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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

November 4, 2008  
Jefferson City, Missouri  
Volume 11

In the Matter of Missouri- )  
American Water Company's Request )  
For Authority to Implement a ) Case No. WR-2008-0311  
General Rate Increase For Water )  
And Sewer Service Provided In )  
Missouri Service Areas. )

KENNARD L. JONES, Presiding,  
SENIOR REGULATORY LAW JUDGE.

CONNIE MURRAY,  
ROBERT M. CLAYTON III,  
TERRY JARRETT,

COMMISSIONERS.

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

2 JUDGE JONES: We're on the record with Case  
3 No. WR-2008-0311 on the third day of evidentiary hearings.  
4 The first case -- or the first issue rather we're going to  
5 take up is corporate cost allocation, and  
6 Missouri-American, you can call your first witness, or did  
7 you want to give opening statement on that?

8 MR. ENGLAND: I do have a short opening if  
9 I may, your Honor. Thank you, your Honor. May it please  
10 the Commission?

11 The issue at least leading off today is  
12 corporate cost allocations. Generally speaking, the  
13 company incurs corporate, administrative and general costs  
14 that are not directly assignable to any of the districts  
15 that it serves. Therefore, these costs must be allocated  
16 to the districts.

17 The primary purpose, at least in company's  
18 opinion, in developing an appropriate allocation factor is  
19 to assign costs to the customers who receive the benefit  
20 from the incurrence of those costs. It's also important  
21 to use an allocator that is relatively stable over time  
22 and will not fluctuate greatly from case to case.

23 As you know, this was a hotly contested  
24 issue in the company's last rate case last year. As a  
25 result, company undertook a review of the allocation

1 factors that it has historically applied to these general  
2 and administrative corporate costs and for the most part  
3 confirm that, in its opinion, its corporate costs are best  
4 allocated using number of customers, that is the ratio of  
5 the customers served in a particular district in relation,  
6 if you will, to the total customers served statewide.

7           As a result, the company has allocated  
8 approximately 70 percent of these corporate costs based on  
9 number of customers. Company believes number of customers  
10 is most appropriate because most of the costs it incurs  
11 are for the direct benefit of the customers that it  
12 serves.

13           Now, there are approximately 30 percent of  
14 costs remaining, corporate costs remaining that are  
15 allocated using different factors. For example, the  
16 company allocates corporate pension expense based on  
17 payroll. They believe those two are linked together.  
18 OPEBs, or benefits other than pension, are allocated on  
19 number of employees assigned to each district, and  
20 transportation expense is based on the number of vehicles  
21 assigned to each district.

22           While the company believes its allocation  
23 factors are the most reasonable, that is not to say that  
24 other allocation factors are unreasonable. What is  
25 important is that any allocation factor that is used be

1 used uniformly or consistently for allocating costs among  
2 the districts. Otherwise, there is the opportunity for  
3 the company to over-recover its corporate costs or  
4 under-recover its corporate costs. Thank you.

5 JUDGE JONES: Staff of the Commission?

6 MS. BRUEGGEMANN: Good morning.

7 Mr. England wrapped up what the issue is, I think, very  
8 appropriately. And the Staff position is that the cause  
9 or reason for incurring a cost should be the allocation  
10 factor used to allocate between districts.

11 Mr. England went ahead and pointed out that  
12 30 percent of the allocation factor they use are not  
13 customer numbers. I would like to point out that American  
14 Water Service Company uses a method other than customer  
15 numbers as the best allocator for its nonregulated  
16 entities. It used, for example, a formula that is used  
17 utilizing revenue, the amount of plant and the number of  
18 employees to allocate costs to its nonregulated entities.

19 This formula for regulated entities is  
20 where we come into the customer number usage. So it's  
21 already out there as the subject that other allocation  
22 factors can be appropriate and can be the most accurate  
23 other than customer numbers.

24

25 Basically, summarizing Staff's position,

1 Missouri-American's corporate offices, let's say,  
2 primarily incurred administrative costs and general  
3 expenses in the process of providing services to their  
4 employees so those employees can carry out their jobs more  
5 so than in providing service to their customers.  
6 Therefore, since most if not all of the corporate  
7 administrative and general expenses are labor-related  
8 expenses, then a labor allocation factor should be used.  
9 This cost causation method the Staff utilizes does result  
10 in the most accurate assignment of cost. Thank you.

11 JUDGE JONES: Thank you. And from the City  
12 of Joplin?

13 MR. ELLINGER: Thank you, Judge. May it  
14 please the Commission?

15 I think Mr. England has framed the question  
16 appropriately, and that is how corporate costs are  
17 allocated to the districts. You know, we think corporate  
18 costs as you look at this case are not only allocated to  
19 districts, they're also allocated to customer classes, and  
20 today we're going to be talking about the allocations to  
21 districts. There is also additional testimony about  
22 allocation to classes. We believe that those allocations  
23 should be internally consistent. They are not under the  
24 company's position.

25 We do believe and support that the Staff

1 allocations in this case are more consistent both with the  
2 cost causer and internally. It is Joplin's position that  
3 allocations must follow the most direct cost causer, and  
4 that in all cases, whether it's from corporate down to  
5 Missouri, down to the districts, or from Missouri into the  
6 various classes, that we have to follow the allocation  
7 method that best and is most directly tied to the cost  
8 causer of that expense.

9                   Again, we believe currently the Staff's  
10 position on the allocation method is superior to the  
11 company's position at this time. We do advocate that in  
12 the future these allocation methods be more consistently  
13 studied in any future rate cases to ensure that that best  
14 cost causer is used as the allocation factor. Thank you.

15                   JUDGE JONES: Thank you.  
16 Missouri-American, you can call your first witness on this  
17 issue.

18                   MR. ENGLAND: Thank you, your Honor. We  
19 call Mr. Ed Grubb to the stand.

20                   JUDGE JONES: Mr. Grubb, would you please  
21 raise your right hand.

22                   (Witness sworn.)

23                   JUDGE JONES: Thank you, sir. You may be  
24 seated.

25                   MR. ENGLAND: Thank you.

1 EDWARD J. GRUBB testified as follows:

2 DIRECT EXAMINATION BY MR. ENGLAND:

3 Q. Would you please state your name for the  
4 record.

5 A. Edward J. Grubb.

6 Q. Mr. Grubb, by whom are you employed and in  
7 what capacity?

8 A. I'm employed by American Water. I am also  
9 the assistant -- or the director, I'm sorry, the director  
10 of rates and regulation for American Water. I am also the  
11 assistant treasurer of Missouri-American Water.

12 Q. Mr. Grubb, have you caused to be prepared  
13 and filed in this case three pieces of prepared testimony  
14 and attached schedules?

15 A. Yes, I have.

16 Q. Turning your attention first to what I  
17 believe is your direct testimony and has been marked for  
18 purposes of identification as MAWC Exhibit 9NP and MAWC  
19 9P, do you have that in front of you?

20 A. Yes, I do.

21 Q. And that is your direct testimony; is that  
22 correct?

23 A. Correct.

24 Q. Do you have any corrections to make to that  
25 testimony at this time?

1           A.       Yes, I have two corrections. The first  
2 correction is on page 16, on lines 5 and 6, at the end of  
3 line 5, change the word an to a, or a. And on line 6,  
4 change the word increase to decrease. And then on  
5 page 26, on line 9, at the end of that question, the word  
6 is misspelled. It should be proposed, p-r-o-p-o-s-e-d.

7           Q.       Thank you, sir. Any other questions (sic)  
8 to your direct testimony?

9           A.       That is all.

10          Q.       Let me turn your attention to your rebuttal  
11 testimony, which I believe has been marked for purposes of  
12 identification as MAWC Exhibit 10. Do you have that?

13          A.       Yes, I do.

14          Q.       Are there any corrections you need to make  
15 to that testimony at this time?

16          A.       No, there is not.

17          Q.       Turning your attention, then, to your  
18 surrebuttal testimony, which has been marked for purposes  
19 of identification as MAWC Exhibit 11NP and 11HC, do you  
20 have that in front of you?

21          A.       I do.

22          Q.       Are there any changes that need to be made  
23 to that testimony at this time?

24          A.       No, I do not.

25          Q.       Mr. Grubb, if I were to ask you the

1 questions that appear in all three pieces of your prepared  
2 testimony, would your answers today be substantially the  
3 same?

4 A. Yes, they would.

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

7 A. Yes, they are.

8 Q. Thank you.

9 MR. ENGLAND: Judge, at this time I would  
10 offer MAWC Exhibits 9, 9P, 10, 11. Excuse me. That was  
11 9NP and 9P, 10 and 11NP and 11HC, and tender the witness  
12 for cross-examination.

13 JUDGE JONES: Are there any objections?

14 MR. ELLINGER: No objection.

15 MR. CONRAD: No.

16 JUDGE JONES: MAWC 9NP, 9P, 10, 11NP and  
17 11HC are admitted into the record.

18 (MAWC EXHIBIT NOS. 9NP, 9P, 10, 11NP AND  
19 11HC WERE MARKED FOR IDENTIFICATION AND RECEIVED INTO  
20 EVIDENCE.)

21 MR. ENGLAND: Thank you, your Honor.

22 JUDGE JONES: Any cross-examination? Let's  
23 start with AGP.

24 MR. CONRAD: Your Honor, just for  
25 clarification, I don't -- if we're talking about the

1 so-called Joplin issues, and we had that discussion  
2 earlier, we do not have cross for Mr. Grubb on those. I  
3 haven't gone beyond that at this point. I think he will  
4 be back.

5 MR. ENGLAND: That is correct.

6 JUDGE JONES: Any cross-examination from  
7 Joplin?

8 MR. ELLINGER: Thank you, Judge.

9 CROSS-EXAMINATION BY MR. ELLINGER:

10 Q. Good morning, Mr. Grubb.

11 A. Good morning, sir.

12 Q. I will be very brief, I promise. In  
13 looking at your surrebuttal testimony, I believe you have  
14 a copy of that in front of you?

15 A. I do.

16 Q. You make a statement on page 10 towards the  
17 bottom of the second paragraph, I believe it starts on  
18 line 21, starting with, it seems ironic. Do you see that  
19 statement?

20 A. I do.

21 Q. Okay. And you're referring to looking at  
22 Staff's allocation factors dealing with operation and  
23 maintenance costs, we call them O&M; is that correct?

24 A. That is correct.

25 Q. And I notice your testimony indicates that

1 using the Staff's allocation factor Joplin would actually  
2 receive additional cost imputation from Missouri-American  
3 Water's corporate allocation; is that correct?

4 A. That is correct.

5 Q. Have you conducted a similar analysis what  
6 happens using the Staff's allocation factors for property  
7 tax expenses?

8 A. Property taxes are a direct expense to each  
9 of the districts, so there is no allocation.

10 Q. But income tax expenses?

11 A. Income tax expense is a discrete  
12 calculation at the district level, so that there is  
13 some -- a calculation that actually will calculate the  
14 income tax expense, the current income tax expense for  
15 each district within the company's filing.

16 Q. There are a number of other expenses in  
17 addition to O&M expenses that are allocated using various  
18 cost allocation factors; is that not correct?

19 A. That's true. There's some depreciation  
20 from corporate assets that's on the books. There's PSC  
21 assessment fees. What I looked at was simply the cost  
22 associated with the operation and maintenance, which was  
23 the majority of costs.

24 Q. And you have not looked at those other  
25 issues, just appreciation, PSC fee, things of that type to

1 see how the costs -- the Staff's allocation factors would  
2 impact each district?

3 A. Not for my surrebuttal testimony, I did  
4 not.

5 Q. Okay. Thank you. Also have a couple  
6 questions dealing with consistency, and I'm on the same  
7 page of your testimony, and it's simply the first  
8 paragraph that's there that starts on line 6. Do you see  
9 where I'm talking about in your testimony, sir?

10 A. I have it.

11 Q. I note that there's some discussion about  
12 internal consistency or inconsistency regarding allocation  
13 of corporate costs. Is that how you understand that  
14 paragraph to be discussed? Sir, let me strike that  
15 question and phrase it differently.

16 Looking at that first paragraph of your  
17 testimony on page 10, do you understand that you're  
18 discussing the consistency of allocating corporate costs  
19 to districts versus allocating costs to customer classes  
20 and referring to Mr. Herbert's testimony to that effect?

21 A. The question and answer is actually  
22 directed more to your witness, Mr. Ellinger, concerning  
23 his contention that the company is inconsistent because we  
24 are using different allocation factors, and the reason  
25 being, is one is to determine a revenue requirement for

1 each of the districts, and then the cost of service study  
2 which determines and allocates costs based upon the usage  
3 and demand characteristics for the customers in that  
4 district, which to me and I believe are two different  
5 exercises and can in some cases call for different  
6 allocation factors.

7 Q. But wouldn't you agree that when you're  
8 looking to allocate corporate costs, you should look for  
9 the best and most direct relationship between cost  
10 causers?

11 A. Cost causation is one determination. In my  
12 testimony I talk about stability. You may have an  
13 allocation factor in one case that allocates costs to a  
14 district. In the next case it actually would flip and go  
15 significantly in the other direction. And it's very  
16 difficult to sometimes talk to the ratepayers and the  
17 customers and say, well, part of your rate increase is  
18 because of a change in a rate, you know, an allocation  
19 factor used within the last case versus this case. One of  
20 the determinations is stability from one case to another.  
21 It's important.

22 Another is the cost of, you know, possibly  
23 looking at what causes the cost. You know, there are many  
24 allocation factors that can be used throughout the  
25 process. We believe all those allocation factors get back

1 in one way or another to the number of customers, and that  
2 was our approach.

3 Q. And is that your approach both with  
4 allocating the districts and with respect to allocating  
5 the customer classes?

6 A. The allocation of customer classes is a  
7 recommendation made by Paul Herbert, our witness who will  
8 be here next week. I agree with his allocation factors in  
9 determining the costs to go to the various functional rate  
10 classes based upon demand characteristics and other  
11 characteristics.

12 Q. And we're only talking about this rate case  
13 currently, correct? You've referenced other rate cases,  
14 other companies, but we're only dealing with this current  
15 rate case for Missouri-American Water; is that correct?

16 A. That's correct.

17 Q. And the allocation methods that are used to  
18 allocate corporate costs to the districts are different  
19 than the allocation methods used to allocate costs to  
20 customer classes; isn't that correct?

21 A. In this case?

22 Q. In this case.

23 A. There are differences, yes.

24 MR. ELLINGER: Thank you. No further  
25 questions.

1 JUDGE JONES: Mr. Dority, I see you here.  
2 Do you have questions?

3 MR. DORITY: I have none. Thank you,  
4 Judge.

5 JUDGE JONES: We'll move on to the Office  
6 of Public Counsel.

7 MS. BAKER: I have no questions, thank you.

8 JUDGE JONES: Staff?

9 MS. BRUEGGEMANN: Just a couple of  
10 questions, your Honor. Thank you.

11 CROSS-EXAMINATION BY MS. BRUEGGEMANN:

12 Q. Now, Mr. Grubb, American Water Service  
13 Company does use customer numbers for its regulated  
14 entities or at least at your 70 percent level; is that  
15 right?

16 A. Well, the charges from American Waterworks  
17 Service Company for the services it bills to the regulated  
18 entities is based upon the number of customers as an  
19 allocation basis when direct charges cannot be identified.

20 Q. Okay. Now, and Missouri-American has  
21 adopted that stance at least for 70 percent of the  
22 allocation factors that customer numbers should be used?

23 A. Well, we looked at all the corporate costs  
24 of Missouri-American, which are different from the costs  
25 of the service company that are allocated to all the

1 utilities. A piece of the corporate cost of American --  
2 I'm sorry, Missouri-American are the costs that come from  
3 the service company. They also include pensions, OPEBs,  
4 some labor cost of corporate employees of  
5 Missouri-American Water. But 70 percent of operating  
6 costs are allocated based upon customers for this rate  
7 case to the districts.

8 Q. Okay. And when it comes to American Water  
9 Services using its three factor method for allocation of  
10 the nonregulated entities, why -- why is that their  
11 standard? Why do they use that?

12 A. There's a good -- that's a good question.  
13 There's a reason for that is because the nonregulated  
14 entities are not water companies. They don't have  
15 customers per se like the regulated companies. So there  
16 has to be a mechanism, you know, developed that would  
17 recognize that the nonregulated -- for example, AWR is a  
18 nonregulated entity of American Water which provides  
19 services. They don't necessarily have water customers.  
20 They have customers, but they don't have the water  
21 customers in the same sense as Missouri-American does.

22 There are other nonregulated businesses  
23 really maybe have one customer, okay, one customer, and  
24 it's a business that they provide services to for, you  
25 know, maybe carbon leases or something of that nature.

1 And to use customers as an allocating factor would not  
2 allocate enough costs to them versus a Missouri-American  
3 or an Illinois-American or Pennsylvania-American. So  
4 because they're not a regulated water utility, we had to  
5 determine and utilize different allocation factors so that  
6 an appropriate amount is allocated and charged to the  
7 nonregulated entities.

8 Q. Okay. But it is clear that those service  
9 companies do have customers, just not water utility  
10 customers?

11 A. Well, you may have one customer of one  
12 regulated -- or I'm sorry, one nonregulated entity, and if  
13 you use customers as an allocator, it just wouldn't work.  
14 They would get so minimal amount of allocation factor, it  
15 just wouldn't work.

16 Q. So then part of the allocation becomes the  
17 employee numbers or the labor numbers for them to use for  
18 the employees supporting this service, the company?

19 A. Correct.

20 MS. BRUEGGEMANN: No further questions.

21 JUDGE JONES: Commissioner Jarrett, do you  
22 have questions?

23 COMMISSIONER JARRETT: I have no questions.

24 JUDGE JONES: Okay. We'll move to  
25 redirect.

1 MR. ENGLAND: No redirect, your Honor.

2 JUDGE JONES: Okay. Mr. Grubb, you may  
3 step down.

4 THE WITNESS: Thank you, Judge.

5 JUDGE JONES: Staff can call its witness.

6 MS. BRUEGGEMANN: Staff calls Paul Harrison  
7 to the stand.

8 (Witness sworn.)

9 JUDGE JONES: Thank you, sir. You may be  
10 seated.

11 PAUL HARRISON testified as follows:

12 DIRECT EXAMINATION BY MS. BRUEGGEMANN:

13 Q. Would you state your name for the record,  
14 please.

15 A. It's Paul R. Harrison.

16 Q. And where are you employed?

17 A. I'm a regulatory auditor with the Missouri  
18 Public Service Commission.

19 Q. And did you have the opportunity to prepare  
20 and file testimony in this case?

21 A. I did.

22 Q. Okay. Did you prepare surrebuttal  
23 testimony that has been labeled as Staff's Exhibit 10?

24 A. I did.

25 Q. And did you prepare a section in the cost

1 of service report at page -- I believe beginning at  
2 page --

3 A. 21.

4 Q. -- 21; is that true?

5 A. That is correct.

6 Q. Okay. And --

7 A. Under corporate allocation costs.

8 Q. Now, you actually prepared quite a few  
9 sections in this cost of service report, did you not?

10 A. That's correct.

11 Q. Okay. And that included deferred income  
12 taxes under Section 6H?

13 A. That's correct.

14 Q. And the majority of Section 7?

15 A. That's correct.

16 Q. Except for Kim Bolin's external affairs  
17 or --

18 A. Right.

19 Q. Lobbying section under H, and Section 8.4,  
20 compensation for services provided to American Water?

21 A. That's correct.

22 Q. And the Belleville lab expense section at  
23 page 50?

24 A. That is correct.

25 Q. And current and deferred income tax, that

1 whole Section F at page 51?

2 A. That's correct.

3 Q. And did you prepare Appendix 3, the Staff  
4 corporate allocation factor?

5 A. That is correct.

6 Q. Did you also contribute to the accounting  
7 schedules at all?

8 A. Yes. All of the auditors contributed to  
9 Staff's accounting schedule.

10 Q. Okay. So you provided information that was  
11 used in computing and putting together the accounting  
12 schedule under Staff Exhibit 6?

13 A. That is correct.

14 Q. Okay. And you were aware that a revised  
15 Staff accounting schedule went out under Staff 6A?

16 A. Yes.

17 Q. And then were -- well, strike that.

18 Okay. Now, if you were asked the same  
19 questions or asked for the same information as provided in  
20 that cost of service report or the information in the  
21 accounting schedules or your surrebuttal testimony, would  
22 your answers be the same today?

23 A. Yes, they would.

24 Q. And was the information you provided in  
25 these things true and accurate to the best of your

1 knowledge and belief?

2 A. Yes, it is.

3 MS. BRUEGGEMANN: I would ask for  
4 admittance of Staff Exhibit 10, which is Paul Harrison's  
5 surrebuttal testimony.

6 JUDGE JONES: Any objection?

7 MR. ELLINGER: No objection.

8 MR. ENGLAND: No objection.

9 JUDGE JONES: Staff Exhibit 10 is admitted  
10 to the record.

11 (STAFF EXHIBIT NO. 10 WAS MARKED AND  
12 RECEIVED INTO EVIDENCE.)

13 MS. BRUEGGEMANN: I tender the witness for  
14 cross-examination.

15 JUDGE JONES: Any cross-examination from  
16 AGP?

17 MR. CONRAD: No, your Honor. Thank you.

18 JUDGE JONES: Joplin?

19 MR. ELLINGER: No, your Honor. Thank you.

20 JUDGE JONES: Office of Public Counsel?

21 MS. BAKER: No, your Honor.

22 JUDGE JONES: Missouri-American Water?

23 MR. ENGLAND: No, your Honor.

24 JUDGE JONES: Commissioner Jarrett?

25 COMMISSIONER JARRETT: No questions. Thank

1 you.

2 JUDGE JONES: Mr. Harrison, you may step  
3 down. Joplin, you can call your witness.

4 MR. ELLINGER: Thank you, Judge. Call  
5 Dr. Michael Ileo, please.

6 JUDGE JONES: Good morning, Mr. Ileo.

7 THE WITNESS: Good morning.

8 JUDGE JONES: Would you please raise your  
9 right hand.

10 (Witness sworn.)

11 JUDGE JONES: Thank you, sir. You may be  
12 seated.

13 MICHAEL ILEO testified as follows:

14 DIRECT EXAMINATION BY MR. ELLINGER:

15 Q. Dr. Ileo, would you state your name for the  
16 record, please.

17 A. My name is Michael J. Ileo, I-l-e-o.

18 Q. And would you state for whom you are  
19 employed, by whom you're employed?

20 A. I'm the chief economist, Technical  
21 Associates, Incorporated.

22 Q. And did you cause to be prepared under your  
23 oversight or directly testimony that's been filed in this  
24 case, direct testimony and rebuttal testimony?

25 A. I did.

1 Q. And you are the same Michael J. Ileo,  
2 Ph.D., who filed that rebuttal and direct testimony in  
3 this case?

4 A. Yes.

5 MR. ELLINGER: May I approach the witness,  
6 Judge?

7 JUDGE JONES: Yes, you may.

8 BY MR. ELLINGER:

9 Q. Handing you what's been previously marked  
10 as Exhibit JOP-1 and JOP-2. Is JOP-1 your direct  
11 testimony which you had filed with this Commission?

12 A. It is.

13 Q. Is JOP-2 your rebuttal testimony that you  
14 filed with this Commission?

15 A. Yes.

16 Q. Do you have any corrections to Exhibit  
17 JOP-1, your direct testimony?

18 A. Yes. I have two corrections. Page 10,  
19 line 18.

20 MR. ENGLAND: Excuse me a second. Was this  
21 your rebuttal?

22 MR. ELLINGER: Direct testimony.

23 MR. ENGLAND: Thank you.

24 THE WITNESS: Again, at page 10, line 18,  
25 the reference CAS-5 should be corrected to CAS-15, and

1 then at page 17, line 4, the word considerably should be  
2 considerable.

3 BY MR. ELLINGER:

4 Q. Do you have any corrections or changes to  
5 your rebuttal testimony, Exhibit JOP-2?

6 A. Yes. I have one correction at page 20.  
7 It's in the Footnote A to the table that appears on that  
8 page. It's approximately line, I believe 23. The  
9 reference Schedule ELG-4 should be changed to Schedule  
10 ELG-5.

11 Q. Do you have any other changes or  
12 corrections to your testimony?

13 A. No.

14 Q. If I were to ask you each question as  
15 stated in your testimony, would you give the same answers  
16 that you previously submitted in your direct and rebuttal  
17 testimony?

18 A. Yes.

19 Q. And are those answers true and accurate to  
20 the best of your knowledge, information and belief?

21 A. They are.

22 MR. ELLINGER: With that, Judge, I would  
23 move admission of Exhibits JOP-1, which is the direct  
24 testimony of Dr. Ileo, and JOP-2, which is the rebuttal  
25 testimony of Dr. Ileo.

1 JUDGE JONES: Any objections?

2 MR. ENGLAND: No objection.

3 JUDGE JONES: Exhibit JOP-1 and JOP-2 are  
4 admitted into the record.

5 (JOPLIN EXHIBIT NOS. JOP-1 AND JOP-2 WERE  
6 MARKED AND RECEIVED INTO EVIDENCE.)

7 MR. ELLINGER: Tender the witness for  
8 cross-examination.

9 JUDGE JONES: Cross-examination, AGP?

10 MR. CONRAD: Thank you, Judge.

11 CROSS-EXAMINATION BY MR. CONRAD:

12 Q. Good morning, Dr. Ileo.

13 A. Good morning.

14 Q. I believe your testimony JOP-1, page 5,  
15 indicates that you were retained by the city of Joplin; is  
16 that correct?

17 A. That's correct.

18 Q. Who initially contacted you with regard to  
19 this engagement?

20 A. I'm sorry. I didn't hear all of that  
21 question.

22 Q. Who initially contacted you with regard to  
23 this engagement?

24 A. Mr. Ellinger.

25 Q. And the stated purpose of the engagement

1 is, sir?

2 A. To assess the company's filing in this  
3 proceeding on behalf of the City of Joplin.

4 Q. Now, what work have you done, sir, to  
5 familiarize yourself with the operations of the Joplin  
6 district?

7 A. I've tried to examine everything that the  
8 company has filed in this proceeding, as well as what the  
9 Commission Staff has filed, Office of Public Counsel and  
10 to some degree other parties in this case.

11 Q. Do you have a listing of the other  
12 districts in which the company operates?

13 A. I could refer to a listing. I don't have  
14 one right in front of me at the moment.

15 Q. Would the list on page 5 be that to which  
16 you're referring, of Joplin 1, JOP-1?

17 A. Well, that would not be an entire listing.  
18 I don't believe there are any sewer districts listed  
19 there. That is at least a partial listing.

20 Q. The district that's referred to as  
21 St. Charles, you have subsumed that within the St. Louis  
22 Metro District; am I correct?

23 A. That's correct. Mr. Herbert's study  
24 utilizes the St. Louis Metro, which I believe is two other  
25 districts effectively subsumed in that categorization.

1 Q. Dr. Ileo, have you ever visited the water  
2 works in St. Joseph?

3 A. No.

4 Q. Have you ever set foot in St. Joseph?

5 A. Yes, many, many years ago, I went to school  
6 at Columbia and spent quite a bit of time in Missouri  
7 generally.

8 Q. So you're familiar with the -- well, let's  
9 just ask. Do you know how old the current water works are  
10 in St. Joseph?

11 A. I do not.

12 Q. Have you done any studies concerning the  
13 St. Joseph district?

14 A. I'm not sure I understand your question.

15 Q. Have you done any studies that concern the  
16 St. Joseph district?

17 A. I've examined the company's proposals with  
18 respect to many of its districts and also examined in  
19 particular Commission Staff's proposals with respect to  
20 the company's districts. I have not done any independent  
21 study of any of the districts outside of what has been  
22 presented in this proceeding by the company and other  
23 parties.

24 Q. So if you were to -- if I were to ask you  
25 where the St. Joseph Water Works is located, you would not

1 know; is that correct?

2 A. I would not know, that's correct.

3 Q. If I were to ask you the source of water  
4 for the St. Joseph Water System, you would not know for  
5 sure, I take it?

6 A. That's correct.

7 Q. Now, if I understand, at least a good part  
8 of JOP-1, being your direct testimony, you take some issue  
9 with the company insofar as their accounting methods do  
10 not align in your view with the Uniform System of  
11 Accounts; is that correct?

12 A. That's incorrect.

13 Q. That's incorrect?

14 A. Yes.

15 Q. What would be necessary to correct my  
16 statement?

17 A. Their methods of presentation do not align  
18 with the Uniform System of Accounts. I -- as best that I  
19 can determine, the company's accounting records are fairly  
20 accurate.

21 Q. Why is that an important point?

22 A. The ability of one to be able to trace  
23 amounts internally within any regulated entity is greatly  
24 facilitated by Uniform System of Accounts designation.  
25 That was the purpose of the creation of Uniform System of

1 Accounts for all utilities.

2 Q. So I take it that you would be supportive  
3 of efforts to better align the presentation as you've  
4 characterized it of the company's data in future cases  
5 with Uniform Systems Of Accounts?

6 A. Yes, very much so.

7 Q. Now, is that also an important part of  
8 being able to do a cost of service study accurately?

9 A. Yes. Greatly facilitates the application  
10 of cost of service principles.

11 Q. And you have not done such a study in this  
12 case independently?

13 A. That's correct.

14 MR. CONRAD: Thank you, your Honor. That's  
15 all I have.

16 JUDGE JONES: Mr. Dority, do you have any  
17 questions?

18 MR. DORITY: Not at this time. Thank you.

19 JUDGE JONES: Questions from office of the  
20 Public Counsel?

21 MS. BAKER: No, thank you.

22 JUDGE JONES: Staff of the Commission?

23 MS. BRUEGGEMANN: No questions. Thank you.

24 JUDGE JONES: Missouri-American Water?

25 MR. ENGLAND: Thank you, your Honor.

1 CROSS-EXAMINATION BY MR. ENGLAND:

2 Q. Good morning, Dr. Ileo.

3 A. Good morning.

4 Q. We met before the hearing, but just for  
5 purpose of the record, I'm Trip England. I represent the  
6 company in this proceeding.

7 I'd like to follow up on a couple of  
8 questions from Mr. Conrad, sort of preliminary background,  
9 if you will, questions. It's my understanding that you  
10 were retained by the City of Joplin for purposes of this  
11 case on or about August 14th of this year; is that right?

12 A. That's a fair statement, yes.

13 Q. And I believe you executed a certificate  
14 that was filed with this Commission acknowledging  
15 compliance with the Commission rules regarding the  
16 handling of confidential information on or about  
17 August 19th of this year?

18 A. I did execute that document. I can't  
19 recall the specific date.

20 MR. ENGLAND: May I approach the witness?

21 JUDGE JONES: Yes, you may.

22 BY MR. ENGLAND:

23 Q. Dr. Ileo, I've handed you what I believe is  
24 a copy of that certificate. Does that look familiar to  
25 you?

1 A. Yes.

2 Q. And can you tell from that when you did  
3 execute the certificate?

4 A. August 19th.

5 Q. Thank you, sir. We had asked some  
6 questions, some Data Requests regarding the cases that you  
7 list on Schedule MJI-1 to your direct testimony. Do you  
8 recall those questions generally?

9 A. Yes.

10 Q. My -- and I'm going to try to characterize  
11 or hopefully accurately summarize some of the responses.  
12 It's my understanding that of those cases listed on the  
13 schedule attached to your direct testimony, that less than  
14 a dozen involve water utilities either directly or  
15 indirectly?

16 A. That's a fair statement, yes.

17 Q. And would you agree with me that none of  
18 those dozen water utility cases were before the Missouri  
19 Public Service Commission?

20 A. That's true.

21 Q. And if I read your responses correctly, it  
22 appears that in only one of those water cases in which you  
23 participated was the issue of corporate allocations an  
24 issue?

25 A. Yes.

1 Q. In that case, did you perform any study or  
2 make any recommendations regarding a set of allocation  
3 factors?

4 A. Yes.

5 Q. And on whose behalf did you make those?

6 A. That was on behalf of the City of Bristol,  
7 Virginia.

8 Q. Were they the utility in question?

9 A. Yes, it was.

10 Q. Okay. Thank you. Would you agree with me  
11 that in developing a set of corporate cost allocation  
12 factors, that they should be used consistently for  
13 allocating costs to all districts?

14 A. Yes, and I would -- I would like to add to  
15 that, it should extend to all subsidiaries of all  
16 affiliates of the corporate entity. However, that -- the  
17 structure of the entity might be organized. If it's  
18 organized by districts, then each of the districts should  
19 face the same set of allocation factors.

20 Q. And would you agree with me that the  
21 purpose of using the same set of allocation factors is to  
22 make sure that none of the costs are either overallocated  
23 or underallocated?

24 A. Yes.

25 Q. I also understand from your Data Request

1 responses that in none of those dozen or so water utility  
2 cases did you perform a customer class cost allocation  
3 study, correct?

4 A. Not with respect to the water -- water  
5 customers of Bristol, Virginia Utilities, yes.

6 Q. Or the other water cases that were in that  
7 schedule, correct?

8 A. I believe that's correct.

9 Q. And I also assume from that answer that you  
10 did not perform an intra-customer-class load study for any  
11 of those water cases?

12 A. Not with respect to the water customers,  
13 yes.

14 Q. Thank you. Excuse me a second. Would you  
15 turn to your, I believe it's your rebuttal testimony,  
16 page 24. At lines 3 through 5, you state, thus both RSP,  
17 which I understand to be revenue stability and  
18 predictability, and rate change gradualism should be  
19 considered in the ultimate design of rates. Do you see  
20 that?

21 A. Yes.

22 Q. Is it fair for me to take from that  
23 statement that you would agree that cost of service is not  
24 the only consideration in the setting of utility rates?

25 A. Yes.

1           Q.       Are there any other factors that you would  
2 consider appropriate for designing rates other than cost  
3 of service, RSP and rate change gradualism?

4           A.       Efficiency and consumption and production  
5 is an important objective in my opinion.

6           Q.       Can you elaborate on efficiency, please?

7           A.       I think rate design should have the  
8 function of conservation, such that people are not  
9 encouraged to consume to a greater extent than what might  
10 be needed. That also achieves efficiency on the  
11 production side of the market so the utilities are not  
12 required to go out and spend sums for consumptions that  
13 would not otherwise be needed. So rate design can serve  
14 an important function with respect to achieving those  
15 goals.

16          Q.       Can you elaborate on the second element? I  
17 didn't write it down, but I think you were -- in addition  
18 to efficiency, did you say consumption?

19          A.       Well, it would be efficiency on both the  
20 consumption and the production side of the market, but  
21 embodied in the notion of efficiency on the consumption  
22 side is the idea of conservation as well. Water is a  
23 valuable resource, and it should not be wasted.

24          Q.       Let me ask you some questions about your  
25 phase-in proposal, if I may. I understand that your

1 proposed phase-in of the rate increase for the Joplin  
2 district is based on the notion of rate change gradualism,  
3 correct?

4 A. Yes.

5 Q. And if I understand your specific proposal  
6 correctly in this case, you propose to limit Joplin's  
7 increase to 6 percent a year even though the district-  
8 specific costs might indicate a rate increase of in excess  
9 of 20 percent; is that correct?

10 A. Yes.

11 Q. Let me ask you a hypothetical, if I may.  
12 If in this case Joplin's district-specific costs indicated  
13 no increase or even a slight decrease, would it be  
14 appropriate to implement a 6 percent increase  
15 nevertheless?

16 A. I'm not sure I understand the question.

17 Q. Okay. If Joplin's costs in my hypothetical  
18 would indicate that they have no revenue deficiency or  
19 perhaps a slight revenue excess, would you nevertheless  
20 propose in the context of a rate case that their rates be  
21 increased by 6 percent?

22 A. Conceivable that I might.

23 Q. Okay.

24 A. Under the hypothetical that -- we'd have to  
25 extend it to consider more things, such as if the overall

1 system increase might be 50 or 60 percent, but there may  
2 be districts that would be -- on the basis of their own  
3 cost of service would receive little, if any, rate  
4 increase.

5           There's an issue then about a rate change  
6 abruptness for the system as a whole, and so taking into  
7 account the affordability, rate gradualism, all the other  
8 factors that should be taken into account with rate  
9 design, it's conceivable that I might represent that  
10 Joplin should sustain some increase even though the cost  
11 of service for Joplin per se or any district indicates  
12 that it should sustain no increase.

13           Q.       Let me add a feature to that hypothetical.  
14 In the present rate case, we're assuming that Joplin --  
15 Joplin's indicated costs are such that it would receive no  
16 rate increase, but what if in the near term, say three to  
17 five years, the company would be spending significant  
18 capital to upgrade and expand the treatment plant in  
19 Joplin and rates were predicted to be or to increase 50  
20 percent as a result of that upgrade in expansion, would  
21 you propose in the instant rate case a 6 percent increase  
22 in Joplin?

23           A.       I haven't considered that prospect because,  
24 as I understand it, Joplin's situation, much of this plant  
25 that is attributable to Joplin has either gone into

1 service or -- or is under construction and will be in  
2 service at some point in the not too distant future, such  
3 that Joplin's situation is kind of a retrospective view of  
4 what your hypothetical is setting forth.

5           But in the interest of rate gradualism  
6 looking forward, I think one needs to think about a  
7 phase-in on a forward-looking basis as well as on a  
8 retrospective basis.

9           Q.       Would you agree with me that a phase-in  
10 might be appropriate both for the purpose of limiting or  
11 mitigating an actual existing rate increase as well as a  
12 situation where there's no actual or imminent rate  
13 increase but perhaps a future rate increase indicated?

14           A.       My answer would be yes. I think, as you're  
15 well aware, I proposed a forward-looking test period  
16 concept as opposed to this true-up, retrospective true-up,  
17 and to the extent that a forward-looking test period would  
18 result in a significant increase, and to avoid rate shock  
19 and abrupt rate change, a phase-in of rates based on a  
20 forward-looking period would not -- would be appropriate  
21 in my judgment.

22           Q.       I want to come back to an answer you'd  
23 given me earlier, and let me ask you this: What about a  
24 rate contribution, if you will -- or excuse me, a revenue  
25 contribution from one district to another, in your

1 opinion, is that an appropriate consideration in an  
2 ultimate design of rates?

3 A. If a severe rate change abruptness problem  
4 is posed and there is an interest, which I think a genuine  
5 interest there should be, in achieving gradualism in rate  
6 design, yes. I would have -- I believe such provisions is  
7 fully consistent with sound regulatory practice.

8 Q. Have you ever heard of the term or concept  
9 single tariff pricing in the water utility industry?

10 A. Well, you've limited the single to the  
11 water utility. I'm generally familiar with the concept as  
12 applicable to all utility sectors, so I can't say if I've  
13 ever heard it in the isolated context of just water  
14 utilities.

15 Q. Let me have you explain then your  
16 understanding as it applies to all utilities.

17 A. One rate for all -- for all units of  
18 consumption.

19 Q. Do you think would be appropriate, that is  
20 single tariff pricing, for a company such as  
21 Missouri-American that serves distinct, discrete,  
22 unconnected districts within the same state?

23 A. I could not foreclose on that situation,  
24 but I think cost data would likely not support all  
25 geographic areas paying precisely the same price.

1           Q.       Do I infer from that that you might support  
2 a modified form of single tariff pricing that would  
3 consider discrete cost differences but still average other  
4 costs across the state and across the districts?

5           A.       Well, I haven't thought about it in great  
6 detail, but I do not have difficulty with your  
7 characterization.

8           Q.       And that might be an appropriate  
9 consideration for the ultimate design of rates, in your  
10 opinion?

11          A.       Yes, because again, it implicitly takes  
12 into account the kind of ideas and standards of, in my  
13 judgment, good pricing of utility services, such as  
14 conservation, efficiency, cost of service considerations,  
15 and it's a -- achieves a balancing of those various goals.

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

18                   JUDGE JONES: Commissioner Murray, do you  
19 have questions of Michael Ileo?

20                   COMMISSIONER MURRAY: I do not. Thank you.

21                   JUDGE JONES: Commissioner Clayton?

22                   COMMISSIONER CLAYTON: Pass.

23                   JUDGE JONES: Commissioner Jarrett?

24                   COMMISSIONER JARRETT: Yes.

25                   QUESTIONS BY COMMISSIONER JARRETT:

1 Q. Good morning, Doctor.

2 A. Good morning.

3 Q. I wanted to ask a question about, I guess  
4 it's your rebuttal testimony on page 24.

5 A. Yes.

6 Q. Excuse me. 26. I'm sorry. 26. Starting  
7 with your answer on line 18, when you talk about numerous  
8 internal inconsistencies, could you elaborate on that for  
9 me and give me an example from the case where they have  
10 done this?

11 A. Let me preface my remarks addressing your  
12 question directly. I believe there should be as much  
13 consistency as possible in allocating costs from the  
14 corporate level to subsidiary or district levels and then  
15 taking those same costs once they hit the district level  
16 and allocating them to customer classes. The same line of  
17 reasoning or logic should underlie that set of cost  
18 allocations, and that's what I refer to as internal  
19 consistency.

20 I acknowledge that this may not be possible  
21 to achieve in all instances, but those instances should be  
22 identified, and then when it's not possible, we have a  
23 basis for deviation. But otherwise it should be the same  
24 cost allocation methodology.

25 In my Schedule 5 -- MJI-5 to my rebuttal

1 testimony is a comparison of 12 accounts that shows the  
2 methods by which the company has allocated costs or  
3 expenses to districts as compared to customer classes  
4 within districts. And I'll just take the first one listed  
5 there, uncollectible accounts. In allocating costs  
6 associated with uncollectible accounts, the district, the  
7 company uses revenues. Once uncollectible accounts are  
8 assigned to districts, it allocates uncollectible accounts  
9 within those districts on the basis of customers.

10                   As I point out in my testimony, I don't  
11 believe either of those allocators are good ones, because  
12 I think uncollectible accounts should be directly  
13 attributed to district and customer classes. However,  
14 that said, if revenue is an appropriate allocation basis  
15 in allocating uncollectible accounts to districts, then it  
16 should also be an appropriate allocation in allocating  
17 uncollectible accounts to customer classes. That's --  
18 that's the essence of my testimony in that regard.

19           Q.       Okay. And then I did want to go back to  
20 page 24 of your rebuttal testimony.

21           A.       Yes, I have it.

22           Q.       And you had a discussion with Mr. England  
23 talking about the rate change gradualism. Do you recall  
24 that?

25           A.       Yes.

1           Q.       And then you were also talking about some  
2 other factors that you might consider appropriate other  
3 than just cost factors in rates.

4           A.       Yes.

5           Q.       I think one of them was talking about  
6 encouraging conservation and efficiency?

7           A.       Yes.

8           Q.       And I believe he used a hypothetical, I  
9 can't remember the numbers, but hypothetical, for example,  
10 where under cost-based allocation it would -- you know,  
11 Joplin would get a 10 percent increase, but using that  
12 rate change gradualism, you might lower that to 5 percent?

13          A.       And phase it in over -- I think that was  
14 the context, phase it in over two years. So in the first  
15 year, Joplin would only confront, say, 5 percent, and then  
16 an additional perhaps 5 and a half or 6 percent in the  
17 second year, so we'd have gradualism. Joplin would  
18 ultimately end up with 11 percent increase over two years  
19 as opposed to a 10 percent increase in a single year.

20                   Now, people that are on fixed incomes, they  
21 have to budget. If they're confronted with only 5 -- even  
22 though they may ultimately pay more over a two-year  
23 period, they're better able to cope with 5 percent one  
24 year, 6 percent the other, rather than 10 percent all in  
25 one year. That's particularly true in these very hard

1 times that Americans generally are undergoing. This is a  
2 very severe economic recession.

3           So gradualism, the notion of gradualism and  
4 phase-in, in my opinion is particularly -- concepts that  
5 are particularly worthwhile at this point given the  
6 economic times that they're currently confronting.

7           Q.     Right. So first year -- say we agree it  
8 should be a 10 percent increase. First year, because of  
9 this gradualism, they pay 5 percent. Who makes up that  
10 other 5 percent?

11          A.     Well, the company would bear that cost, but  
12 what the company would be bearing would be essentially the  
13 carrying cost, the capital costs of having not received an  
14 additional 5 percent today. So Joplin would have to make  
15 the company whole next year by paying the company that --  
16 those carrying costs.

17          Q.     So it's basically like a loan?

18          A.     Essentially, yes.

19          Q.     And if the actual cost is 10 percent and  
20 Joplin the first year only pays 5 percent, how does that  
21 encourage conservation and efficiency if they're not  
22 paying -- if the customer's not getting that price signal,  
23 the true price signal of the actual cost?

24          A.     That's the balancing of the two essentially  
25 competing goals. On the one hand, you want to achieve

1 conservation, but you also recognize that your pursuit of  
2 that goal, there are going to be lots of folks that are  
3 going to have affordability problems, and some of those  
4 folks, while they're going to cut back on their  
5 consumption, their lifestyle's actually going to be  
6 changing.

7                   Now, I can't tell you where those tradeoffs  
8 are. I can speculate that both of them are going on,  
9 however, and ultimately that's your job, to, you know, in  
10 your wisdom to balance these competing things and come up  
11 with the best solution.

12           Q.       Right. I guess that's why we get paid the  
13 big bucks, right?

14           A.       Yes.

15                   COMMISSIONER JARRETT: Thank you, Doctor.  
16 I have no further questions.

17                   COMMISSIONER CLAYTON: No questions, Judge.

18                   COMMISSIONER MURRAY: Judge, I do have  
19 some.

20                   JUDGE JONES: Commissioner Murray?

21 QUESTIONS BY COMMISSIONER MURRAY:

22           Q.       Good morning.

23           A.       Good morning.

24           Q.       In terms of allocation among the districts,  
25 if management fees, for example, certain operating costs,

1 and I think I'm probably referring to your Schedule MJ1 --  
2 MJ1-5, the last three items on there, they're allocated to  
3 districts by customers, number of customers?

4 A. Yes.

5 Q. And does that allocation result in larger  
6 districts paying more than what their actual cost would be  
7 because obviously they have more customers?

8 A. I don't know. I have not -- I have not  
9 carried my analysis to that point. The only thing I have  
10 done at this point in time is identify what I perceived as  
11 inconsistencies. I don't believe the company has  
12 appropriately defended, if you will, the inconsistencies.  
13 But I can't say to you at this stage it causes material  
14 imbalances among the districts in the way costs are  
15 ultimately allocated.

16 Q. Okay. Just when I read the company's  
17 position on those allocations, it appears to me that it  
18 would result in larger districts actually absorbing more  
19 of the cost, but that's not necessarily a given?

20 A. Well, in absolute amount, yes. The larger  
21 the number of customers in a district, the more that  
22 district is going to bear those costs. But if there is a  
23 better allocator, an allocator that more -- is more  
24 reflective of cost causation, I can't say to you whether  
25 the larger districts would end up with more or less

1 management fees than they presently receive under a  
2 customer allocation.

3 COMMISSIONER MURRAY: Okay. Thank you.

4 JUDGE JONES: Okay. Recross from AGP?

5 MR. CONRAD: No, thank you.

6 JUDGE JONES: OPC?

7 MS. BAKER: No questions. Thank you.

8 JUDGE JONES: Staff?

9 MS. BRUEGGEMANN: No questions, your Honor.

10 JUDGE JONES: Missouri-American Water?

11 MR. ENGLAND: No, thank you.

12 JUDGE JONES: Redirect?

13 MR. ELLINGER: Thank you, your Honor.

14 REDIRECT EXAMINATION BY MR. ELLINGER:

15 Q. Dr. Ileo, I'd like to first go back to  
16 Commissioner Murray's question regarding doing an analysis  
17 of the effect of those various allocation factors on each  
18 district. Do you recall the Commissioner's questions  
19 about that just a moment ago?

20 A. Yes.

21 Q. And I think you testified that you did not  
22 carry your analysis out to that point to determine the  
23 effect of each allocation factor on each district; is that  
24 correct?

25 A. That's correct.

1 Q. Why did you not carry your analysis out to  
2 that extent?

3 A. In large part because the information  
4 that's available is in my judgment not in a format that's  
5 conducive to conducting such analysis. That's not to say  
6 that the analysis can't be done. It's to say that in  
7 order to do such analysis becomes an extraordinarily  
8 burdensome and costly process, and that's why I've  
9 recommended in my direct that the Commission require of  
10 the company to provide some better presentation of  
11 information and better -- some better documentation.

12 Q. Is that all entailed in the discussion I  
13 think you had with Mr. England early on about the USOA  
14 accounting?

15 A. That's correct.

16 Q. Mr. England asked you some questions about  
17 interdistrict contributions. Do you recall those  
18 questions?

19 A. Yes.

20 Q. Are you supporting in this case any  
21 subsidies to other districts --

22 A. No.

23 Q. -- in your testimony?

24 A. I've taken no position essentially on that  
25 issue. I can't take a position on that issue because I

1 have not convinced myself, for the reason I've already  
2 indicated, as to what the true cost of service are by  
3 this.

4 Q. Why is it that you can't take a position as  
5 to what the true cost of services are?

6 A. Because I haven't done the studies, at  
7 least sufficiently, in my judgment, to reach a conclusion  
8 in that regard. I have reached the conclusion that I  
9 think the Staff's cost allocations are more internally  
10 consistent than those of the company. That's about as far  
11 as I've gone.

12 Q. And why have you not conducted those  
13 studies?

14 A. Again, because the documents available to  
15 do such analyses are not in a form that are conducive,  
16 such that in order to undertake the studies necessary,  
17 considerable effort must be expended.

18 Q. Mr. England asked -- also asked you some  
19 questions earlier on about customer class cost allocation  
20 studies in other cases, water cases specifically.

21 A. Yes.

22 Q. Have you done such studies in other utility  
23 cases?

24 A. Yes.

25 Q. And could you elaborate on what cases and

1 what types of allocation, customer cost class allocation  
2 studies you've done?

3 A. I've done customer class allocation studies  
4 for every type of electric utility, water utility, natural  
5 gas company, telephone company, steam, and some  
6 transportation utilities, as well as a number of  
7 telecommunications entities.

8 Q. But you haven't done it for water  
9 utilities; is that correct?

10 A. Not in a long time, that's correct.

11 Q. I think Mr. England also asked you about, I  
12 think it was intraclass load studies?

13 A. Yes.

14 Q. Have you conducted intraclass load studies  
15 in other utility cases?

16 A. I have.

17 Q. What type of utility cases?

18 A. Mostly electric, natural gas and  
19 telecommunications.

20 Q. And do you have any belief that such  
21 studies that are done in those other forms of utilities  
22 would be substantially different than studies that we've  
23 done in water utility cases?

24 A. No, the methodology would be identical, and  
25 I think Mr. Herbert on behalf of the company essentially

1 describes how one would go about doing those. He points  
2 out that they are expensive to do, but if you -- my  
3 position in that regard is if you believed declining block  
4 rates are appropriate, particularly in large commercial  
5 and industrial -- for large commercial and industrial  
6 customers, then such load studies ought to be done. And  
7 if not, then one should at least rely on the general  
8 research that has been -- that is available for large  
9 commercial and industrial customers with respect to almost  
10 any kind of utility service and use those, quote, general  
11 nonspecific studies as a basis for declining block rates.

12                   The company has not done that in this case.  
13 So I support the Staff's position that there should be --  
14 declining block rates should be eliminated.

15                   MR. ELLINGER: No further questions, Judge,  
16 thank you.

17                   JUDGE JONES: Okay. That completes this  
18 issue. I suggest we move on to the three issues that  
19 Mr. Ileo needs to testify on that other witnesses will  
20 testify on later today. Is that inconsistent with what  
21 you-all anticipate?

22                   MR. ENGLAND: Your Honor, I think we're  
23 done with Dr. Ileo and he can be excused. We've got a  
24 couple of witnesses that are available for  
25 cross-examination on some of the issues that -- other

1 than corporate allocations that Dr. Ileo touched on.

2 JUDGE JONES: I'm specifically talking  
3 about commodity charge, customer charge and phase-in.  
4 Everything's done with those three issues under these  
5 questions?

6 MR. ENGLAND: My understanding was that  
7 this was our one shot at him, and if we didn't have  
8 questions regarding those issues, so be it.

9 JUDGE JONES: Okay. Is that everyone's  
10 understanding? Mr. Ileo, you're excused.

11 THE WITNESS: That was my understanding,  
12 your Honor.

13 JUDGE JONES: Okay. You're excused.

14 MR. ELLINGER: Judge, is Mr. Ileo excused  
15 from testimony? He does need to go. He's from out of  
16 town. I want to make sure he can be released.

17 JUDGE JONES: Get on the plane.

18 MR. ELLINGER: Thank you, very much, Judge.

19 JUDGE JONES: Okay. We're going to the  
20 remaining issue, the Joplin issue, beginning with  
21 Missouri-American Water's Dennis Williams.

22 MR. ENGLAND: Missouri-American would  
23 recall Dennis Williams to the witness stand.

24 JUDGE JONES: I'll remind you,  
25 Mr. Williams, you remain under oath.

1 THE WITNESS: Yes, sir.

2 MR. ENGLAND: Your Honor, you indicated  
3 that the witness is still under oath, and as I understand,  
4 his exhibits are prefiled testimony MAWC-28, rebuttal  
5 testimony, and MAWC-29, surrebuttal testimony have  
6 previously been offered and received; is that correct?

7 JUDGE JONES: That's correct.

8 MR. ENGLAND: If that's the case, then I'll  
9 just tender the witness for cross-examination. Thank you.

10 JUDGE JONES: Any cross from AGP?

11 MR. CONRAD: No, sir. Thank you.

12 JUDGE JONES: Any cross from OPC -- or I  
13 should say Joplin?

14 MR. ELLINGER: Yes, Judge. Thank you,  
15 Judge.

16 DENNIS WILLIAMS testified as follows:

17 CROSS-EXAMINATION BY MR. ELLINGER:

18 Q. Good morning, Mr. Williams.

19 A. Good morning.

20 Q. My name is Mark Ellinger. I represent the  
21 City of Joplin in this case. I do have a couple of  
22 questions, if you would bear with me for a moment here.

23 When we're talking about test years and  
24 true-up, you understand that's the purpose of the  
25 testimony at this point, the issue we're dealing with

1 right now?

2 A. I do now.

3 Q. Okay. American Water has operations in  
4 other states across the nation, does it not?

5 A. It does.

6 Q. Are you aware of how other states handle  
7 test years for purposes of rate cases?

8 A. I've not worked in other American Water  
9 cases. I have been involved in other states' regulation,  
10 and different states use different approaches.

11 Q. Are you familiar with many states that use  
12 what's known as fully adjusted test year?

13 A. I'm not sure I know that term. I know  
14 projected test year. I know historical test year. Fully  
15 adjusted I assume is similar to what we do here where  
16 we've got historical and we adjust it.

17 Q. Are you familiar with the corporate  
18 financial statements of American Water?

19 A. I have seen them. I'm not intimately  
20 familiar with them.

21 Q. Are you familiar with statements in those  
22 documents from American Water Company lauding the fact  
23 that California's gone to a fully adjusted test year?

24 A. I'm not.

25 Q. When we're talking about true-up, which is

1 a proposal that you-all have put forward in this case,  
2 isn't that correct?

3 A. That is correct, yes.

4 Q. And would you agree with me that true-up in  
5 general is designed to pick up unusual, extraordinary  
6 types of events that occur after the close of the test  
7 year?

8 A. I wouldn't say it's intended to pick up  
9 unusual events. It is intended to pick up significant  
10 events, and then to match the costs that are in place at  
11 the time those significant events are reflected.

12 Q. When you talk about those significant  
13 events, those are events that perhaps arise or were  
14 unknown to the company at the time the test year was  
15 concluded but would have a material impact upon the  
16 company's operations?

17 A. Did you say that are unknown?

18 Q. That were not known and identified at the  
19 time the test year ended.

20 A. No, I wouldn't agree with that.

21 Q. Obviously one of the items that  
22 Missouri-American Water does is it has plant and equipment  
23 that it puts in service on a frequent basis; is that  
24 correct?

25 A. That is correct.

1           Q.       It is normal and usual in the regular  
2 course of business for Missouri-American Water to  
3 frequently put new plant and equipment into service; is  
4 that correct?

5           A.       That is correct.

6           Q.       It's perhaps a monthly occurrence?

7           A.       It is a monthly occurrence that  
8 construction projects are added certainly. Now, the  
9 significant, the significance of a -- an individual  
10 construction project, certainly it's going to vary if  
11 you -- for instance, we put in a -- or completed and  
12 placed into service a large construction project, a  
13 treatment facility in Joplin, in September of this year.  
14 So it's a normal construction project, but it is unusual  
15 in that it is significantly larger than the monthly  
16 additions that you're probably referring to.

17          Q.       And with respect to these larger projects,  
18 do they generally require a longer time frame for planning  
19 and development?

20          A.       They typically take a longer time for  
21 construction. I'm not sure about the timing for planning  
22 and development, but I would assume that's true as well.

23          Q.       But from a company's financial perspective,  
24 it knows that that expense is coming fairly far out in  
25 advance; is that correct?

1           A.       Certainly. We are aware and we do plan  
2 when we're making our construction expenditures, and we  
3 try to time our rate cases according to those construction  
4 expenses.

5           Q.       I'm sorry. I didn't mean to interrupt you.  
6 Did you complete your remark?

7           A.       I did.

8           Q.       The company has really unlimited  
9 flexibility in selecting what its test year will be, does  
10 it not?

11          A.       The company is the one that selects the  
12 test year that it chooses to use.

13          Q.       So knowing that a, say a large plant would  
14 be coming online, the company could adjust its test year  
15 to make sure it filed for test year that included all the  
16 expenses for that plant, could it not?

17          A.       I -- it can, and I believe it did, and I  
18 believe my testimony reflected that that's what we take  
19 into account when we -- when we select our test year.

20          Q.       Okay. So is it -- and I don't want to put  
21 words in your mouth here, sir. I think maybe there's a  
22 little inconsistency in what you just said, so I'd like to  
23 walk through it. Are you saying the test year in this  
24 case includes all the additional plant expenditures in the  
25 Joplin district, for example, and you're not asking for

1 any additional plant-related expenditures to be added to  
2 the test year revenues or expenses?

3 A. No. What I was talking about was the  
4 selection of the test year, and the selection of the test  
5 year is based upon a historical period of time, because  
6 we're required to use a historical test year in our  
7 filing. That will be reflective of the time, or once  
8 adjusted will be reflective of the time rates go into  
9 effect.

10 And we make our filing at a time that we  
11 assume or hope will be able to capture significant --  
12 significant large construction projects, such as the  
13 Joplin plant, in the true-up procedure, which has been  
14 used for a long time in Missouri. So what I'm saying is  
15 that the whole process that we've used in Missouri goes  
16 into the decision as to what test year to select.

17 Q. So what you're testifying is that -- strike  
18 that.

19 Is it true, then, that when you selected  
20 the test year in this case, you knowingly picked a test  
21 year that would not include all the plant included in  
22 Joplin and put into service; is that correct?

23 A. We selected a test year, and partially we  
24 selected a calendar test year. We could have selected a  
25 little later period, but the calendar year, it's just

1 easier to work with for all the parties. But we selected  
2 that test year based upon our knowledge of when  
3 significant plant additions would be made in the future  
4 and what period of time it would take to conduct the rate  
5 case and the true-up, and we timed that all accordingly so  
6 that we would include in the true-up period those Joplin  
7 construction -- construction projects that we've been  
8 discussing.

9                   Now, obviously those Joplin construction  
10 projects weren't completed and in service during the test  
11 year that was selected. Some of the construction, a good  
12 portion of the construction had been done during the test  
13 year, but it wasn't placed into service, and that's the  
14 whole point when we time -- when we time our rate case  
15 filing with our test year and with our construction  
16 projects. Admittedly we're trying to limit regulatory lag  
17 to the extent possible.

18           Q.       Do you recall when your last rate case  
19 rates went into effect?

20           A.       The last rates went into effect I believe  
21 in October of '07.

22           Q.       October '07. And you-all made a decision  
23 to use a 12/31/07 test year, is that correct, in this  
24 case?

25           A.       That's correct.

1           Q.       You could have waited to use a 12/31/08  
2 test year, could you not? It would have been your  
3 discretion to make that decision?

4           A.       We could have waited to file our case until  
5 '09 and the -- we would have then been earning no return  
6 on those construction projects that were made in the  
7 interim.

8           Q.       But those construction projects then would  
9 be fully completed and would have been included in the  
10 test year, would they have not?

11          A.       There would have been. Additional  
12 construction projects that would have been made after that  
13 period of time would not have been.

14                   MR. ELLINGER: No further questions. Thank  
15 you.

16                   JUDGE JONES: Cross-examination from OPC?

17                   MS. BAKER: No questions. Thank you.

18                   JUDGE JONES: Staff?

19                   MS. BRUEGGEMANN: Just a quick clarifying  
20 question to make sure that everyone's clear.

21 CROSS-EXAMINATION BY MS. BRUEGGEMANN:

22           Q.       What in your opinion is the true-up  
23 designed to do that's different from what the -- an  
24 adjusted test year is designed to do?

25          A.       Well, the true-up is designed to go out and

1 capture just those items that we have been talking about,  
2 large construction projects, perhaps large items of  
3 expense, or let's say a major customer comes on line so  
4 the revenues are going to be increased. So it's to be --  
5 create a scenario where you are more -- have more costs  
6 and revenues are more reflective of the period, the time  
7 when rates go into effect. So you're basically just  
8 updating the case to a period in time to get closer to the  
9 time that rates are going to be into effect.

10 Q. And are you familiar with Dr. Ileo's  
11 testimony regarding a fully adjusted test year six months  
12 after the close of the test -- original historical test  
13 year?

14 A. I am, yes.

15 Q. And on that six month, I figure that is  
16 June 30th, 2008 would be the six months. Is that how you  
17 read his testimony?

18 A. That's -- that's the way I read it,  
19 assuming that we selected a December 31st, '07 test year.

20 Q. Okay. So from June 30th to September 30th,  
21 how much plant in service would be excluded from  
22 consideration if that June 30th cutoff date was used?

23 A. From June 30th to September, I'm not sure  
24 of the exact amount. It would have probably been in the  
25 neighborhood of 90 to \$100 million.

1 Q. So 90 to \$100 million worth of plant was  
2 put into service estimated approximate from June -- well,  
3 July 1st through September 30th, 2008?

4 A. Right. I know 135 million or a little in  
5 excess of that was put into service between December 31st,  
6 '07, the end of the test year, and September 30th. Now,  
7 where that broke down from June to September, I'm not  
8 sure, but the largest portion of that did happen from June  
9 to September.

10 Q. And final question. Any idea how much of  
11 that approximate 90 to 100 million was plant that was put  
12 into service in Joplin?

13 A. Probably about half.

14 MS. BRUEGGEMANN: Thank you.

15 THE WITNESS: Slightly less than half.

16 JUDGE JONES: Commissioner Murray, any  
17 questions?

18 COMMISSIONER MURRAY: No questions, thank  
19 you.

20 JUDGE JONES: Commissioner Clayton?

21 QUESTIONS BY COMMISSIONER CLAYTON:

22 Q. Mr. Williams, welcome back to the  
23 Commission --

24 A. Thank you.

25 Q. -- in a different capacity. I just want to

1 follow up on Ms. Syler, Ms. Brueggemann's question  
2 regarding the amount of plant placed in service between  
3 the June/September date. You said it was somewhere  
4 between 90 and \$100 million; is that correct?

5 A. That's my estimate.

6 Q. And how would that compute into an increase  
7 in revenue requirement? That 90 to 100 million would be  
8 addition to rate base, so how does that compute into --

9 A. Well, you would apply depreciation. The  
10 depreciation expense would be annualized associated with  
11 that, and let's -- in general figures, let's say that's  
12 2 percent, and then you'd have a cost of capital assigned  
13 to that. Let's assume your capital structure is 50/50,  
14 and let's assume return on --

15 Q. Don't get too aggressive here.

16 A. Return on equity let's say is 10 percent.  
17 So -- and then you have to gross that all up for taxes.  
18 So 100 million times, let's say 13 percent, so it would be  
19 about \$13 million.

20 Q. 13 million dollars. Okay.

21 A. That's real round.

22 Q. Oh, I understand you're making a lot of  
23 assumptions. No problem. Thank very much.

24 JUDGE JONES: Commissioner Jarrett?

25 COMMISSIONER JARRETT: No questions, thank

1 you, Mr. Williams.

2 JUDGE JONES: Recross from AGP?

3 MR. CONRAD: Nothing, your Honor. Thank  
4 you.

5 JUDGE JONES: Joplin?

6 MR. ELLINGER: No recross.

7 JUDGE JONES: OPC?

8 MS. BAKER: No questions. Thank you.

9 JUDGE JONES: Staff?

10 MS. BRUEGGEMANN: No questions. Thank you.

11 JUDGE JONES: Redirect?

12 MR. ENGLAND: Yes, sir. Thank you.

13 REDIRECT EXAMINATION BY MR. ENGLAND:

14 Q. Mr. Williams, how long have you been  
15 appearing before this Commission participating in rate  
16 cases?

17 A. I've participated in rate cases for  
18 probably 26, 27 years. I think the first Missouri rate  
19 case I was in was probably 22 years ago.

20 Q. And on whose behalf did you participate in  
21 most of those cases?

22 A. Missouri Public Service, which became  
23 UtiliCorp, which became Aquila.

24 Q. Okay. Thank you. Is the test year and  
25 true-up that's been proposed and adopted in this case any

1 different than test year and true-ups that you've  
2 experienced in all the cases you've participated in?

3 A. No. It's the same process that's always  
4 been used.

5 Q. And is the true-up period in this case  
6 relative to the operation of law date materially different  
7 than what you're used to or have experienced in the past?

8 A. No. It's very similar.

9 MR. ENGLAND: Thank you, sir. No other  
10 questions.

11 JUDGE JONES: You may step down,  
12 Mr. Williams.

13 Okay. We have one more witness, but at  
14 least for the court reporter's sake and anyone who has to  
15 use the restroom, we're going to take a five minute break.  
16 Don't come back at quarter after ten because we'll already  
17 be started. As soon as the court reporter's ready to go,  
18 we'll be starting. So just minutes after ten o'clock  
19 we'll be starting again.

20 (A BREAK WAS TAKEN.)

21 JUDGE JONES: Okay. Let's go ahead and go  
22 back on the record with Staff's witness Kimberly Bolin.

23 MS. BRUEGGEMANN: And your Honor, just as a  
24 preliminary matter, do you have Staff's Exhibit 5 marked  
25 as received?

1 JUDGE JONES: Yes.

2 MS. BRUEGGEMANN: And 5A?

3 JUDGE JONES: Yes.

4 MS. BRUEGGEMANN: And 7?

5 JUDGE JONES: Yes.

6 MS. BRUEGGEMANN: And 8?

7 JUDGE JONES: Yes.

8 KIMBERLY BOLIN testified as follows:

9 DIRECT EXAMINATION BY MS. BRUEGGEMANN:

10 Q. Then will you state your name for the  
11 record.

12 A. My name is Kimberly Bolin.

13 Q. And where are you employed?

14 A. With the Missouri Public Service Commission  
15 as a utility regulatory auditor.

16 Q. And did you submit any testimony on the  
17 true-up?

18 A. Yes, I did, my rebuttal testimony.

19 MS. BRUEGGEMANN: Okay. And since that's  
20 already been entered into evidence and received, I will  
21 tender the witness for cross-examination.

22 JUDGE JONES: Okay. Any cross from AGP?

23 MR. CONRAD: No, sir. Thank you.

24 JUDGE JONES: Any cross from Joplin?

25 MR. ELLINGER: Yes, Judge.

1 CROSS-EXAMINATION BY MR. ELLINGER:

2 Q. Good morning, Ms. Bolin.

3 A. Good morning.

4 Q. I have a couple of very quick questions for  
5 you regarding true-up. First of all, rate case -- excuse  
6 me, the test year in this rate case was 12/31/07; is that  
7 correct?

8 A. That is correct.

9 Q. Okay. And the proposal is for a nine-month  
10 true-up; is that correct?

11 A. We had -- originally had an update period  
12 through March 31st. Then the true-up would be  
13 September 30th, 2008.

14 Q. So it's nine months past the test year date  
15 is what's being added in to the rate case; is that  
16 correct?

17 A. Nine months past the test year date but six  
18 months past the updated test year.

19 Q. Have you received all the final true-up  
20 numbers yet from the company?

21 A. We have received them. We have not  
22 evaluated them yet with the hearings.

23 Q. Had the true-up date been six months, would  
24 you have received that true-up information on a more -- a  
25 quicker basis? Would you have received the true-up

1 revenue or the true-up expenses sooner if the cutoff  
2 period had been June 30, 2008?

3 A. We would have received the information  
4 probably mid July.

5 Q. Instead, you received the information mid  
6 October; is that correct?

7 A. That is correct.

8 Q. You know there are numerous parties that  
9 are involved in this case, is that your understanding?

10 A. Yes.

11 Q. If there were no true-up period whatsoever,  
12 in your opinion, would the Staff and would the parties  
13 have to invest as much time and effort in reviewing  
14 additional information in preparation of the case?

15 A. There is some time involved in true-up  
16 period. It's not as extensive as a full-blown audit or  
17 full-blown test year because you're not looking at every  
18 cost. You're looking at some of the costs.

19 Q. Today we're in the midst of the hearing.  
20 Amongst those hearing issues are revenue issues; you  
21 understand that?

22 A. Uh-huh.

23 Q. Can you say with any certainty today what  
24 the exact revenue requirements would be for the company?

25 A. With the true-up process?

1 Q. Just the exact revenue requirements today?

2 A. I have exact revenue requirements as of  
3 March 31st, 2008.

4 Q. So this rate case was filed on March 31st,  
5 2008, was it not?

6 A. I believe sometime around then, yes.

7 Q. So we're more than six months after the  
8 filing of the rate case; is that correct?

9 A. That is correct.

10 Q. Have you been involved in conducting  
11 discovery in this case?

12 A. Yes, I have.

13 Q. Have you been involved in answering  
14 discovery in this case?

15 A. Yes, I have.

16 Q. Have you been involved in reviewing  
17 financial statements, numbers, revenues, expenses in this  
18 case?

19 A. Yes, I have.

20 Q. Is it fair to say that's taken a very large  
21 amount of time to do all that work?

22 A. It's part of the true-up -- it's part of  
23 the rate case process.

24 Q. And more than six months after -- I guess  
25 actually more than seven months after filing of the rate

1 case, you still do not know what the exact amount of  
2 revenue requirement is involved in this case; is that  
3 correct?

4 A. The Staff has not had time to conduct  
5 the -- to complete its true-up audit.

6 Q. Does anybody, aside perhaps from the  
7 company, have any idea, to the best of your knowledge,  
8 what the revenue requirements are as of today in this  
9 case?

10 A. If the -- if any other parties had time to  
11 do it, I'm not sure.

12 Q. If there was no true-up period, in your  
13 opinion, would you have an idea or an opinion on what the  
14 exact revenue requirements are in this case?

15 A. We know as of March 31st what the revenue  
16 requirement is. We have a good estimate for true-up, but  
17 we're not certain on true-up yet.

18 Q. But it is nothing more than an estimate at  
19 this point; is that correct?

20 A. At this point, it is an estimate.

21 Q. And speaking of true-up, were you involved  
22 in preparing the cost of service report for the Staff?

23 A. Yes, I was.

24 Q. Are you aware of a statement in that cost  
25 of service report regarding the true-up process referring

1 to no statute or rule that specifically governs true-up?

2 A. Could you refer me to what page that's on?

3 Q. Page 2 and 3, and I don't have a copy  
4 sitting in front of me or I'd point you directly to the  
5 line. I apologize for that.

6 A. And what are you -- your question?

7 Q. Through the cost of service report, are you  
8 aware of any statute that governs the true-up process?

9 A. I did not indicate any statute in the cost  
10 of service report.

11 Q. Are you aware of any Commission rule which  
12 governs the cost of the true-up process?

13 A. I did not mention any rule in the cost of  
14 service report.

15 Q. Are you aware of any precedents that  
16 governs the true-up process?

17 A. I am aware of we have performed true-ups in  
18 many other cases.

19 Q. In those -- is there a specific process  
20 that should be followed for true-up?

21 A. I think you look at it case by case,  
22 utility by utility.

23 MR. ELLINGER: No further questions, Judge.

24 JUDGE JONES: Any questions from  
25 Missouri-American Water?

1                   MR. ENGLAND: Yes, your Honor. Thank you,  
2 your Honor.

3 CROSS-EXAMINATION BY MR. ENGLAND:

4           Q.       Good morning, Ms. Bolin.

5           A.       Good morning.

6           Q.       You, like Mr. Williams, are not new to the  
7 rate case process here in Missouri, are you?

8           A.       That's true.

9           Q.       What's your experience, please?

10          A.       I worked for the Office of the Public  
11 Counsel for approximately ten years, and I've been with  
12 the Staff for a little over two.

13          Q.       Okay. Is there anything about the test  
14 year true-up process in this case that is unusual based  
15 upon your experience before this Commission?

16          A.       No, there is not.

17          Q.       Would you agree with me that the true-up  
18 date is approximately five months before the operation of  
19 law date in this case?

20          A.       That is correct.

21          Q.       And is that relatively consistent with  
22 true-up periods that you've been involved with or have  
23 experience with in other cases?

24          A.       Yes, it is.

25          Q.       Okay. Would you agree with me that no

1 one's going to know the actual revenue requirement in this  
2 case until the Commission actually issues its decision?

3 A. That is true.

4 MR. ENGLAND: Okay. Thank you. No other  
5 questions.

6 JUDGE JONES: Commissioner Murray, do you  
7 have any questions?

8 COMMISSIONER MURRAY: Just briefly.

9 QUESTIONS BY COMMISSIONER MURRAY:

10 Q. Is anyone objecting to the true-up other  
11 than the City of Joplin?

12 A. I'm not aware of any other party objecting  
13 to it.

14 COMMISSIONER MURRAY: Thank you.

15 JUDGE JONES: Commissioner Clayton?

16 COMMISSIONER CLAYTON: No questions.

17 JUDGE JONES: Commissioner Jarrett?

18 COMMISSIONER JARRETT: No questions.

19 Thanks.

20 JUDGE JONES: Any recross based on  
21 Commissioner Murray's question?

22 MR. ELLINGER: No questions.

23 JUDGE JONES: I don't see any. Any  
24 redirect?

25 MS. BRUEGGEMANN: No, thank you.

1 JUDGE JONES: Ms. Bolin, you may step down.

2 Okay. We want to move right into the  
3 issues on the first Nonunanimous Stipulation & Agreement?

4 MR. ENGLAND: We can do that, your Honor.

5 JUDGE JONES: The first issue then is AWR  
6 compensation to Missouri-American, and looks like  
7 Mr. Grubb is the witness on that.

8 MR. ENGLAND: Yes, your Honor, and I  
9 believe Mr. Cooper is the counsel that would be  
10 responsible for that for the company. I guess I might ask  
11 that before we have a parade of witnesses up and back, if  
12 we could ask ahead of time if there are going to be any  
13 questions from either of the parties or the Commissioners,  
14 and if not, we don't need to bounce back and forth between  
15 the witness chair and the gallery.

16 JUDGE JONES: Very good suggestion. Do any  
17 of the parties have questions on the AWR compensation to  
18 Missouri-American?

19 MR. CONRAD: We do not.

20 MS. BAKER: No, your Honor.

21 MR. ELLINGER: Judge, we do not, nor do we  
22 on behalf of the City of Joplin have any questions  
23 regarding any of the issues that are contained in the  
24 First Stipulation & Agreement between the Staff and the  
25 company, and therefore, we request to be excused from

1 testimony on those particular issues.

2 JUDGE JONES: You're excused.

3 MR. ELLINGER: Thank you.

4 JUDGE JONES: Commissioner Murray?

5 Commissioner Clayton?

6 COMMISSIONER CLAYTON: Judge, I wouldn't  
7 have any questions on the issues involved in either the  
8 first or the second Stipulation & Agreement unless we do  
9 have an objection from parties. That would certainly make  
10 a difference, and I guess there are -- there is some time  
11 left, as I understand it, for at least one of the  
12 stipulations, but to help you in scheduling --

13 JUDGE JONES: Well, why don't I just ask  
14 the blanket question, do any of the parties have questions  
15 on any of these issues on the first Stipulation &  
16 Agreement?

17 MR. CONRAD: We do not. I relied on the  
18 expiration of time, but had somebody solicited it  
19 yesterday, I could have indicated, and would do so now,  
20 that we do not have an objection to that and will not  
21 request a hearing.

22 MS. BAKER: Public Counsel does not have  
23 any questions at this time.

24 JUDGE JONES: All right.

25 COMMISSIONER CLAYTON: Do you have any

1 objections to the two stipulations that are outstanding?

2 MR. CONRAD: Well, we're looking at the  
3 second one. I think it is unlikely.

4 COMMISSIONER CLAYTON: So you haven't  
5 decided yet?

6 MR. CONRAD: At the pleasure of the Bench,  
7 I might be able to give you an indication on that later  
8 this afternoon.

9 COMMISSIONER CLAYTON: Well, I think -- I  
10 don't know if the right question is whether there are  
11 questions. I mean, if there are objections, then I guess  
12 if we're going to proceed through these issues, it may be  
13 premature to go through on the questions until that  
14 decision on whether objections are necessary -- or whether  
15 you're going to make an objection.

16 MR. CONRAD: I would not have questions on  
17 any of the issues on the first stipulation?

18 MS. BAKER: Certainly the second  
19 stipulation I don't think our time is up until Friday.

20 MS. BRUEGGEMANN: I believe that's correct.

21 MS. BAKER: I would not make a statement  
22 about that one.

23 COMMISSIONER CLAYTON: You're still  
24 reserving your ability to object to that?

25 MS. BAKER: On the second one, but on the

1 first one, I don't believe that Public Counsel has an  
2 objection to that one.

3 JUDGE JONES: And let's look at the issue  
4 of cash working capital. Who are the witnesses on that  
5 issue?

6 MR. COOPER: Your Honor, that was an issue  
7 Mr. Bernson is a witness for the company, so that was one  
8 that needed to be put off probably 'til next week  
9 regardless because of his unavailability.

10 JUDGE JONES: What about management fee,  
11 labor costs, SOX compliance costs, is that also  
12 Mr. Bernson?

13 MR. COOPER: No, it is not. The remainder  
14 of those issues in the first stipulation concerns  
15 witnesses, -- as far as the company's perspective,  
16 witnesses that are here and available.

17 JUDGE JONES: Is that true with Staff also?

18 MS. BRUEGGEMANN: Yes, they're all in the  
19 room.

20 JUDGE JONES: Commissioner Murray?

21 COMMISSIONER MURRAY: I wish I had that  
22 list in front of me.

23 JUDGE JONES: Here, you can have mine.

24 Well, it doesn't look like we have any  
25 questions on these issues that have been agreed to today.

1 It's early. Let's take a break and regroup and see what  
2 we can accomplish today and do it in some orderly fashion  
3 rather than as we have done in the last 15 minutes or so.  
4 So with that, then let's go off the record.

5 (AN OFF-THE-RECORD DISCUSSION WAS HELD.)

6 Whereupon, the hearing of this case was  
7 recessed until November 5, 2008.

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C E R T I F I C A T E

STATE OF MISSOURI            )  
  ) ss.  
COUNTY OF COLE             )

I, Kellene K. Feddersen, Certified

Shorthand Reporter with the firm of Midwest Litigation Services, and Notary Public within and for the State of Missouri, do hereby certify that I was personally present at the proceedings had in the above-entitled cause at the time and place set forth in the caption sheet thereof; that I then and there took down in Stenotype the proceedings had; and that the foregoing is a full, true and correct transcript of such Stenotype notes so made at such time and place.

Given at my office in the City of Jefferson, County of Cole, State of Missouri.

\_\_\_\_\_  
Kellene K. Feddersen, RPR, CSR, CCR  
Notary Public (County of Cole)  
My commission expires March 28, 2009.