisenheimer, do you have anything you'd like to say about that?

MS. MEISENHEIMER: Well, I mean, Public

Counsel does recognize that there are pros and cons on both sides -- of both sides. And I think the Staff did a good job of pointing those out in the brief that's been made a part of this case.

And I just don't -- I don't know that there is a really cut-and-dry way to take care of this. I think that those considerations that the companies raise, as well as the issue of, what about St. Louis?

Should they have to pay $1.20 extra to support the companies that are -- or the districts that are being supported now? And going forward, how many more will there be? Is it a $1.20, now $1.50, now $2,00? Where is a reasonable place to stop for the areas that are paying subsidy?

So it -- I don't think it's -- there's an easy answer for you, and I think the case-by-case is the best place to be considering it, and not to take a hard-and-fast policy until you look at the individuals facts and the individual cases.

But I do think it makes sense to take a look at, are there changes that could be made to the cost allocations so that you get a -- you can get a better idea of what range can you reasonably believe the costs fall into. And that gives you more leeway in terms of what are reasonable rates based on cost?

COMMISSIONER JARRETT: Mr. Busch, I had a question for you.

MR. BUSCH: Could I respond to that --

COMMISSIONER JARRETT: Oh, sure. Absolutely.

MR. BUSCH: -- Commissioner?

COMMISSIONER JARRETT: Yeah.

MR. BUSCH: I heard Ms. Joyce talk about, you know, a little bit with like, we have to have different pay structures, a whole different corporate entity.

I don't necessarily agree that that's true, because you could -- you know, we have situations where some of our larger companies do purchase the smaller systems; they purchase the assets. That company comes in, or that -- they become a part of that district.

You know, those -- the costs in providing service, you know, they're going to have the same people or similar people providing those costs -- or those services and stuff.

So I don't -- whereas I do agree there might be some differences in cost, I think some of those kind of -- they become a part of the overhead cost; they just need to be allocated to the different districts.

And the last thing I'd like -- I'd like to say, for my own benefit, I've gone through all the tariffs for the water and the sewer companies that we have here in

Missouri that we regulate, and I've kind of -- pretend like -- if every customer in every district used 5,000 gallons of water or used a flat bill for the sewer, and I kind of ranked them.

Invariably, Missouri American and Aqua Missouri are at the top of the list for having the highest rate on a 5,000 average customer, be it water or be it sewer. So even though they're going to -- might get some of these smaller systems -- even if you do it at a single-tariff rate, they're still going to have some of the higher rates in the state.

Now, they might have better service. And I as an -- you know, I'm an Aqua customer. I don't go to bed at night worrying if something goes wrong with our sewer, because I know they'll be out there, they'll fix it.

Where some of our smaller ones, that's what caused me to lose my hair, because I know they're not going to be able to fix it anytime soon, and it's frightening.

So, you know, I don't -- you know, I'm okay paying a little bit more knowing I've got a company like Aqua that's going to be there to help, you know, solve it -- or Missouri American. You know, we had a couple of main breaks today, and they were on it; they were getting them fixed.

You know, we don't a get call with one of the smaller systems, like, Oh, we just -- we got a major outage, how we going to fix it?

You know, so -- but this thing about that the rates are going to be less -- they might be less on the Missouri American side, because they -- they've got 300,000, 400,000 customers in St. Louis to spread those costs around.

Other systems, they don't have that big player in the middle to take in some of those allocated costs; they're still going to have high rates.

You're not going to solve the problem of having lower rates. What you're going to solve is the problem of that one system may have a 10 percent increase instead of a 30 percent increase.

But it's still going to be 40, $50. It's still going to be at the high end of the rates in the state compared to, you know, the smaller systems.

Now, there are some -- like I said, there are some benefit to that higher rate, but it's not like we're going to get the lowest rates in the state if Aqua or Missouri American necessarily has a single-tariff rate.

COMMISSIONER JARRETT: Thank you. My question is going to be, to you, Mr. Busch. As far as staff time, staff duties, that type of thing, if we have single-tariff pricing, would that change the way you do business in your department in any way; how you evaluate the companies, anything like that?

MR. BUSCH: In water and sewer it wouldn't, because we look at -- we're looking at the pipe in the ground.

It would help a little bit for, like, tariffs when we get a call about a bill, you know, for assisting the consumer services group; it will help us just that there's just one rate. We don't have to worry about, Okay, you're in which district, so which rate is that? That would help a little bit. But, I mean, that's miniscule.

The bigger benefit to staff would be in the auditing department, if we only had to deal with doing, you know, a single tariff rate for Missouri American rather than the, what, 11 or 13 districts that we do now. I'm sure that's going to be a little bit.

And then we do our class cost of service studies before the big rate cases. The day-to-day activities in the water and sewer department, it's not going to impact how we do business at all.

COMMISSIONER JARRETT: Okay. And Mr. Dearmont, I wanted to talk to you a little bit about your legal analysis -- I appreciate that very much -- in your brief.

MR. DEARMONT: Yes, sir.

COMMISSIONER JARRETT: Could you just talk a little bit about whether or not moving to, like, blanket single-tariff pricing, whether we could do that or whether you could do it case-by-case --

MR. DEARMONT: Sure.

COMMISSIONER JARRETT: -- based on our statutes --

MR. DEARMONT: Sure.

COMMISSIONER JARRETT: -- statutory structure?

MR. DEARMONT: I can -- I can certainly try to do that. And I appreciate the question, because I think that we've spent the majority of the afternoon discussing policy, which is important and definitely necessary, but there also are legal ramifications of these decisions.

And Section 393 -- excuse me -- 130, I believe, is the statute that in Missouri prohibits undue or unjust prejudice or discrimination, as I have been referring to it.

I hate to point out problems without solutions, but discrimination has been reviewed by the courts a very few times, in limited circumstances, and they really haven't provided the Commission, or Staff, for that matter, with cut-and-dry principles, what -- the factors that can lead to undue or too much discrimination.

So having said that, I think it is safe to say, however, that an analysis and a review of those cases shows that there are certain circumstances in which any discrimination can cross a line. And that's important, I believe, to keep in mind.

So having said that, like Mr. Busch doesn't have a bright-line number to provide you as far as when a recommended rate increase is good or bad or falls in a gray zone, I don't have a bright-line test to provide you as far as what constitutes permissible discrimination or impermissible discrimination.

I would just hammer home the fact that my opinion is that, first and foremost, it's the duty of the Commission to set just and reasonable rates. So the ultimate end product, bottom line number has to be just and reasonable.

And should the Commission decide to make a policy decision to move from a more district-specific focus to one that's more single-tariff in nature, I think that it would be in the best interest of the Commission and the best interest of that report and order to be founded upon, based upon a multitude of facts, be it this policy discussion or other legal factors in order to promote the sustainability of that decision -- if that makes sense.

And that's what I personally took away from the 2000 Missouri American case. Any time that I asked about this on Staff, they always say, Well, let's look at the 2000 Missouri American case; look at the 2000 Missouri American case.

I started at the beginning of it and worked through the end of the eight years of litigation that were involved in that case, and I personally took away very little from it, as far as guiding principles.

What I did take away from it is that if the Commission wants to make these decisions in the future, that those decisions must be justified; they must contain adequate findings of fact to justify difference in prices based upon difference in service costs, if that makes sense. So --

COMMISSIONER JARRETT: All right. Well, thank you. I don't have any further questions. Mr. Kartmann?

MR. KARTMANN: Could I follow-up on your earlier question -- maybe your first one -- about the difference between district-specific versus single-tariff pricing and what are the advantages and disadvantages of each? Can I --

COMMISSIONER JARRETT: Sure.

MR. KARTMANN: -- further comment on --

COMMISSIONER JARRETT: Absolutely.

MR. KARTMANN: A real-life example occurred to me from a couple of Missouri American cases ago, when we built additional wastewater treatment capacity at the Cedar Hill wastewater system in Jefferson County that we acquired in the 2004/2005 time frame.

We were being told by the DNR, another regulatory agency, that we needed to create additional capacity because no new building permits -- they wouldn't authorize any additional customers on that system until we added capacity.

So we added a very small increment of mechanical treatment capacity, yet in the course of that rate case -- and I invite James Merciel to counter me if I'm getting this wrong, but I think I'm correct -- Staff was taking --

COMMISSIONER JARRETT: I think he's gone, so you can say whatever you want.

MR. KARTMANN: Well, maybe Jim Busch remembers. But I believe Staff was taking the position that while it was considered a prudent investment, it was just too much to ask those customers to pay.

Well, what is an investor in wastewater utility to do in a case like that, when they have to -- they have to serve -- they have to provide -- they have to facilitate the addition of customers and the provision of wastewater service.

The DNR is requiring it. But we're being told, it's prudent; it's just too much for these people to pay. I guess that gets back to the public policy issue again.

COMMISSIONER JARRETT: Well, thank you. I appreciate it. I find it fascinating, as well. This has been a very good discussion, and I thank you for all -- all of you for participating today. Thanks.

JUDGE STEARLEY: Before we continue here -- we've been going about two hours, and I'd like to give our court reporter a break, and everyone else a short break. And I know Ms. Meisenheimer is on a time line here.

So before we take a break, are there any additional questions for Ms. Meisenheimer? And we'll take those up now, and then we'll take a short break.

CHAIRMAN CLAYTON: How many questions -- how much do you have, Jeff?

COMMISSIONER DAVIS: You know, I'll probably have about maybe ten or fifteen minutes.

CHAIRMAN CLAYTON: And I've basically got three questions and I'm done.

JUDGE STEARLEY: Okay. Well, in that case, any questions that need to be directed to Ms. Meisenheimer at this time?

CHAIRMAN CLAYTON: Yes.

COMMISSIONER DAVIS: Go ahead with the chairman.

CHAIRMAN CLAYTON: Basically, I'm going to just run through the rest of my questions here. I was going to ask a question, why we have differences in usage, but I think I can follow up with that in another forum.

I want to ask Ms. Meisenheimer and Staff whether there would be value in taking this discussion, some simplified analysis and going on the road, say, in Aqua Missouri's territories, and presenting alternative solutions in terms of pricing to get customer feedback -- not to sell anything, not to sell -- not to try to convince anyone or persuade anyone.

Would there be value in taking the conversation on the road, outside of a rate case, holding local public hearings to solicit feedback from the public, and also use it as an opportunity for education on what we do? Is there any value, or would that be a waste of our -- everybody's time?

MS. MEISENHEIMER: I think there's some value. The Commission, in the past -- I believe it was with gas prices, when gas prices were going to be unusually high, the Commission went around the state with certain of its staff members and informed the public about the upcoming anticipated prices, and it was -- I believe you did it on a geographic basis. And I thought that was very helpful in informing consumers.

I think, also, there might be benefit in having some public meetings where you have community leaders that are informed about, why do we have these differences if -- and maybe they get calls before the Public Service Commission does.

CHAIRMAN CLAYTON: Confronting communities that would receive, you know, 43 percent reductions in their monthly cost, and even confronting communities that have the 320 -- you have the 312 percent increase in costs; talking about it, talking about needed infrastructure investments, and at least having -- is there value in that? I mean, and I think you said yes.

MS. MEISENHEIMER: I think there is value in that.

MS. BAKER: I would also point out that with our small water and sewer workshop -- work group that we got together, education of the customers, of the officials, that was one of the highest things that the small community thought would be beneficial. And so that was certainly brought up in that case, as well.

MR. BUSCH: Chairman, I -- any time that you can get out to the public and inform them, we can go and meet the -- they can see who we are, we can explain what we do and why we do what we do, I -- there's nothing but benefit to that.

The one caution that I would have is, if we would go out to these areas and it is no, heck, no, there's no way in the world, we don't -- I don't care what my rate goes up to, I don't want to pay for somebody else's rate, and if we decide for public policy purposes, we heard you, we're not going to listen to you, that would be something I would be very -- you know, I mean, if -- in today's times I'd be very cautious about going out there and getting feedback from the public, hearing nothing but one way, and just completely ignoring them and saying, well, that's fine, we appreciate your thoughts.

But -- because that's one thing that we hear a lot of: Well, we go out there, but they don't listen to us anyway.

CHAIRMAN CLAYTON: Yeah. It would have to be a two-way communication.

MR. BUSCH: Yeah.

CHAIRMAN CLAYTON: Second question: How does Public Counsel resolve the conflict between districts, where you have a district that would benefit greatly from a single tariff versus a district that would benefit from remaining district-specific? How do you resolve that conflict among customers?

MS. MEISENHEIMER: I -- certainly, it's going to be difficult, but I think that's exactly what we do in individual cases. We bring in representatives from various interest groups, different communities that are affected.

And we've been very successful in the last few cases in sitting down and hashing through some really differing views on what rates should look like and how various customers should be impacted.

And I think that the outcomes that we've come to have been agreeable to all parties. Certainly nobody is entirely happy, but we get there. And the -- that process, it's not neat and it's not clean, but it has proven successful in the most recent couple of Missouri American cases that we've been involved in, and I think Aqua's settled, as well.

CHAIRMAN CLAYTON: Last question. It's got two parts. Is there -- if you have a situation where the Commission wanted to move to single-tariff pricing, and you've got districts that are hurt, they end up paying a little more because they're cheaper right now, is there any way to sweeten the deal for them, by accelerating their own infrastructure projects?

Is there any way you can make the deal more palatable to a district like that? Any ways in regulation, public policy? That's my first question.

The second question is: On infrastructure projects, is there any way to put safeguards in place, ensuring that you don't have -- I don't like the term gold-plating -- but making sure that you don't have too much investment too fast, because it's spread out? It's kind of the second thing that Jim Busch was concerned about.

MS. MEISENHEIMER: The first one, with respect to is there a way to sweeten the deal for those districts that provide the subsidy, I can't think any -- of any off the top of my head.

I don't know what the Commission might give them. And then, you know, we'd certainly have to consider it. What cost are you going to give that -- to those districts?

With respect to the second one, the safeguards, I feel more comfortable with answering that question. And that is that, you know, primarily, the majority of the parties involved in these cases relay -- rely on the Staff to scrutinize the costs. The Staff has more resources to do that currently.

And so ensuring that there is, number one, adequate time for those reviews to occur for both the Staff and Public Counsel, so we need rate cases that are reasonable length and we need enough personnel to make that happen, to where we can, you know, truly spend the time we need to look at those costs.

So I think those are certainly important safeguards. And one additional thing: In the event that you went to single-tariff pricing --

CHAIRMAN CLAYTON: Go ahead and answer it.

JUDGE STEARLEY: Go ahead and answer.

(Telephone interruption.)

MS. MEISENHEIMER: The last --

JUDGE STEARLEY: That's twice now that's happened.

COMMISSIONER DAVIS: Somebody needs to call Newt Gingrich and tell him to knock that off.

MS. MEISENHEIMER: In the event that you -- that you determine that single-tariff pricing is appropriate, I would certainly encourage you, at least for some reasonable number of years, to have these companies maintain their books and records on a district-specific basis as opposed to a system -- a single system set of books and records, so that if the next Commission comes along and doesn't agree that, you know, you're getting what you expected out of single-tariff pricing, then we'll be able to go back and identify and have the records to base individual costs and pricing on in the future.

CHAIRMAN CLAYTON: So a future Commission can fix the sins of this Commission. Right?

Judge, I don't have any other questions. I really want to thank the parties, because I'm going to be finished for the hearing. But I want to thank the parties. I want to thank Staff.

Mr. Dearmont, the brief is excellent. It's very helpful in explaining history, explaining the law and everything else.

And I appreciate everyone's indulgence. This is a conversation we need to be having. We're not going to resolve anything out of this case. This is not a contested matter. But at least we can flesh out concepts that may be palatable to parties that would possibly lead to alternative solutions in the future. So any thoughts that folks have, please don't hesitate getting those to us in a lawful manner. Thanks.

(Chairman Clayton left the hearing.)

COMMISSIONER DAVIS: Okay. Before I forget, I want to go back to something Eric said, because I thought it was probably the best statement that I've heard here this morning -- this afternoon. And that is he said that there has to be evidence in the record to justify our decisions.

And, you know, the -- everybody knows the standard. It is competent and substantial evidence. There's got -- it's got to be there. And it's got to be more than, well, electric utilities have it, gas utilities have it; why can't I have it? I mean, that's not competent and substantial evidence; that's me-too-ism.

And Ms. Meisenheimer, I'm going to try to get you out of here in less than 12 minutes.

MS. MEISENHEIMER: Okay.

COMMISSIONER DAVIS: And I think this question was already asked, but I'm going to ask it a different way. And that is: It's my impression that small systems tend to benefit from single-tariff pricing, and that large systems tend to subsidize the small systems' and single-tariff pricing. Is that a fair analogy?

MS. MEISENHEIMER: I'd say that generally that's a fair statement, with the exception of, you know, the unique investment that might occur.

COMMISSIONER DAVIS: Right. And there's -- if I'm wrong, somebody stop me, here. But is -- is there anybody here that represents industrial consumers? I mean, my -- I'm just going to skip around here, because I'm not real organized.

But Mr. Kartmann, I mean, I'm concerned, because, you know, $1.20 a month in St. Louis County is a significant amount of money. I mean, you know, I tarred and feathered someone last week for saying, well, it's only a quarter a month.

And the fact is, if I went out and told

people, well, it's only a quarter a month, but you're subsidizing everyone else and not getting any benefits -- and I think there would be a mass appeal to the governor's office to find me something else to do.

And so I guess -- Mr. Kartmann, I guess the first thing I'll ask is: You know, if it's a buck twenty for -- a month for residential consumers, what is the effect on the -- what industrial consumers that we would have, or commercial users in St. Louis County?

MR. KARTMANN: That's a good question, and one I don't know the answer to off the top of my head. We could certainly find that out and report that to you.

COMMISSIONER DAVIS: And then I guess, Mr. Kartmann, I mean, you know, yes, it's true that the phone companies have a single-tariff pricing, but I think it's also fair to say that the urban phone customers subsidize the rural phone customers.

And I know some rural legislators might take umbrage at that, but I think it's a fairly easy to establish fact. I mean, but they can, at least, physically call rural Missouri. They may not, but they can at least -- they have that opportunity.

And, I mean, with water, it just seems different, because -- with water or sewer, because, you know, you can't access those facilities. And yes, I agree that there's a certain amount of subsidization that goes on where -- you know and if we're all, you know -- if the Jefferson City system and, you know, I build a house, it's a little ways away, then they're going to run more line and maybe run a -- or, you know, put a fire hydrant out there by my house that they wouldn't otherwise put.

But, you know, in essence, I mean, the lines are, you know, all there and there seems to be at least some uniformity, it's my impression. I don't know. I mean, does that sound right, Ms. Meisenheimer? I'm just kind of all over the place. I'm sorry.

MS. MEISENHEIMER: Yeah. I'm sorry. I thought the question was --

COMMISSIONER DAVIS: Well, I thought I did. I started out --

MS. MEISENHEIMER: -- for Mr. Kartmann.

MR. KARTMANN: I did too.

MS. MEISENHEIMER: But I'm happy to answer.

COMMISSIONER DAVIS: Well, go ahead, Ms. Meisenheimer. We'll let you take shots, since you've only got eight minutes.

MS. MEISENHEIMER: And I think I discussed this before; there is -- for telecommunications, there is a two-way nature of service, and there are explicit mandates that there be support provided for rural -- for support of rural telecommunications service availability. And that's a little different than what we're talking about here.

And, also, I'd point out -- I think it was in the context of what you were discussing -- that not all electric and not all gas companies have this.

Many electric and gas companies still maintain separate districts, and we look at the costs and set the rates separately. Currently, Kansas City Power and Light and GEMO are before you as separate cases. That's one example.

And I think, at most, we have three different districts under the Atmos. And that was a case where just recently we allowed a consolidation of district, and we certainly fought over whether the costs were similar before we let that happen.

So I would say that I think it's an exaggeration for anyone to claim that gas has it and electric has it, so we should get it, too.

COMMISSIONER DAVIS: All right. The gentleman in the white shirt. I'm sorry, I don't know your name.

MR. SHERRY: This is Derek Sherry with Timber Creek.

COMMISSIONER DAVIS: Yes, sir.

MR. SHERRY: Judge, I want to poke on of the things you said is about a common backbone, like you're able to send and receive calls. Well, it exists in this water infrastructure as well, and it's the waters of state as well as the groundwater. We all share that.

So what I get charged for a wastewater system goes to large estates, and my neighbors downstream get to enjoy that. Just the same as the water intake that you talked about for Jefferson City: I'm sure there's a wastewater system upstream that you're collecting water from there. Same way with the groundwater that we're tapping into for wells.

That groundwater table is being heavily scrutinized now because it's being -- it's declining and reducing. So EPA has taken different steps there. So there is a common backbone or a common infrastructure that we share, which is the geography and the waters of the state.

COMMISSIONER DAVIS: Okay. Mr. Kartmann, let me go back to you. And can you run through in your opening statement, kind of slowly -- a little bit more slowly, the list of all the benefits that you've extolled on?

MR. KARTMANN: Yeah.

JUDGE STEARLEY: Excuse me, Mr. Kartmann. Before you answer, can Ms. Meisenheimer leave at this time?

COMMISSIONER DAVIS: Yes. And I just want Ms. Meisenheimer and Ms. Baker to know that I have never gotten the impression that OPC or either one of them were obstinate on this issue.

MS. MEISENHEIMER: Thanks.

COMMISSIONER DAVIS: Healthy skepticism is good.

COMMISSIONER DAVIS: Thank you, Ms. Meisenheimer. Have a good evening.

(Ms. Meisenheimer leaves the hearing.)

MR. KARTMANN: If I understand the section you're referring to, it included that single-tariff pricing mitigates rate shock.

COMMISSIONER DAVIS: Right.

MR. KARTMANN: Provides incentives for utility regionalization and consolidation; addresses small system viability issues; improves service affordability for customers; provides ratemaking treatment similar to that for other utilities.

COMMISSIONER DAVIS: Okay.

MR. KARTMANN: Facilitates compliance with drinking water standards.

COMMISSIONER DAVIS: Okay. Is that it?

MR. KARTMANN: Sure.

COMMISSIONER DAVIS: Okay. I'm -- if you've got anything else, let's throw it out there. Okay. Regional consolidation. And I guess a regional consolidation of rates, how does that benefit the ratepayer?

MR. KARTMANN: Well, like I said in other statements, by -- regionalization/consolidation are other forms of or the same thing as single-tariff pricing.

So, you know, all the comments made today in support of it are responsive to your question, but I suppose other answers could be that, you know, it causes rates in what otherwise might be a small district that's on its own with district-specific pricing, when improvements are made, investments are made, or expenses increase for one reason or another, for those to be shared across that regionalization -- or that region among a larger customer base.

And those things -- and I use the phrase "over time," which I know is unpopular with some folks -- over time, benefits all the customers in that region, because just like in a system where all the customers are connected to the same distribution system, over time, benefits inert to all those various customers, but not all at the same time. So there isn't -- I'm sort of mixing my answer to your question --

COMMISSIONER DAVIS: Right.

MR. KARTMANN: -- to an earlier comment you made, that I don't think that the cost cause -- the cost causers are all the same in a district that's -- where all the customers are attached --

COMMISSIONER DAVIS: Right.

MR. KARTMANN: -- to the same distribution system.

COMMISSIONER DAVIS: Okay. Now, in terms of, you know, the small systems, I think we can all agree that having a larger group to spread the costs across, you know, you can have better management, you can have more technical expertise.

I mean, you can obviously do a lot of things with a larger company than you can with a smaller company. Would you agree?

MR. KARTMANN: Oh, I would agree with that. Sure.

COMMISSIONER DAVIS: Right. And then that would get to your last point about the drinking water standards, too.

I mean, in terms of the economies of scale, you're going to be able -- you know, you might have one engineer, I mean, or one person, or maybe even more than one person whose sole responsibility is drinking water standards.

And they live, eat, sleep and breathe drinking water standards and look at all the systems and say, you need to do this here, you need to do that there.

And I think that's another, you know, advantage to consolidation for the small systems is, you know, if they're a small system, they're not going to be able to afford that kind of expertise, because there's just not enough -- not many of those people out there. Is that -- do you think that's fair?

MR. KARTMANN: Oh, yeah. I agree.

COMMISSIONER DAVIS: And I guess I'm going to lump mitigating rate shock and affordability together, because, I mean, really, kind of -- aren't they one and the same, sort of?

I mean -- well, I mean, I guess, in terms of affordability for the rural systems, you know, it would clearly lower the cost for everyone else -- in the smaller systems, the rural systems -- everybody but St. Louis County in your case. Correct?

MR. KARTMANN: Yes. St. Louis Metro.

COMMISSIONER DAVIS: St. Louis Metro.

MR. KARTMANN: Can I comment on something?

COMMISSIONER DAVIS: Sure.

MR. KARTMANN: You were indicating that mitigating rate shock and improved service affordability for customers are -- you're thinking they're the same. I don't believe they are. Mitigating rate shock -- you could have a significant rate increase --

COMMISSIONER DAVIS: Right.

MR. KARTMANN: -- but the rate at the end of the day could still be affordable.

COMMISSIONER DAVIS: Right. Okay. And I think you're correct. I apologize there. And then -- then, obviously, smoothing out the price spikes is a good thing, because as someone who has been here for the last six and a half years, I have seen many people get upset when prices spike dramatically.

And I guess just -- this is a question for the lawyers, and that is: I mean, if you're going to -- if someone is applying to consolidate districts, what sort of evidence should they put on? I mean, because obviously we're going to need some justification to support the decision.

And, I mean -- and I think there's going to have to be some decent testimony on it. I mean, if there are -- I -- Mr. Kartmann listed some public policy reasons, and I'm just not sure that that's enough. I mean, Eric, have you had -- you got any thoughts on that, or --

MR. DEARMONT: Not specifically. I think that in the case where a district is going to be paying a rate that is higher or substantially higher than that district's cost of service, that perhaps some testimony discussing the economic benefits of other offsetting advantages would be helpful -- I hate to use the word "synergy," but I guess I'll use it, anyway -- synergies or lower -- lower --

COMMISSIONER DAVIS: KCP&L likes synergies.

MR. DEARMONT: -- direct testimony specifically quantifying perhaps offsetting administrative costs and things of those natures.

MS. BAKER: If I could add a little bit to that.

COMMISSIONER DAVIS: Sure, Ms. Baker.

MS. BAKER: That's why we think that this is not something that the Commission needs to say, we are now going to be a single-tariff pricing Commission from now on.

This is going to be per case, per situation, and, quite frankly, sometimes even per capital improvement in some of these big -- bigger systems, where it's going to have to be a balancing test that comes in front of the Commission, that there's going to be evidence for, evidence against, evidence of other choices, how we can get to the same place with some other options, such as -- I know Ms. Meisenheimer mentioned changing schemes of allocations. Maybe we can get to the same place without going through this.

And so it's got to balance out each case. What are the pros, what are the cons. Who is going to be hurt? Who is not going to be hurt? Is the discrimination undue or not?

MR. DEARMONT: If I can go back and add another few points based upon the comments given me by Mr. Russo.

COMMISSIONER DAVIS: Sure.

MR. DEARMONT: It's my understanding as it applied specifically to Aqua Missouri, that there are certain Aqua Missouri districts that share common costs currently in the southwest portion of the state, as far as personnel, meter reading functions and things like that. So those --

COMMISSIONER DAVIS: Right.

MR. DEARMONT: -- are common costs between currently separate districts. And I think that perhaps more testimony about allocation of those costs, or even just distribution of functions between those currently divided districts would perhaps be helpful in those cases.

COMMISSIONER DAVIS: Ms. Joyce?

MS. JOYCE: Yeah. I just wanted to make a comment. I appreciate what the consumer advocate is saying, but I -- as far as the direction of the Commission.

I just -- you know, for the company, whatever the Commission decides or what they do and what they don't do, it's really hard for us to file -- to know how to file a rate case.

And if we file the rate case the same way that we always have in the past, my fear is that, would we get into sort of some dialogue with the parties, what they're going to tell us is that the Commission is not supportive of single-tariff pricing.

So it's just sort of a -- it's a hard place to be for us on this side of the table, not kind of knowing that direction.

MR. BUSCH: Commissioner, if I may. I would suggest to Aqua that if this is something that they are considering doing based upon discussions today, or at any time, that they would actually have to file a full-fledged rate case, like would Missouri American --

COMMISSIONER DAVIS: Right. Right.

MR. BUSCH: -- has to, as opposed --

COMMISSIONER DAVIS: Well, I think that's a given. I think that's what she said. I think it's -- the question is: Okay. We file it -- or, I mean, this is my impression:

She said they would file it, they would include all their testimony, they'd get to settlement negotiations, and you or one of your colleagues would say, the Commission is not going to go for it. And maybe we won't. I mean, I don't know. I mean --

MR. BUSCH: Right. And I think in a full-fledged -- I mean, that happens all the time: Companies file certain positions, and we -- a formal -- formal case, you know, like what Missouri American does.

And we -- you know we argue our point; they argue their point. If we can't come to some sort of an agreement, then we go on to the evidentiary hearing in front of the Commission.

I was -- and then if I misinterpreted what she said, I do apologize. But I thought she was talking about the way we normally file the -- a small water case. They do not file testimony; they just file all the costing and -- and then we get to that point.

It's -- you know, we might -- you know, the Staff and Public Counsel -- it's a little bit different game than when a full case is filed, like when -- we just had, like the Lake Region case was filed.

Much different negotiation, much different outcomes, because this process is already set up with an evidentiary hearing in place, whereas in the small company case, which Aqua hasn't filed since I've been here, doesn't necessarily lead itself quite as easily to that sort of change.

COMMISSIONER DAVIS: And I'm just going to think out loud here for a minute. And I -- Ms. Joyce, I mean, I'm not as familiar with Aqua's system here in Missouri as -- well, and -- as I am, say, Missouri American's system. I mean, obviously, they have Jefferson City, St. Joe, Joplin, the St. Louis area.

And, you know, I mean, I think one of the things that might be helpful for Aqua is if you could put some sort of study, you know, maybe projecting out capital expenditures for all of your properties, and if you were to say that they were somehow roughly going to be equivalent, or, you know, there would be kind of a -- I'm going to use a term that certain people around me vehemently object to, but there was -- you know, if you could ask for some sort of zone of reasonableness.

I mean, I don't think anyone expects that you get it down to the last penny. But I think we would all like some reassurance, you know, in terms of single-tariff pricing that there wasn't going to be a big disparity or a big subsidy from one group or -- of ratepayers to all the others, or from all of the others to one particular ratepayer.

Does that make sense? Mr. Busch, you guys -- I mean, what do you guys think about that? I mean, this is just me --

MR. BUSCH: I definitely think that -- and we encourage our companies to talk to us about future plans --

COMMISSIONER DAVIS: Right.

MR. BUSCH: -- so we know that's going on. And if we were going to go down the path of maybe we wanted to put some systems together for a single-tariff rate, we would want to know, you know, because, as was brought up earlier -- I think Mr. Kartmann keeps bringing it up -- you know, it's over time, these systems will even out.

Well, if we're going to go this way, I'd like to know, you know, it's not going to be 30 years from now before System X finally gets their investment, so they're going to subsidize these -- you know, these other systems, you know, for the next 30 years without any plans from any of the companies willing to put the investment -- needing to put the investment in there.

So I think we would definitely -- that would be one of the things that we would be looking at is, well, what is your five- or ten-year capital expenditure plans, so we can have an idea of -- you know, because you talked about what evidence you would have to put forth. Well, this is what's going to happen over time, so this is how we're going to try to --

COMMISSIONER DAVIS: Right. Right. So I --

MR. BUSCH: -- communicate.

COMMISSIONER DAVIS: So I would think there would -- there would have to be some sort of capital expenditure plan, I would say for ten years. I mean, five years is just not enough.

And conversely, for some people -- and Mr. Kartmann, I'm not going to single you out here -- but I'm going to single you out. I mean, my mental impression is that folks from anywhere else in Missouri but the St. Louis area would be deathly afraid of having to pay for something in the St. Louis area because it would be such a big massive expenditure.

And there is already this public perception that, you know, there's this enormous subsidy of cash coming from all over the state to school districts in St. Louis and Kansas City. It's not true, but there's that perception. I mean, and, you know, perception is reality.

And so -- and, you know, I think for, like, St. Louis, I mean, we -- I mean, you -- I would -- I would want to see how St. Louis County balances out against the rest of the ratepayers in this state, maybe even over 20 years, because I'm just scared that it's, you know -- there's going to be that one big hit, and that's just going to drive everybody over the edge, and we'll have, you know, St. Joe all over again. Does -- I mean, does that make sense to everyone?

MS. BAKER: I certainly agree. A mixture between that and what you were talking about is, as the companies come in and they file for these cases, a big change like this is probably not something that's going to go through the small rate case --

COMMISSIONER DAVIS: Right.

MS. BAKER: -- procedure. And so to understand that as Aqua comes in, if this is something that they want to develop, they want to move toward, that they spend the time before the rate case, they get it -- they get their testimony together, they get their whys, they get their balance, they get their what's going to happen maybe -- you know, possible projections -- 10, 15 years -- get it all together in a cohesive plan so that whenever it comes in and it is given to the Staff and to Public Counsel, it's not just, we want it because other people have it; we think it would be great.

COMMISSIONER DAVIS: It would be just, ask them.

MS. BAKER: It would be really great.

COMMISSIONER DAVIS: Their billing people would love it.

MS. BAKER: You know, so --

COMMISSIONER DAVIS: They'd only have one rate.

MS. BAKER: I -- I -- you know, and --

COMMISSIONER DAVIS: And I'm not --

MS. BAKER: -- and so --

COMMISSIONER DAVIS: -- being flippant about it. I mean, I'm sorry. Because I know when you're -- we're trying to bill 13 people in 13 different states, you're going to have 13 different rates, at least.

And then, here, if you've got six rates, and if you had six rates and thirteen states, that would be 78. And, you know, it -- I understand that it's -- it is a burden to you. I'm sorry.

Ms. Baker?

MS. BAKER: It -- you know, and so it -- it runs along that same line of, if what comes in with the rate case is well thought out, you know, case that comes to us, and it's something that we can follow why they want it, why they think it is good, then it's not -- at least, for Public Counsel -- it's not going to be the, nope, it's going to be district-specific or nothing --

COMMISSIONER DAVIS: Right. Right.

MS. BAKER: -- we don't work on it that way. But you have to give us the reasons why, and the reasons why you think that's going to work for your system better, and the customers.

COMMISSIONER DAVIS: So just kind of building on what Ms. Baker said -- and I think this is -- I mean, you know, we talked about a capital budget, but I think you'd also -- maybe more of a comprehensive -- I've heard the term "comprehensive energy plan" used in other aspects.

This wouldn't be a comprehensive -- but some sort of comprehensive plan, because I think O&M costs would have to be a part of that, too.

And, you know, I don't know -- I mean, I don't think in -- we're going to have any more lagoons in this state here in ten years -- maybe less.

And so it's -- and so those -- you've got the -- not only the capital costs, but the O&M costs as well -- some sort of comprehensive, you know -- I mean, and you may have to make some very specific blunt qualifying statements, because, you know, anything out past three years is going to be a -- you know, you're likelihood of probability is less, as well as, you know, your likelihood of certainty is less.

But, you know, in terms of big capital expenditures, I mean, you know what the life span of your big plants are, et cetera, and when they're going to have to be renovated, retrofitted, retooled, whatever you want to call it.

Mr. Busch, can you think of anything else that someone would need to file if they were seeking some sort of consolidation?

MR. BUSCH: Well, the tariffs showing --

COMMISSIONER DAVIS: Yeah.

MR. BUSCH: -- what they would have to -- what the tariffs would look like. I think -- I can't really think of anything else off the top of my head.

I've never really thought about suggesting for single-tariff pricing, so to come -- think what somebody would have to do to prove that they would need it was -- is kind of difficult for me, so --

COMMISSIONER DAVIS: Right. And -- well, and I'm just, you know -- I don't know that public policy reasons are going to be enough.

I mean, I think you're going to have to have some hard evidence, and I think you're going to have to show -- you know, put on an expert for the company who is going to say that, you know, it's not going to be necessarily dollar for dollar, but it's going to be close.

And if it's not, then we may be back with, you know, what Staff -- some of the scenarios that Staff has thrown out, where there may be some, you know, common sharing of some costs, but then, you know, maybe it's, you know -- somebody's going to have capital on one bill that is not going to be on the other, or vice versa. I mean, that's just my impression.

MR. REICHART: Commissioner Davis?

COMMISSIONER DAVIS: Yes.

MR. REICHART: John Reichart, Missouri American Water.

COMMISSIONER DAVIS: Yes, John.

MR. REICHART: I appreciate your comments. And this is helpful getting your ideas on the types of information that you would like to see.

And I guess I have a question for you and Commissioner Jarrett, and if Commissioner Clayton were here, too. And I'd just like to echo the other comments made today, that this has been very helpful having the opportunity to discuss these issues.

Can we get a sense of your expectations for this docket going forward? Do you expect to have additional discussions, or is this kind of going to be it? I'm just thinking, you know --

COMMISSIONER DAVIS: You know, I --

MR. REICHART: -- I'm sorry.

COMMISSIONER DAVIS: I would -- I -- I would defer that to the chairman; the chairman is not here. But, you know, I could see us deferring to Staff and asking Staff to possibly make some recommendations about, you know, do we need any future discussions, or, you know, where do we go from here?

MR. REICHART: Right. Because we would certainly -- you know, we want to take back the suggestions you made about the evidence, and we -- I think we hear you loud and clear about what you'd like to see.

COMMISSIONER DAVIS: Right.

MR. REICHART: But if there was something in addition -- obviously -- and I think from the company perspective, we'd like to know very clearly what the expectation would be if we were to proceed forward with it, in terms of, you know, exactly --

COMMISSIONER DAVIS: Right.

MR. REICHART: -- what you'd like to see. And again, I recognize you're trying to help us in that regard right now.

COMMISSIONER DAVIS: Right. Well, and that's -- and that's you know, in the spirit of being constructive. And I -- you know, and there's case law out there.

I mean, we're wrangling with FERC on some electricity issues right now, where, you know, they're quoting some case law that says, Well, you know -- I can't remember what number the D.C. Circuit Court of Appeals is.

But anyway, the D.C. Circuit has said, Well, it doesn't have to be dollar for dollar; it just, you know, has to be, you know, close.

And my point is, well, is $400 million off in two years really close? Is 1.2 billion over five years close? I mean, you know -- and I don't know what the answer is there. I would -- and, I mean, I would speculate.

But I would think you would need to maybe consult with Staff and OPC about it, and say, you know, What kind of variance would be acceptable to them? I mean, would it be 10 percent? You know, would it be 15?

I mean, you know, the -- my impression is, the larger the percentage of variance, the more squeamish people are going to be.

COMMISSIONER JARRETT: Can I jump in just a second --

COMMISSIONER DAVIS: Sure.

COMMISSIONER JARRETT: -- Commissioner? Thank you.

Stan. I'm sorry. I -- okay.

MR. SZCZYGIEL. Szczygiel.

COMMISSIONER JARRETT: Yeah. I looked at the spelling, and I wasn't even going to try.

MR. SZCZYGIEL: Very good.

COMMISSIONER JARRETT: The reason I come back to you on that issue is because you said you experienced the same thing in North Carolina and Florida when those states moved --

MR. SZCZYGIEL: And Virginia.

COMMISSIONER JARRETT: -- toward -- and

Virginia. What kind of things in those states -- how did they handle this?

MR. SZCZYGIEL: Well, as I may have mentioned with North Carolina, the first thing they did was they basically defined what they felt were the different cost of services, i.e. which systems had different characteristics. Large city-type systems might have been put -- are put in, in our case, a separate cost of service.

We have in the coastal area where we have a high-production well, so therefore cost production is much less than just basically groundwater wells. That's a separate cost of service.

But for the vast majority of what we call North Carolina, which runs basically from the coast out past Charlotte, that is one cost of service, even though there's approximately 700 different operating PWSIDs. So they've established that, and they've gotten to that level, and it's -- that's been in effect for about ten years.

In Florida and Virginia, they both were dealing with people starting from very different points; low rates and high rates, similar to what we have here.

And they basically approached it in Florida with -- saying, let's create, for the low service people, their own cost of service. And as we migrate into the future, we'll go from these four bands of water to maybe three, to two, to one. So they're doing it through cost of service as well as tariff.

In Virginia, they established a single cost of service, but they recognize that everybody was starting from a different point, and they created a concept of gradualism. So in the tariff design alone, that is where people are saying, we're going to start you out at four different tiers, and each person migrates kind of around that one tier.

And in the next case, when you file your next water case, we may go to three tiers; two tiers, and eventually one. So it's a gradual event.

In those cases, we did have a very active discussion with OPC, as well as Staff. And this was -- as I said, contrasting to today, where we're actually having this discussion ahead of time, this is like so enlightening on both parts -- on all parts, I should say -- that this is being at least aired, because unfortunately, this was being handled in a case, under time lines. And sometimes hindsight shows us not the best decisions were made, even as we took these baby steps.

COMMISSIONER JARRETT: Ms. Joyce, could you -- if you have it, or could you put together some information on those other states and file it in this docket?

MS. JOYCE: Absolutely. And, you know, in all those cases, we did file direct testimony, which made the case for single-tariff pricing with the type of evidence that we're talking here. So I'd be more than happy to file, you know, even the orders and the supporting testimony for single-tariff pricing that we put together and filed.

COMMISSIONER JARRETT: That would be fantastic. Thank you very much. Sorry to interrupt, Commissioner.

COMMISSIONER DAVIS: No. No. That's fine. And, you know, I guess I would ask Mr. Busch and Eric and the gang up front here that if you have any more thoughts as to what kind or nature of evidence people would need to put on in a rate case, I think that would be -- that would be helpful.

And -- because, I mean, I don't know where the chairman wants to go, if he wants some sort of -- wants to have some sort of report. But, I mean, obviously, I would think that, you know, that kind of recommendation of what kind of evidence we would want to see in a rate case would be a good thing to have.

You know, and likewise, I mean, for the utilities, I mean, I just don't know that everyone is going to agree. And, you know, it's probably one of those things where you might need to be prepared to litigate it.

And I guess my other piece of advice, too, is particularly for Missouri American: You've got to look at all customer classes.

I mean, obviously, I mean, we're here talking about the residential customer classes, but, I mean, you know, the -- the number one complaint that I get from industrial consumers is about MSD. What can you do about MSD?

I'm like, you know what? I'm fine with taking jurisdiction over them. You get the bill passed, and I will take them, and we will regulate them. Because, you know, they say, Oh, well, we have a rate commission that's just like the PSC. And I'm like, you know, I'm not so sure about that. But --

MR. BUSCH: Commissioner, could I -- do I need more staff?

COMMISSIONER DAVIS: Huh?

MR. BUSCH: Can I get more staff if you regulate MSD?

COMMISSIONER DAVIS: You know what? I would agree that you would probably need some more staff.

MR. BUSCH: Probably so. And probably an auditor.

COMMISSIONER DAVIS: You'd probably need some more staff, and we'd definitely need some more auditors.

MR. BUSCH: And some more auditors. That's absolutely --

COMMISSIONER DAVIS: Eric, I'm not sure if you'd get any more attorneys. But look at this way: You might get more courtroom experience.

MS. BAKER: I do want to point out, though, that Public Counsel does more than just residential. We are all --

COMMISSIONER DAVIS: Yes.

MS. BAKER: -- customer classes.

COMMISSIONER DAVIS: Yes.

MS. BAKER: So --

COMMISSIONER DAVIS: Yes.

MS. BAKER: So whenever we give our positions --

COMMISSIONER DAVIS: Right.

MS. BAKER: -- we do take into account how much the commercials are going to be affected by this, the industrials. That makes a big difference in our positions, as well.

COMMISSIONER DAVIS: I mean, it's -- I mean, I haven't seen it in the water cases, like we've seen it in the electric cases, but obviously, you know, it wasn't that long ago when, you know, Ford and GM and others were in here basically saying, you know, we can't afford any rate increases.

I've certainly heard that from state legislators at the capitol. And so, you know, it's a very sensitive issue, and particularly for -- I mean, obviously, there are -- I mean, the advantage to me for small systems is obvious.

But there's also got -- I mean, maybe there doesn't have to be an advantage for customers in St. Louis County, but there certainly shouldn't be a disadvantage, you know, or a -- you know, the subsidy thing, I think, really bothers me, too, because, you know, they are being called on to subsidize.

You know, through their state income tax, you know, they pay a majority of the income taxes in this state, which, you know, funds roads, schools, everything else -- you know, telephone, right down the line.

So I think it's something that community -- at least, their elected political leaders are very sensitive about in their conversations with me in the past.

I don't have anything else. I mean, I guess, Judge, do you want to ask for final thoughts, closing statements?

JUDGE STEARLEY: Let me make sure: Commissioner Jarrett, do you have any other questions?

COMMISSIONER JARRETT: I have no other

questions, Judge. Thank you.

JUDGE STEARLEY: All right. Has -- have all the participants had an opportunity to get their comments into the record, or is there anyone else out there who would like to add anything at this point? Does anyone want to make a closing statement?

Okay. In terms of a couple housekeeping matters, this docket, as we mentioned earlier, spun off of some briefing that was requested in the Aqua Missouri rate case. Obviously, we've picked up a few participants in the matter that didn't have an opportunity to participate in that briefing schedule.

So I'm going to set another briefing schedule and give any of those other entities an opportunity to file briefs on this issue. So I'm going to set a deadline of December 7th, unless I hear any screaming for additional time. Okay. Timber Creek, City of Joplin, Missouri American.

MR. REICHART: Point of clarification. And the brief would be in regard to just the concept, generally, or not specifically --

JUDGE STEARLEY: It would be on the concept generally, or it can address specific issues that have been raised at today's proceeding, as well.

Additionally, the commissioners had inquired regarding the effects of moving to a single-tariff pricing system would have on industrial and commercial customers. If Aqua Missouri, Missouri American would provide that information, that would certainly be of assistance.

Is there a time period in which -- a reasonable time period in which it would take you to gather that information, if it's available?

MS. JOYCE: Judge, Aqua Missouri doesn't have any industrial customers.

JUDGE STEARLEY: That makes that one simple.

MR. KARTMANN: Jim?

MR. RUSSO: Yeah, I was waiting for that.

MR. KARTMANN: Mr. Russo helped in the preparation of the information provided in the joint brief on residential rates and how they would change, so I was just wondering if we could work collaboratively on that, as well?

JUDGE STEARLEY: Certainly.

MR. RUSSO: Probably mid-December from my viewpoint, I would think. It's -- industrial is a little bit more complex than residential. It's very complex. I've actually been thinking about it for the last couple weeks, and it's going to be an involved process, I think.

JUDGE STEARLEY: Okay. Are you looking at before the holidays, like the week of December 15th --

MR. RUSSO: That's --

JUDGE STEARLEY: -- or would it be better --

MR. RUSSO: Yeah.

JUDGE STEARLEY: -- to do it after the holidays?

MR. RUSSO: Before the holidays.

JUDGE STEARLEY: Why don't we shoot for December 15th? And I can readjust that briefing date to the same time, as well --

MR. REICHART: Thank you, Judge.

JUDGE STEARLEY: -- December 15th.

MR. DEARMONT: Judge, if I may. I know that Staff has had the opportunity to respond to the briefs filed previously by Aqua Missouri and Missouri American. But we wanted to check and see if there would be the opportunity for Staff to respond to any of the briefs filed --

JUDGE STEARLEY: Certainly.

MR. DEARMONT: -- in response to the discussion today -- or least reserve -- ask the Commission if we could reserve that right?

JUDGE STEARLEY: Certainly. And we could -- well, let's look at the calendar here. That, I think would have to go after the holidays to allow these other filings to come in.

We'd be looking at the time frame of maybe

January 5th or 12th for replies. I mean, you're going to be in the middle of some major rate case by then, I'm sure.

MR. DEARMONT: Yeah, at that point, it's all a traffic jam, so just --

JUDGE STEARLEY: It is.

MR. DEARMONT: -- whatever -- I mean, whatever you think.

JUDGE STEARLEY: Let's just say January 12th for replies. Additionally, the commissioners have pointed out the benefit of ten-year future horizon types of projections.

I know some of the information already filed in this case has been based on historical data, and I think the historical data is just as valuable.

So if there's any other historical data the companies would like to add, that should demonstrate like these other charts do, what costs would have been now if these types of rate designs had been in effect, I'm sure the commissioners would appreciate any historical data, as well as forward-looking types of projections.

All right. Anything else we need to take up at this time?

MR. DEARMONT: As one final matter, Judge, we would just ask that if there are no objection, that the Commission expedite the transcripts from today in order to facilitate some of that earlier briefing.

JUDGE STEARLEY: Certainly.

This is for you, Ms. Banks. Can you have transcripts by next Monday for us?

THE COURT REPORTER: Certainly.

JUDGE STEARLEY: Very well. Okay. Any other matters?

And hearing none, our on-the-record proceeding in File Number SW-2011-0103 is hereby adjourned, and I thank you all very much.

(The proceedings were adjourned.)

CERTIFICATE OF REPORTER

I, Lisa M. Banks, CCR within and for the State of Missouri, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken, and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

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Lisa M. Banks, CCR