

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing  
November 3, 2008  
Jefferson City, Missouri

Volume 10

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

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

JEFF DAVIS, Chairman,  
CONNIE MURRAY,  
ROBERT M. CLAYTON III,  
TERRY JARRETT,  
KEVIN GUNN,  
COMMISSIONERS.

REPORTED BY:

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

2 JUDGE JONES: Okay. We are on the  
3 record with Case No. WR-2008-0311 for our second day  
4 of hearing. Missouri-American Water, would you like  
5 to give an opening statement --

6 MR. COOPER: Yes, your Honor.

7 JUDGE JONES: -- or go on to the next  
8 issue?

9 MR. COOPER: Good afternoon. Staff  
10 states in its testimony that the replacement and  
11 expansion of the Cedar Hill Treatment Plant was  
12 prudently undertaken and necessary for future growth  
13 which appeared imminent at the time the project was  
14 undertaken.

15 However, Staff further suggests that  
16 \$2.1 million of MAWC's investment in the treatment  
17 plant district office storage building and other  
18 items should be reclassified in a nonearning asset  
19 account entitled "Plant held for future use."

20 In constructing capacity, MAWC is  
21 required by the Department of Natural Resources to  
22 consider both current and committed loads. The  
23 combination of MAWC's current and committed loads for  
24 the Cedar Hill district have already exceeded the  
25 capacity of the Cedar Hill treatment plant.

1                   Accordingly, at the same time, an excess  
2   capacity disallowance associated with the plant is  
3   being proposed. DNR rules and regulations are  
4   pushing MAWC to begin planning the next expansion.  
5   The Commission is faced with a difficult policy  
6   question.

7                   What signal will you send a company like  
8   MAWC which has the financial and operational --  
9   operational wherewithal to undertake and fund the  
10  necessary upgrades and expansions to this small  
11  system if you do not allow it the ability through  
12  some mechanism to recover the costs of the  
13  investment?

14                  MAWC believes that prudently constructed  
15  facilities that are providing service to MAWC's  
16  customers should be included in its rate base such  
17  that MAWC is allowed to return -- receive a return on  
18  and a return of that investment. Thank you.

19                  JUDGE JONES: Staff?

20                  MS. BRUEGGEMANN: Thank you. Good  
21  afternoon. The Cedar Hill/Fanno Creek sewage  
22  treatment plant expansion project is the first rate  
23  base issue for Commission determination here.

24                  Staff witness, Jim Merciel and Staff  
25  witness, Kimberly Bolin provided testimony as to why

1 the capital and depreciation expense cost should be  
2 disallowed for ratemaking in this case. Once new  
3 customers are actually connected to and using the  
4 plant, then future ratemaking proceedings can  
5 determine building upon the contributions in aid of  
6 construction. The contributions in aid of  
7 construction that Missouri-American already received  
8 were over \$550,000. So the \$2.1 million is not as it  
9 seems. It's actually more towards 1.7.

10 The reality of the situation is that,  
11 unfortunately, only one customer hooked onto the new  
12 plant expansion when I believe it was estimated that  
13 200 would be hooking on. And so that is why or part  
14 of the basis why Staff recommended this disallowance.

15 JUDGE JONES: Opening statement from the  
16 Office of Public Counsel?

17 MS. BAKER: Public Counsel witness, Ted  
18 Robertson, filed testimony stating -- stating that  
19 the Commission is not required by any authority,  
20 accounting or otherwise, to make a finding that the  
21 company should not have constructed the excess  
22 capacity or should have delayed the construction in  
23 the event of accepting Staff's recommendation.

24 First, the company must follow the  
25 accounting requirements of Statement of Financial

1 Accounting Standards No. 71 as referenced in  
2 paragraph 60 of SFAS No. 90 in the event that the  
3 Commission authorizes the Staff's recommendation.

4 The accounting requirements of SFAS  
5 No. 71 do not require the company to record a loss  
6 for financial recording -- reporting purposes if the  
7 Commission authorizes the Staff's recommendation.  
8 Thank you.

9 JUDGE JONES: Okay. Those are the only  
10 parties that have submitted testimony on this issue.  
11 Is there anyone else who'd like to make a statement  
12 in this regard?

13 (NO RESPONSE.)

14 JUDGE JONES: Okay. Seeing none,  
15 Missouri-American, you can call your first witness.

16 MR. COOPER: First witness will be  
17 Mr. Kevin Dunn.

18 JUDGE JONES: Mr. Dunn, will you please  
19 raise your right hand?

20 (The witness was sworn.)

21 DIRECT EXAMINATION BY MR. COOPER:

22 Q. Will you please state your name.

23 A. Kevin Dunn.

24 Q. By whom are you employed and in what  
25 capacity?



1           A.       Missouri-American Water. I'm the  
2 director of engineering.

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

6           A.       Yes, I have.

7           Q.       Is it your understanding that that  
8 testimony has been marked as Exhibits MAWC 7 and  
9 MAWC 8 for identification?

10          A.       Yes.

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

13          A.       No, I do not.

14          Q.       If I were to ask you the questions which  
15 are contained in Exhibits MAWC 7 and MAWC 8 today,  
16 would your answers be the same?

17          A.       Yes, they would.

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

20          A.       Yes.

21                   MR. COOPER: Your Honor, we would tender  
22 Mr. Dunn for cross-examination and offer Exhibits  
23 MAWC 7 and MAWC 8 into evidence.

24                   JUDGE JONES: And that was direct and  
25 rebuttal?

1 MR. COOPER: It is, yes, your Honor.

2 JUDGE JONES: Any objection to Exhibits

3 MW -- M -- MAWC 7 or MAWC 8?

4 MS. BAKER: No, your Honor.

5 JUDGE JONES: Seeing none, they're  
6 admitted into the record.

7 (MAWC EXHIBIT NOS. 7 AND 8 WERE RECEIVED  
8 INTO EVIDENCE AND MADE A PART OF THE RECORD.)

9 JUDGE JONES: And -- well, I'm assuming  
10 only Staff and Public Counsel want to do cross on  
11 this issue; is that correct?

12 MR. CONRAD: I might have just a couple  
13 questions, Judge.

14 JUDGE JONES: Okay. Is there anyone  
15 else?

16 MR. BEDNAR: Just in case, your Honor.  
17 I doubt it.

18 JUDGE JONES: Okay.

19 MR. ELLINGER: We do not have any  
20 questions, your Honor.

21 JUDGE JONES: Okay. Well, if MSD has  
22 questions, then --

23 MR. BEDNAR: It would be Riverside and  
24 Missouri Gaming.

25 JUDGE JONES: I'm sorry. Riverside, do

1     you have any questions?

2                   MR. BEDNAR: I have no questions.

3                   JUDGE JONES: No questions? Mr. Conrad,  
4     do you have questions?

5                   MR. CONRAD: Yeah. Thank you, Judge.

6     CROSS-EXAMINATION BY MR. CONRAD:

7           Q.       Good afternoon, Mr. Dunn. Were you here  
8     just a few moments ago when your counsel was making  
9     an opening statement?

10          A.       Yes, I was.

11          Q.       Did you help him with that?

12          A.       In the aspect of just reviewing --

13          Q.       What he was going to say?

14          A.       -- current documents with what he had,  
15     but not with what he directly said.

16          Q.       Okay. He used the phrase "The  
17     Commission would have a difficult policy question."  
18     Do you recall that?

19          A.       Somewhat.

20          Q.       Okay. And made some reference to some  
21     mechanism to recover the company's investment of and  
22     on that investment, recover the investment and a -- a  
23     return on that, correct?

24          A.       I believe that's what he mentioned.

25          Q.       Yeah. What do you -- what do you think

1 he meant when he said "some mechanism"?

2 A. I'm not really part of the rate design,  
3 so I'm not quite sure how he would be dealing with  
4 that.

5 Q. Well, was he -- was he referring to some  
6 mechanism other than rate recovery?

7 A. I do not know that.

8 Q. Okay. And would you agree with me it  
9 would be tough to charge the cost of the plant that  
10 was built for over 200 people to one customer?

11 A. I don't believe that what we're  
12 requesting is that one customer pay for this. Is  
13 that the -- the total of all the customers in the  
14 district would pay for our prudent plant?

15 Q. Well, just -- I'm just trying to get a  
16 handle on what he may have meant since I can't  
17 question him, and you're the witness, what he may  
18 have meant by "some mechanism" because the only ones  
19 that I'm familiar with are recovery through rates.

20 A. That may be something that's better  
21 directed towards Denny Williams. Sorry.

22 MR. CONRAD: Okay. Thank you, Mr. Dunn.  
23 That's all.

24 JUDGE JONES: Okay. Cross-examination  
25 from the Office of Public Counsel?

1 MS. BAKER: I have no questions, thank  
2 you.

3 JUDGE JONES: Staff of the Commission?

4 MS. BRUEGGEMANN: Yes.

5 CROSS-EXAMINATION BY MS. BRUEGGEMANN:

6 Q. Mr. Dunn, my name is Shelley  
7 Brueggemann. I represent -- represent the Staff on  
8 this issue today. Can you tell me how many customers  
9 are currently served by the Cedar Hill/Sand Creek  
10 plant?

11 A. Currently I have -- I -- I could -- I  
12 could only give a generalization. I don't know the  
13 exact number. I don't have it written in front of  
14 me.

15 Q. Okay. Can --

16 A. I -- I could get it. I don't have it  
17 with me.

18 Q. Can you give what the estimate is that's  
19 currently served?

20 A. I believe it's like 198.

21 Q. Okay. And how large was the increase in  
22 treatment capacity for the Cedar Hill plant?

23 A. The plant went from a 75,000-  
24 gallon-per-day plant to a 150,000-gallon-per-day  
25 plant.

1           Q.       Okay. Now, this expansion project was  
2       mainly to be able to serve a new housing development  
3       within the service area, wasn't it?

4           A.       It was, and that was the key reason for  
5       us to build the additional at this time. We -- we  
6       looked into the other growth aspects of that area we  
7       built.

8           Q.       Okay. And how big is the projected  
9       housing development area?

10          A.       We had -- we have 114 lots we were  
11       considering as part of the O'Brien Place.

12          Q.       Okay. And how many people was it  
13       expected should be served by the new 114 lots or the  
14       projected capacity to serve the -- those 114 lots?

15          A.       Based off of the calculations we had,  
16       it's about four -- 42,180 gallons per day.

17          Q.       Okay. And how much did this expansion  
18       cost?

19          A.       The expansion of just the water  
20       treatment portion or the total project cost?

21          Q.       Let's -- let's take both numbers. So  
22       the expansion project first.

23          A.       Well, I can say that from the numbers  
24       that I've reviewed, I believe that the total cost for  
25       putting in the 150,000-gallon-per-day plant was

1 1,560,817.

2 Q. Okay. Now, do you know what this did to  
3 the rate base for this service area? Did it enlarge  
4 it, obviously?

5 A. It would increase the rate base, yes.

6 Q. Okay. Do you know by how much?

7 A. I would assume that it would increase  
8 the rate base by the 1,560,000.

9 Q. Okay. Do you know what the rate base  
10 used to be with the old plant in service?

11 A. I do not.

12 Q. Okay. Were there any contributions in  
13 aid of construction or CIAC to the Cedar Hill  
14 expansion project?

15 A. Yes, there was.

16 Q. Okay. And who contributed that money?

17 A. As I mentioned, the O'Brien Place  
18 Subdivision contributed funds as -- to their portion  
19 of the plant that was to be increased for their use.  
20 And prior to Missouri-American taking over the  
21 system, Northwest High School had paid contributions  
22 for building a 75,000-gallon-per-day plant.

23 Q. Okay. And do you know what the total of  
24 those two contributions were?

25 A. The total's \$538,069.

1           Q.       Okay. And has Missouri-American already  
2 received the CIAC?

3           A.       We have received almost all those funds.  
4 There's still -- we're still working with O'Brien  
5 Place to pay off their final set, but we have -- we  
6 have invoiced them for all of those.

7           Q.       Okay. Now, do you know if the \$538,069  
8 of CIAC was removed from rate base in Staff's cost of  
9 service report?

10          A.       I wouldn't be familiar with that  
11 portion.

12          Q.       Okay. So Denny Williams would be the  
13 better one to ask about that?

14          A.       I would say Denny.

15          Q.       Okay. And one last question. On the  
16 114 lots, do you actually know a number of new  
17 customers that the new plant is projected to be able  
18 to serve people?

19          A.       Normally it's -- you -- from the  
20 definition of what we look at, it's 114 homes would  
21 be added, so I guess it's 3.7 people per -- per lot.

22          Q.       Okay. Now, are you aware of the number  
23 of new customers that have hooked on since the  
24 expansion project was completed?

25          A.       Yes.



1 Q. And how many is that?

2 A. Probably not to date, but the last time  
3 I checked, there was about five new customers since  
4 the plant was built.

5 Q. Okay. And when's the last time you  
6 checked?

7 A. That was about 30 days ago.

8 MS. BRUEGGEMANN: Okay. Nothing  
9 further, your Honor.

10 JUDGE JONES: Commissioner Murray, any  
11 questions?

12 COMMISSIONER MURRAY: I don't believe I  
13 do for this witness, thank you.

14 JUDGE JONES: Commissioner Gunn?

15 COMMISSIONER GUNN: No questions.

16 JUDGE JONES: Any redirect?

17 MR. COOPER: Yes, your Honor.

18 JUDGE JONES: Go right ahead.

19 REDIRECT EXAMINATION BY MR. COOPER:

20 Q. Mr. Dunn, you -- in answer to  
21 Ms. Brueggemann's question about the cost of the  
22 plant, I think you quoted the number 1,560,000 and  
23 some change; is that correct?

24 A. Correct.

25 Q. Now, that differs from the \$2.1 million

1     that I mentioned previously, correct?

2           A.     Yes, it does.

3           Q.     What's the difference between the two?

4           A.     I had removed the items that I  
5     considered as nontreatment-related plant.

6           Q.     And what are those items associated  
7     with?

8           A.     We installed an office building down at  
9     the current plant, so it was the office building,  
10    some roadway improvements to that, and it also  
11    included an I&I study, a cost of -- that was  
12    included.

13          Q.     Storage facility, is that part of it as  
14    well?

15          A.     That's correct. There's a storage  
16    building as part of the office building.

17          Q.     What is I&I?

18          A.     That's inflow and infiltration study.  
19    We formed that so that we could review exactly how  
20    much was flowing into the plant and if there was a  
21    way to reduce that through better reduction of I&I or  
22    inflow and infiltration. I'm sorry.

23          Q.     Now, the breakout between the plant  
24    costs and -- and what you might call nontreatment  
25    plant costs, have you provided that breakout in your

1     rebuttal testimony?

2             A.       Yes, I have.

3             Q.       Okay.  Where is that?

4             A.       That was my rebuttal schedule KHD-1.

5             Q.       And does that schedule also reflect  
6     the -- the contributions in aid of construction that  
7     you discussed with Staff counsel as well?

8             A.       Yes, that does.

9             Q.       Now, you were also asked some questions  
10    by Staff counsel concerning how many customers are  
11    currently served by the treatment plant, correct?

12            A.       That's correct.

13            Q.       Do you go -- do you also provide in your  
14    rebuttal testimony a description of current loads  
15    versus committed loads?

16            A.       Yes, I do.

17            Q.       Where is that?

18            A.       That would be in the rebuttal schedule  
19    KHD-2.

20                   MR. COOPER:  That's all the questions I  
21    have, your Honor.

22                   JUDGE JONES:  Okay.  Mr. Dunn, you may  
23    step down.  Thank you.

24                   MS. BRUEGGEMANN:  Your Honor, if I may,  
25    I have one recross -- recross question based off of

1     their redirect.

2                     JUDGE JONES:  You guys mind if she asks  
3     a question?

4                     MR. COOPER:  Depends on what it is.  I  
5     think it's out of --

6                     JUDGE JONES:  It is.

7                     MR. COOPER:  -- out of -- out of normal  
8     practice to go back in that fashion after redirect.

9                     JUDGE JONES:  That's certainly true, but  
10    that doesn't answer my question.  If you don't have a  
11    problem with it, then I don't.  If you do, then I do.

12                    MR. COOPER:  For fear of stepping into  
13    bigger issues as the hearing goes along, I think we  
14    would object to further questioning from Staff  
15    counsel.

16                    JUDGE JONES:  Okay.  Objection  
17    sustained.  You can call your next witness.  
18    Mr. Dunn, you may step down.

19                    MR. COOPER:  Yes.  We would call  
20    Mr. Dennis Williams.

21                    JUDGE JONES:  Mr. Williams, will you  
22    please raise your right hand?

23                    (The witness was sworn.)

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

1 DIRECT EXAMINATION BY MR. COOPER:

2 Q. Will you please state your name.

3 A. Dennis R. Williams.

4 Q. By whom are you employed and in what  
5 capacity?

6 A. I'm employed -- employed by Missouri --  
7 or by American Water Services Company and I am senior  
8 manager of regulatory services.

9 Q. Have you caused to be prepared for the  
10 purposes of this proceeding certain rebuttal and  
11 surrebuttal testimony in question-and-answer form?

12 A. Yes, I have.

13 Q. Is it your understanding that that  
14 testimony has been marked as Exhibits MAWC 28 and  
15 MAWC 29 for identification?

16 A. That's my understanding, yes.

17 Q. Do you have any changes that you would  
18 like to make to that testimony at this time?

19 A. I have one.

20 Q. Go ahead and take us through that.

21 A. On MAWC 28.

22 Q. Which is your rebuttal testimony?

23 A. It is my rebuttal testimony at page 4,  
24 line 9. With my understanding of the Staff's change  
25 in position during its surrebuttal testimony, an

1 "almost \$2.2 million loss" should be changed to "an  
2 approximate \$1.7 million loss."

3 Q. Do you have any further changes that you  
4 need to make to your testimony?

5 A. No, I do not.

6 Q. If I were to ask you the questions which  
7 are contained in Exhibits 28 -- or MAWC 28 and  
8 MAWC 29 today, would your answers as changed now be  
9 the same?

10 A. They would.

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

13 A. They are.

14 MR. COOPER: Your Honor, I would offer  
15 Exhibits MAWC 28 and MAWC 29 into evidence and tender  
16 the witness for cross-examination.

17 JUDGE JONES: Any objections?

18 (NO RESPONSE.)

19 JUDGE JONES: Hearing none, Exhibits  
20 MAWC 28 and MAWC 29 are admitted into the record.

21 (MAWC EXHIBIT NOS. 28 AND MAWC 29 WERE  
22 RECEIVED INTO EVIDENCE AND MADE A PART OF THE  
23 RECORD.)

24 JUDGE JONES: Is there any  
25 cross-examination from AGP?

1                   MR. CONRAD: Very briefly, your Honor.

2           CROSS-EXAMINATION BY MR. CONRAD:

3           Q.       Mr. Williams, did you hear your  
4           counsel's opening statement?

5           A.       I did.

6           Q.       Just to try to cut this short, do you  
7           know what he might have been referring to about "some  
8           mechanism"?

9           A.       I do not know specifically. I know  
10          there was some testimony, I believe, in Mr. Merciel's  
11          testimony that he talked about. There could perhaps  
12          be other ways to handle the problem, perhaps some  
13          kind of subsidization or -- or other program.  
14          Whether or not that's what Mr. Cooper was referring  
15          to, I'm -- I'm not sure.

16          Q.       And that would be a mechanism that would  
17          be acceptable to the company?

18          A.       I -- I do not know without knowing the  
19          details of the -- of the proposal.

20                   MR. CONRAD: Thank you, your Honor.

21                   JUDGE JONES: Any questions from  
22           Riverside?

23                   MR. BEDNAR: None, your Honor.

24                   JUDGE JONES: Is there anyone other than  
25           Staff or the Office of Public Counsel that has

1 questions?

2 (NO RESPONSE.)

3 JUDGE JONES: Seeing none, then Public  
4 Counsel?

5 MS. BAKER: I have one question.

6 CROSS-EXAMINATION BY MS. BAKER:

7 Q. Are you a licensed CPA?

8 A. Yes, I -- I'm not currently licensed.

9 I -- I am a CPA.

10 MS. BAKER: All right. That's all the  
11 questions I have. Thank you.

12 JUDGE JONES: Questions from Staff?

13 MS. BRUEGGEMANN: Yes, your Honor.

14 CROSS-EXAMINATION BY MS. BRUEGGEMANN:

15 Q. Mr. Williams, I'm going to pick up with  
16 some questions that I started to ask Mr. Dunn, and --  
17 and he said you might be the more proper person to  
18 talk to.

19 A. All right. We'll try.

20 Q. I'll repeat this one just as a -- as a  
21 premise. Was the \$538,069 of CIAC removed from rate  
22 base in Staff's cost of service report?

23 A. Not initially, it's my understanding,  
24 so...

25 Q. Okay. Do you have an understanding as



1 to when it was removed?

2 A. I believe that was in Staff's  
3 surrebuttal.

4 Q. Okay. And you just stated that you have  
5 a change in your testimony, accordingly, to a  
6 \$1.7 million loss?

7 A. An approximate 1.7 million, and that  
8 would reflect the Staff's change in position.

9 Q. Okay. Are you aware that the Staff is  
10 not recommending a disallowance of a portion of the  
11 Cedar Hill's plant because of prudence or timing of  
12 construction?

13 A. I am aware that that is their position.

14 Q. Okay. Were you aware of that when you  
15 wrote your rebuttal testimony?

16 A. I was aware, and it makes no difference  
17 to -- to the conclusion.

18 Q. And why don't you go ahead and specify  
19 what conclusion that you're talking about.

20 A. The conclusion that would result in a  
21 write-off of now approximately 1.7 million.

22 Q. Okay. Were you aware of paragraph 60 of  
23 FASB, the Financial Accounting Standards Board  
24 No. 90, when you cited paragraph 59 in your rebuttal  
25 testimony at page 3?

1           A.       I was aware and I believe I even  
2   referred to the paragraph following paragraph 59  
3   which would be paragraph 60.

4           Q.       So you explicitly disagree with Ted  
5   Robertson's surrebuttal testimony pointing out  
6   paragraph 60 as -- as long as the Commission doesn't  
7   make a finding as to timing or prudence, then the  
8   company does not have to write it off as a loss in  
9   their books?

10          A.       I -- I very much disagree. I --  
11   paragraph 60 is -- is not well written, I'll admit  
12   that. But what paragraph 60 is referring to, if  
13   you -- if you read it in its full context, it's there  
14   were some questions that were asked as to whether  
15   under those factual circumstances FASB 71 applies or  
16   whether it does not. And in fact, paragraph 61 asks  
17   the same question, and in paragraph 61, the  
18   Commission says under those --

19          Q.       Well, I'd stop you there. I -- I don't  
20   want to really get into paragraph 61 --

21          A.       Okay.

22          Q.       -- since nobody's really testified to  
23   paragraph 61 and we don't know what it's about.  
24   But --

25                   MS. BRUEGGEMANN: Okay. That's all the

1 questions I have.

2 THE WITNESS: Okay.

3 MS. BRUEGGEMANN: Thank you.

4 JUDGE JONES: Commissioner Murray, do  
5 you have any questions?

6 QUESTIONS BY COMMISSIONER MURRAY:

7 Q. Well, my first question was going to be  
8 whether you did disagree with the Staff and OPC  
9 witnesses regarding the treatment required by GAP,  
10 and apparently you still do?

11 A. I still do, yes.

12 Q. Then my second question would be  
13 regarding your statement that Staff's recommendation  
14 would result in a negative rate base for the Cedar  
15 Hill district. How many customers would be billed in  
16 the Cedar Hill district?

17 A. I'm -- I'm not aware of the number of  
18 customers in Cedar Hill. I believe -- I believe  
19 Mr. Dunn testified earlier that there were  
20 approximately 200.

21 Q. I believe he said 199. That's -- and  
22 you have no reason to disagree with that?

23 A. No, I don't.

24 Q. So according to your testimony, that  
25 would mean that as the authorized rate of return

1 increases, the customers in the Cedar Hill district  
2 under Staff's proposal would actually -- their rates  
3 would actually be lower?

4 A. Under -- under Staff's original  
5 proposal, now that they've changed it, there is just  
6 a slight positive rate base.

7 Q. Okay. And in Mr. Merciel's testimony --  
8 I assume you've read that?

9 A. I have. Not -- not for a while, but I  
10 read it.

11 Q. On page 3 of his surrebuttal testimony,  
12 he says that -- well, I tell you what. Rather than  
13 ask you about that, I'm going to wait and ask  
14 Mr. Merciel.

15 Now, there were some references to  
16 different possible methods to -- or different ways  
17 that this could possibly be treated; is that correct?

18 A. I -- yes, that's been discussed.

19 Q. Are you aware of any of the  
20 possibilities that Mr. Merciel might have been  
21 considering?

22 A. As I recall his testimony, he talked  
23 about one possibility might be some kind of  
24 subsidization from other districts. I don't know  
25 what the detail was. I don't -- I haven't read the

1 testimony for some time, so I'm not sure if there  
2 were specifics.

3 Q. Okay. But you've not really heard --  
4 you haven't heard any specifics in terms of other  
5 proposals?

6 A. No.

7 Q. And that would include any kind of a  
8 phase-in of a rate base recovery?

9 A. I -- I can't recall if he proposed a  
10 phase-in or not.

11 Q. And do you know if the company's  
12 position were accepted regarding the Cedar Hill  
13 service area, what would be the result to the  
14 ratepayers in that area?

15 A. There would be a -- there would be a  
16 definite increase in their -- in the revenue  
17 requirement and in the rates they pay.

18 Q. Do you know the amount?

19 A. If there were no subsidy, it would be --  
20 it would be large. It would be several hundred  
21 percent, I believe. It would certainly more than  
22 double their rates.

23 COMMISSIONER MURRAY: All right. Thank  
24 you.

25 JUDGE JONES: Commissioner Gunn?

1                   COMMISSIONER GUNN: I don't have any  
2 questions. Thank you very much for coming.

3                   COMMISSIONER JARRETT: No questions.

4                   JUDGE JONES: Any recross from Office of  
5 Public Counsel?

6                   MS. BAKER: No.

7                   JUDGE JONES: Staff?

8 RECROSS-EXAMINATION BY MS. BRUEGGEMANN:

9           Q.       I just want to make sure it's clear when  
10 you were speaking about the effect of ratepayers and  
11 possible subsidies and other options. Right now, the  
12 rate of the 1.7 -- or the 1.7 million is to be spread  
13 across the entire district that's already served for  
14 Cedar Hill by Cedar Hill plant?

15          A.       Under whose proposal are you --

16          Q.       Under the company's proposal.

17          A.       I -- I'm not sure what our rate design  
18 proposal was. I believe -- I'm not sure if we were  
19 proposing any subsidy or not for the Cedar Hill  
20 district.

21          Q.       Who would be the person that can answer  
22 that question?

23          A.       Our rate design witness is Paul Herbert.

24          Q.       Okay. And just for clarification, what  
25 district is Cedar Hill part of?

1           A.       Cedar Hill.

2                   MS. BRUEGGEMANN:  Thank you.

3                   JUDGE JONES:  And any redirect?

4                   MR. COOPER:  Yes, your Honor.

5   REDIRECT EXAMINATION BY MR. COOPER:

6           Q.       Let's work on the customer number  
7   question.  I think that you were asked a question  
8   about how many customers there were in the Cedar Hill  
9   district; is that correct?

10          A.       I was.

11          Q.       And you responded based upon what you  
12   heard Mr. Dunn say in regard to customers that were  
13   served by the Cedar Hill treatment plant; is that  
14   correct?

15          A.       That's correct.  That's -- I'm not aware  
16   of the total number of customers in the Cedar Hill  
17   district itself.

18          Q.       You also had mentioned that Mr. Herbert  
19   is a rate design witness for the company, correct?

20          A.       That's correct.

21          Q.       Is Mr. Grubb also a rate design witness  
22   for the company?

23          A.       He is, and I believe he has testimony on  
24   that subject matter as well.

25          Q.       Now, early in your cross-examination,

1   you started to explain to us why it was you disagreed  
2   with Mr. Robertson, and I believe you had started to  
3   explain the impact of paragraph 61. Do you remember  
4   that?

5           A.     I do.

6           Q.     Could you continue that explanation for  
7   us?

8           A.     The only reason I mentioned 61 was to  
9   draw an analogy that both paragraphs 60 and 61 were  
10   asking the question as to whether under those fact  
11   circumstances FAS 71 even applied. FAS 71 applies,  
12   reading it, to, among other things, you have to ensure  
13   that the regulated rates are designed to recover the  
14   specific enterprises' cost of providing the services.

15                   Paragraph 60 and 61 both said are these  
16   costs that are being regulated, the cost of the  
17   utility? 61 said no, that company shouldn't even be  
18   under FAS 71. Paragraph 60, the response said  
19   this -- and that's where it gets a little unclear --  
20   this statement does not apply.

21                   Now, when it said "this," the general  
22   understanding means that this requirement of FAS 71  
23   does not apply. So in other words, FAS 71 does  
24   apply. And by -- by the same token, then, FAS 90  
25   would apply.



1                   Now, the bottom line is, it really  
2     doesn't matter because under FAS 90, it says if  
3     there's a disallowance, direct or indirect, there's a  
4     required write-off. If FAS 90 doesn't apply, it says  
5     you go back to -- if it's a -- if it's a  
6     rate-regulated company subject to FAS 71, you go back  
7     to FAS 71.

8                   And FAS 71 says on paragraph 10, "Rate  
9     actions of a regulator can reduce or eliminate the  
10    value of an asset. If a regulator excludes all or  
11    part of the cost of service" -- and it goes on to say  
12    it requires a write-off. And it, in fact, says  
13    "Disallowance of costs recently completed  
14    compliance -- recently completed plants, whether  
15    direct or indirect, shall be accounted for in  
16    accordance with paragraph 7 of FAS 90."

17                  If FAS 71 doesn't apply, which is  
18    another possible interpretation, I guess, of that  
19    paragraph, then FAS 144 applies. FAS 144 -- or what  
20    it really says it applies is generally accepted  
21    accounting principles not applied to regulated  
22    utilities.

23                  FAS 144 accounting for the impairment or  
24    disposal of long-lived assets shall apply, FAS 144  
25    would require a write-off. So whether under FAS 90,

1 FAS 71 or FAS 144, a write-off is required.

2 Q. In forming your opinion on this subject,  
3 did you consult with any other experts in the field?

4 A. After I formed my opinion, I did. I --  
5 of course, this became a big -- a big issue within  
6 the company itself. So I initially contacted our  
7 controller's office and, of course, they approached  
8 it with we don't want to have to -- to write off this  
9 amount, so I got questioned pretty hard. You know,  
10 it's a material, other possible out.

11 The controller's -- the controller's  
12 office ultimately decided I was correct, that it  
13 would have required a write-off. I also -- after  
14 that, I submitted my testimony to Benjamin McKnight.  
15 He's a partner currently with DeLoitte & Touche.

16 MS. BRUEGGEMANN: At this point I'd like  
17 to object as to all the hearsay of other people's  
18 opinions as to whether they support or don't support  
19 his testimony as those individuals aren't here today.

20 JUDGE JONES: Mr. Cooper, you wanted to  
21 say something?

22 MR. COOPER: I think Mr. -- Mr. Williams  
23 is testifying as an expert. He's explaining the  
24 basis for his opinion.

25 JUDGE JONES: He hasn't -- he hasn't

1 made any statements that anyone else has made, only  
2 that his opinion has been verified, so to speak. So  
3 the objection is overruled. Go ahead, Mr. Williams.

4 THE WITNESS: All right. Mr. McKnight  
5 is a -- he's advisory partner in DeLoitte & Touche  
6 and he was also the Arthur Andersen & Company utility  
7 industries program utilities partner, so he was  
8 basically in charge for Arthur Andersen during the  
9 period of time that FAS 90 was put into place. And  
10 that was his role with Arthur Andersen, and he did  
11 look at my testimony and did not advise that it was  
12 not correct.

13 MR. COOPER: That's all the questions I  
14 have, your Honor.

15 JUDGE JONES: Mr. Williams, you may step  
16 down. We'll move on to testimony from Staff's  
17 witness.

18 MR. SCHWARZ: Judge, if I might?

19 JUDGE JONES: You have questions for  
20 Mr. Williams?

21 MR. SCHWARZ: No, I don't have a  
22 question for Mr. Williams.

23 JUDGE JONES: Oh, okay.

24 MR. SCHWARZ: Blitz, Bardgett & Deutsch  
25 representing the City of Joplin. The City has no

1 questions for any of the witnesses this afternoon.

2 I'd ask to be excused at this time.

3 JUDGE JONES: You are excused.

4 MR. SCHWARZ: Thank you.

5 JUDGE JONES: Staff, you may call your  
6 first witness.

7 MS. BRUEGGEMANN: Thank you, your Honor.  
8 Staff calls James Merciel to the stand.

9 JUDGE JONES: Mr. Merciel, will you  
10 please raise your right hand?

11 (The witness was sworn.)

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

14 DIRECT EXAMINATION BY MS. BRUEGGEMANN:

15 Q. Will you state your name for the record,  
16 please.

17 A. James A. Merciel, Junior.

18 Q. And where are you employed?

19 A. I'm employed at the Public Service  
20 Commission. I work in the water and sewer  
21 department.

22 Q. And are you the same James A. Merciel  
23 who prepared and caused to be filed surrebuttal  
24 testimony labeled as Staff's Exhibit -- excuse me,  
25 one moment -- No. 4?

1           A.       Yes.  Actually, I don't know about the  
2   exhibit number, but I did file the surrebuttal  
3   testimony.

4           Q.       Okay.  Is that the same testimony  
5   labeled Staff's Exhibit No. 4 that you prepared and  
6   caused to be filed?

7           A.       Yes, it is.

8           Q.       Okay.  Did you also contribute to  
9   Staff's cost of service report?

10          A.       Yes, I did.

11          Q.       And what portion did you contribute to  
12   that report?

13          A.       Well, it had a heading, and I've  
14   forgotten what it is, but it was about the Cedar Hill  
15   sand treatment facility.  That may be what the  
16   heading was.  It was in the rate base portion of  
17   the -- of the Staff's report.

18          Q.       And I'm going to show you a section  
19   labeled that at page 16 of the Staff's cost of  
20   service report labeled Exhibit Staff 1.  And if you  
21   could just verify if this is the section that you  
22   authored?

23          A.       Okay.  Yes, page 16 -- on page 17 on  
24   Staff Exhibit 1, I did -- I did write this part of  
25   it.

1           Q.       Are there any corrections that you need  
2   to make to either your surrebuttal testimony or the  
3   portion of the cost of service report you authored?

4           A.       No.

5           Q.       Okay.  If you were asked the same  
6   questions today as found in your testimony or as the  
7   subject of the Cedar Hill plant capacity  
8   adjudgment -- adjustment found in the report, would  
9   your responses and answers be the same today?

10          A.       Yes.

11          Q.       Is your testimony and this portion of  
12   the report true and accurate to the best of your  
13   knowledge and belief?

14          A.       Yes.

15                   MS. BRUEGGEMANN:  At this time, your  
16   Honor, I would offer Staff's Exhibit No. 4 into  
17   evidence.

18                   JUDGE JONES:  Any objections?

19                   (NO RESPONSE.)

20                   JUDGE JONES:  Staff Exhibit 4 is  
21   admitted into the record.

22                   (STAFF EXHIBIT NO. 4 WAS RECEIVED INTO  
23   EVIDENCE AND MADE A PART OF THE RECORD.)

24                   MS. BRUEGGEMANN:  And I tender the  
25   witness for cross-examination.

1 JUDGE JONES: Is there any  
2 cross-examination from Riverside?

3 MR. BEDNAR: None, your Honor.

4 JUDGE JONES: AGP?

5 MR. CONRAD: No.

6 JUDGE JONES: From Public Counsel?

7 MS. BAKER: Yes, your Honor. I have one  
8 question.

9 CROSS-EXAMINATION BY MS. BAKER:

10 Q. In Staff's proposal, is Staff asking for  
11 the Commission to make a determination that the Cedar  
12 Hill/Sand Creek sewage treatment plant was imprudent?

13 A. No. Staff is not making that  
14 recommendation.

15 MS. BAKER: That's all the questions I  
16 have. Thank you.

17 JUDGE JONES: Cross-examination from  
18 Missouri-American Water?

19 MR. COOPER: Thank you, your Honor.

20 CROSS-EXAMINATION BY MR. COOPER:

21 Q. Mr. Merciel, do you have your  
22 surrebuttal testimony with you?

23 A. Yes, I do.

24 Q. Could you turn to page 3 for a moment?

25 A. Okay.

1           Q.       On line 2 there I see testimony that  
2   says that essentially, there are about 730 customers  
3   total in the Cedar Hill district; is that correct?

4           A.       Yes, it is.

5           Q.       And is that consistent with your  
6   understanding of the total number of customers in  
7   that district?

8           A.       That is my understanding. I point out  
9   there are two facilities in the Cedar Hill district.  
10   One is the Sand Creek plant which we're talking  
11   about, and then there's another one, another lagoon  
12   that they have. So it's 730 customers. I had 185  
13   customers on the Sand Creek plant. I think Mr. Dunn  
14   said 196. They may have added a few since I did --  
15   did an account, so...

16          Q.       But there is a difference between  
17   Mr. Dunn's answer earlier in regard to what's served  
18   by the plant and the total number of customers in  
19   that district, correct?

20          A.       That is correct, yes.

21          Q.       If you'd turn back a page in your  
22   surrebuttal testimony to page 2 and lines 12 and 13,  
23   do you see that?

24          A.       Yes, I do.

25          Q.       Okay. And I believe at that point in



1 your testimony you say that you believe that the  
2 expansion project was prudently undertaken, correct?

3 A. Yes.

4 Q. And also that you believe it was  
5 necessary for future growth?

6 A. Yes.

7 Q. Okay. However, it continues to be your  
8 recommendation, I assume, that entire expansion plant  
9 project, to include not only the treatment plant but  
10 the offices and other improvements, should be  
11 disallowed, correct?

12 A. That is the recommendation in the  
13 testimony. I think there's some room for -- to do  
14 some other things with that, and frankly, I think the  
15 issue never really got so far as to do any  
16 negotiations.

17 But it is true, as Mr. Dunn said, there  
18 are some -- the Staff kind of saw this as one big  
19 project? It was the plant expansion, some  
20 reconstruction of existing plant and the office and  
21 some grounds work, fence and things like that, and  
22 the infiltration study. And what he said, I would  
23 agree with, there -- there are some things that  
24 really aren't expansion-related.

25 Q. And when you say "there are some things

1 he said," are you referring to the Schedule 1 that's  
2 attached to Mr. Dunn's rebuttal testimony?

3 A. I -- I'm pretty sure that's the one.  
4 Yes, yes, his Schedule 1.

5 Q. And so you're telling us that you  
6 would -- you would agree that potentially one could  
7 treat the treatment-plant-related costs differently  
8 from the nontreatment-plant-related costs that are  
9 set out on that -- that Schedule 1?

10 A. That could be done, I believe, yes.

11 Q. Is it correct to say that your primary  
12 concern is the impact this plant expansion may have  
13 on rates, not necessarily the necessity of its  
14 construction?

15 A. Yes, that is correct. That is -- that  
16 is our concern. I fully understand the need to  
17 construct additional plants as needed, both for the  
18 new development and some other existing. I think we  
19 mentioned the Lake Tamarack subdivision. It's an old  
20 subdivision. That -- that place has been a problem  
21 for many years, and there's a need to address those  
22 things.

23 But when we -- when we do a plant  
24 expansion and the customers aren't on it, I'm just  
25 having a hard time recommending that all the costs be

1 included and where existing customers pay for it on  
2 something that's going to more than double their  
3 rates.

4 Q. Now, if you would, could you turn back  
5 over to page 3 of your surrebuttal testimony?

6 A. Uh-huh.

7 Q. And I think this is really in the same  
8 neighborhood as the total customer count that we  
9 talked about earlier. I see on -- and really,  
10 lines 1, 2, 3, you make a conclusion that Cedar Hill  
11 district has characteristics that are similar to  
12 small utilities; is that correct?

13 A. Yes.

14 Q. If -- if Staff were to make this same  
15 type of recommendation for a small utility, that is,  
16 that that small utility would receive no return on or  
17 return of a \$2.1 million investment for some unknown  
18 period of time, do you think a small company could  
19 survive that disallowance?

20 A. Probably not without some kind of a  
21 subsidy from a developer or some -- some such thing  
22 like that. I might mention we -- we do this all the  
23 time with small -- small utilities, particularly in  
24 certificate cases where -- where you don't have the  
25 customers to -- to pay for the plant, and often, it

1 is subsidized by developers.

2 Q. And would it be possible to use a lender  
3 in that situation where there's no -- no certain  
4 stream of income?

5 A. Sorry?

6 Q. Well, you said that in some situations,  
7 you -- you require the developer to finance the  
8 expansions, correct?

9 A. Yes.

10 Q. Is that because -- is that out of  
11 necessity? Would it be possible to even find the --  
12 a lender that would participate in such a transaction  
13 without a certain stream of income?

14 A. Okay. You mean -- you mean as far as  
15 the utility supporting the plant without the  
16 customers? Yeah, that would be, well, difficult to  
17 impossible.

18 Q. Is this a common -- a common issue with  
19 small utilities, that is, that there's a tension  
20 between the necessary investment and the impact that  
21 investment may have on the rates of the customers?

22 A. Yes, it is.

23 Q. Have you ever found the -- the ideal  
24 solution to that?

25 A. I wish we have, but we haven't, other

1     than, as I say, develop subsidies when a -- when a  
2     developer is causing a plant to be constructed,  
3     that's -- there -- there usually is sufficient funds  
4     to -- to support a plant before the customers get  
5     there. And that's the only other -- that's the only  
6     other source is depending on the developer.

7           Q.     And in this case, Missouri-American did  
8     require and receive a certain amount of contribution  
9     in aid of construction associated with this plant,  
10    correct?

11          A.     Correct. To the extent the tariff  
12    allows, it appears American did receive some funds  
13    for construction.

14          Q.     Now, as -- as I understand Staff's  
15    recommendation, Staff wants to put this investment in  
16    plant held for future use, correct?

17          A.     That comes from the auditors. That's my  
18    understanding, is what we're -- that's what we're  
19    recommending.

20          Q.     Okay. How does that go from -- explain  
21    to me how, then, the plant gets moved ultimately from  
22    plant held for future use back into rate base.

23          A.     I'm sorry. That's too much of an  
24    accounting question. I'm not sure exactly how we do  
25    that.

1           Q.       Did -- did you calculate a per-customer  
2   number associated with the addition of -- of new  
3   customers?

4           A.       I did from several angles. I might  
5   point out in the -- in the Staff report, we have a  
6   2.1 million, approximately, plant expansion cost.  
7   Let's see here. Well, I think -- I'm not sure what  
8   we said in the report. I had a -- I was going to say  
9   I had a cost per new customer. That's -- that's  
10   about \$12,000 per customer. That's -- that's --  
11   that's the total plant cost.

12                   Now, you have the CIAC, you know, the  
13   developer contributions that -- that should be  
14   subtracted from that, so it's not quite that much.  
15   When you boil it all down for -- for the investment  
16   and the return and all the expenses that go with it,  
17   our accounting staff gave me a number of \$257,000 --  
18   I'm sorry -- 257,218 -- \$257,218. That's the revenue  
19   associated with the -- with the -- with this project.

20                   That -- that translates to the number  
21   that I put in my testimony, \$29.32, and I just  
22   divided by customers. There could be some commercial  
23   customers that -- so it might not be that exact  
24   amount. But that's where I get the \$29 per month  
25   impact on -- on existing Cedar Hill customers.

1           Q.       Let's go back for a second. I think you  
2 referred to the \$257,000 figure as -- as revenue. Is  
3 that a revenue requirement number? Is that what you  
4 meant to say?

5           A.       Revenue requirement would probably be  
6 correct, yeah.

7           Q.       And then you mentioned the \$12,000 per  
8 customer. Was it -- was it Staff's original proposal  
9 that as each customer, new customer added that  
10 \$12,000, would be added to rate base?

11          A.       Well, it's -- it's really 12,000 added  
12 to the plant in service. It's not on a rate base  
13 because of the CIAC. But quite a bit of it is  
14 rate-based.

15          Q.       Would it be economical or advisable to  
16 build a plant in that fashion, one customer at a  
17 time?

18          A.       Well, you can't. You can't build a  
19 plant that way.

20          Q.       It makes sense to size it for some  
21 larger capacity, correct?

22          A.       Correct. Yeah, you have to -- you have  
23 to build a kind of in -- in step -- in increments.  
24 You know, you build plant and you grow into it and  
25 you can't -- you can't build a capacity for

1 individual customers.

2 Q. And would you view it as good management  
3 to build exactly the capacity that you need on a --  
4 on a given day or would you --

5 A. Well --

6 Q. -- suggest that they -- they build for  
7 growth?

8 A. Yeah. Again, not for a given day. You  
9 do need to look into the future and build for your  
10 growth for several years out. That's why I say this  
11 project, I don't consider the project to be, you  
12 know, prudent in itself.

13 MR. COOPER: That's all the questions I  
14 have, your Honor.

15 JUDGE JONES: Commissioner Murray, do  
16 you have questions?

17 QUESTION BY COMMISSIONER MURRAY:

18 Q. Good afternoon, Mr. Merciel.

19 A. Good afternoon, Commissioner.

20 Q. It's my understanding that your sole  
21 basis for this disallowance is rate shock to the  
22 customers; is that correct?

23 A. That is correct.

24 Q. And in looking at your testimony on  
25 page 3 where you say the annual revenue associated



1 with the recommended disallowance would be  
2 257,000-plus for approximately 29.32 per customer per  
3 month as compared to the existing rate of 23.52,  
4 you're adding those together to get what would be the  
5 customer's current rate in that district; is that  
6 right?

7 A. No. The \$29, that's the impact just on  
8 this \$257,000.

9 Q. But what I'm saying is, in order to  
10 determine what the rate would be --

11 A. Oh, I'm sorry. Total rates.

12 Q. -- would be those two totaled; is that  
13 correct?

14 A. Yes, plus whatever increases might be  
15 proposed in this case, and I don't know what that is.  
16 In other words, the 23.52 is the existing rates.  
17 Some of the cost -- like operating costs have gone  
18 up, there might be other expenses there, then plus  
19 this \$29 on the impact on this project.

20 Q. So it would be at least 62.84 per  
21 customer per month in that district?

22 A. 62?

23 Q. Did I add correctly? 29.32 plus 23.52?

24 A. Is it fifty -- is it 52?

25 Q. Oh, it's 52. You're right.

1           A.       Yeah. I think it's --

2           Q.       52?

3           A.       52 something or other, yes.

4           Q.       Adding never was my strong point. You  
5 indicated that there were some other methods in which  
6 this issue might be treated so that -- rather than  
7 just have that straight disallowance. One was a  
8 subsidy, a possible subsidy from the company's water  
9 revenue. Have you -- do you have any numbers showing  
10 what you're -- you're speaking about there?

11          A.       No, I -- I haven't run any numbers and I  
12 didn't do any -- any detail in this. It would --  
13 I -- I think it would be fairly safe to say that the  
14 subsidy would be the -- something on the order of  
15 this \$257,000.

16          Q.       And you don't have any calculations as  
17 to what that would do to customers' water rates?

18          A.       No, I don't. If you consider a service  
19 area like St. Louis County, it is a very small  
20 amount, so it's -- I would say it's more the  
21 principle of it than the actual impact to the water  
22 customers.

23          Q.       Okay. And on the -- in several areas  
24 for allocation, St. Louis is subsidizing the other  
25 districts; is that correct?

1           A.       That is correct. There are other  
2       subsidies.

3           Q.       And is -- is this sort of a hybrid  
4       between district-specific and -- what's the other  
5       term? I've forgotten the other --

6           A.       Single-tariff pricing.

7           Q.       Single-tariff pricing, thank you.

8           A.       I -- yeah, I think you could look at it  
9       as a -- as a hybrid. It is a -- it's not strictly a  
10      single-tariff price, but it does trim down the -- the  
11      extremely high -- highly -- I would say high --  
12      expensive-per-customer service areas.

13                   And then going on the basis that the  
14      expensive ones seem to be the small ones, and -- and  
15      there's not nearly so much impact on -- on the larger  
16      service areas. For example, in St. -- and it might  
17      not just be St. Louis, there could be other service  
18      areas -- but just in St. Louis alone, there are more  
19      than 300,000 customers, so this is, you know, less  
20      than a dollar a year as the -- as the subsidy on this  
21      amount here. As I say, there are other things that  
22      they're subsidizing.

23           Q.       And what would you say is the policy  
24      that Staff is following today in terms of  
25      single-tariff pricing versus district-specific

1 pricing?

2 A. Well, the Staff is trying to stay away  
3 from single-tariff pricing and -- and go with  
4 district-specific as much as we can.

5 Q. And the reason for that is?

6 A. I think we feel like that was pretty  
7 much the directive from -- from this company's case  
8 back in 2002 or so, the one I call the St. Joseph  
9 case.

10 Q. And I'm trying to recall what Staff's  
11 recommendation was in that particular case. Was  
12 Staff in favor of single-tariff pricing at that time?

13 A. The Staff was. The Staff recommended  
14 single-tariff pricing at that time. And I might  
15 mention this company had single-tariff pricing prior  
16 to that. It was really already in play.

17 Q. As -- as I recall, we were moving toward  
18 single-tariff pricing in full. We had moved in that  
19 direction but not totally and...

20 A. That -- yes, that's pretty much correct.  
21 Actually, we had a company named Missouri Cities  
22 Water Company, which this company now owns its  
23 assets. Missouri Cities had a phase-in over several  
24 years moving toward single-tariff pricing, and I  
25 think -- I think those five service areas were pretty

1 well there by the time Missouri-American took over  
2 that company. St. Joseph in Joplin had not been  
3 worked into the single-tariff pricing yet.

4 Q. And the case that you cited which  
5 changed direction really was a change in the  
6 direction that the Commission had -- was going up to  
7 that point, was it not?

8 A. Yes, it was.

9 Q. Okay. On page 4 of your surrebuttal  
10 testimony, you mention a phase-in of rate base  
11 recovery and/or expense allocation. Have you done  
12 any calculations regarding a phase-in?

13 A. No. I'm sorry. I've not run any -- any  
14 numbers. I will say one of my -- one -- one thought  
15 on a phase-in is this plant is in service, it's going  
16 to be serving customers, and all the customers in  
17 Cedar Hill are going to be paying for it eventually.

18 As we've discussed, there are some --  
19 some components that are in service benefitting all  
20 customers. That might be a reason to put a portion  
21 of this in right now. As -- as new customers are  
22 added and as this plant does go into service, it's  
23 not only the new customers but it is all customers  
24 that are going to be paying for it. It's going to  
25 have an impact eventually.

1                   So a phase-in might -- might -- might  
2   help alleviate some future larger rate shock. But  
3   I'm sorry. I don't have any numbers to run. We  
4   would have to do scenarios to give you something on  
5   that.

6                   COMMISSIONER MURRAY: All right. Thank  
7   you, Mr. Merciel.

8                   JUDGE JONES: Commissioner Jarrett, do  
9   you have any questions?

10                  COMMISSIONER JARRETT: I have no  
11   questions. Thank you, Mr. Merciel.

12                  JUDGE JONES: Commissioner Gunn?

13                  COMMISSIONER GUNN: I just have a  
14   couple.

15   QUESTIONS BY COMMISSIONER GUNN:

16                  Q.     And I apologize if these are simplistic,  
17   but I just want to get some things clear in my head.  
18   You -- in your testimony you say that with the 185  
19   customers that you used, you're at about 66,000  
20   gallons per day?

21                  A.     Yes, that's correct.

22                  Q.     But -- and so if you add -- if you add  
23   the 11 or 12 or so to get to the 196, 197, whatever  
24   the number, you're adding about 4,000, four -- 4,200  
25   gallons a day?

1           A.       Yeah, that's --

2           Q.       So you're at about 70 -- you're at about  
3   70,000, a little above, a little bit north of that?

4           A.       That would be about right, yeah.

5           Q.       And so the -- the capacity of the plant  
6   went from 75 to 150, so it doubled?

7           A.       Correct.

8           Q.       But do you think that they should only  
9   be able to recover the 15 percent access or do you  
10   think that's reasonable for access capacity? They  
11   have -- let's -- let's assume they're at 75 just  
12   for -- for -- and they have now 50 percent excess  
13   capacity. You believe that 15 is acceptable?

14          A.       I do. I use 15 percent. It just gives  
15   the company some time. When you -- when you get to  
16   that plant capacity, it's time to start planning and  
17   do -- do -- you know, do some more construction.

18          Q.       Well, that's what I'm -- that's what I'm  
19   trying -- trying to figure out. So -- so if they --  
20   if they had added more customers than the one that --  
21   that you factored in, that -- that 15 percent, you  
22   would include more because that 15 percent is -- kind  
23   of slides up as you -- as you approach that 150,000  
24   capacity?

25          A.       Well, when -- on the 15 percent that I

1 was figuring was the 15 percent on the total plant  
2 capacity.

3 Q. So that you'd start -- and you'd  
4 start building -- or planning on building a new plant  
5 when they get to within 15 percent of the hundred and  
6 fifty -- fifty thousand?

7 A. Yes. But --

8 Q. So that's not -- well, and this is what  
9 I'm trying to figure out. So you're saying that  
10 there is a -- you're -- you're disallowing 127,000  
11 gallons per day as not being used because that's  
12 the -- that's the -- let me read the sentence and you  
13 can explain to me.

14 A. Okay.

15 Q. "Based on the Staff's belief that  
16 15 percent excess of plant capacity is reasonable,  
17 the capacity limit used for Staff's disallowance  
18 would be 127,500 gallons per day."

19 So -- so you're disallowing in -- in --  
20 in what they would be able to recover, the 127,000  
21 gallons because you think that's in excess of what is  
22 reasonable at this point? And maybe -- I'm just  
23 trying to figure out.

24 A. Yeah, I'm not sure I'm following your  
25 question exactly, but the 15 --



1 Q. Let me -- let me ask you this way.

2 A. Okay.

3 Q. Tell me what your disallowance -- the

4 percentages that your disallowance is based on.

5 They've -- they've increased their capacity

6 50 percent. You don't believe they should be able to

7 recover all of that -- all of that 50 percent --

8 A. Correct.

9 Q. -- capacity?

10 A. Okay.

11 Q. You believe what percentage should be

12 able to be recovered?

13 A. Well, let me -- let me -- maybe I can

14 just explain it this way. I believe the whole thing

15 should be recovered, but where the 15 percent comes

16 in, the -- the numbers I have are designed such that

17 complete recovery would occur at 85 percent plant

18 capacity. I'm not --

19 Q. So as you -- as you approached

20 85 percent capacity over however long that took,

21 then -- then they would be able -- they would be

22 recovering the cost of that plant as they approach

23 that 85 percent?

24 A. That's correct.

25 Q. All right.

1           A.       The -- the entire cost.

2           Q.       So -- so in this -- in this case, they  
3 are still under their capacity?

4           A.       Yes.

5           Q.       Their original capacity?

6           A.       Slightly, yes.

7           Q.       But you're giving them an allowance  
8 for -- for a prudent expansion?

9           A.       Yes.

10          Q.       And is that -- so -- and you're giving  
11 them essentially an allowance for, what is it, one  
12 additional...

13          A.       Well, yeah -- yes, at the time. I mean,  
14 at the time there was one new customer. There may be  
15 more since then.

16          Q.       I guess what I'm trying to figure out  
17 is, is -- is how you come with -- with these  
18 numbers -- I mean, is it -- is it just kind of a  
19 reasonable and prudent analysis on your part or if  
20 they -- and that's why I ask whether that 15 -- you  
21 know, the -- the disallowance is a -- if they had  
22 added -- so you -- you take the cost, you divide it  
23 by customer, so if they had added ten customers by  
24 the time that you had done the analysis, you would  
25 have, you know, allocated the cost per customer,

1 added the ten and that would have been okay to add  
2 in?

3 A. Yes.

4 Q. Even if -- even if -- and then is there  
5 a number that you think that the rate should not go  
6 up that would have -- that -- that -- because rate  
7 shock is a concern.

8 So if they had -- if they had added --  
9 if they had added -- so they have room for, you said,  
10 172 more customers. So if they had added 100  
11 customers and it had increased, then would you give  
12 them an allowance for that 100 customers or would  
13 rate shock still be a concern and you would give them  
14 substantially less because you would want to -- to --  
15 to phase that in?

16 A. Well, to be perfectly honest, I'm not  
17 sure what we would have done, and I'm not sure what I  
18 would have done if they had 100 new customers. We  
19 would have -- and I could run the numbers on that. I  
20 don't know what the impact would have been.

21 We may have -- we may have chosen to  
22 recommend some disallowance or some subsidization or  
23 we may not have just even brought the issue up. I'm  
24 just not sure what we would have done then.

25 Q. And it wouldn't necessarily be number of

1 customers because they've got a large commercial user  
2 or something that somehow --

3 A. Right. That could be --

4 Q. -- increase capacity, you're doing it by  
5 gallons and if they could show that they had...

6 A. That's correct.

7 Q. And I apologize for taking the long way  
8 around, but that's what --

9 A. No problem.

10 Q. -- this is what I'm trying to figure out  
11 is where those -- where the origin of these numbers  
12 come and how -- how it fits into the -- to where you  
13 guys are in --

14 A. Okay.

15 Q. -- terms of disallowance, and I think I  
16 understand what you're saying.

17 A. Okay. I did -- my -- my -- the  
18 calculation I used showed that this plant could  
19 handle 357 customers. That would be 85 percent  
20 capacity. So that's kind of -- that's kind of a  
21 magic number. You have the existing customers, the  
22 185 or 196, whatever it is. I used 185, and I  
23 believe the plant can serve 357, so that left 172 new  
24 customers.

25 Q. All right. But the entire -- and --

1 and -- and just to ask another simplistic question,  
2 the entire plant is being used. There's no equipment  
3 that's -- that's just waiting to be turned on because  
4 they don't have --

5 A. Correct. Yeah, there --

6 Q. -- as much flow?

7 A. Right. There are no components that are  
8 waiting to be used. It's all --

9 Q. So it's -- it's -- it's functional, it's  
10 turned on, it's working, it's just not at --

11 A. Just not at --

12 Q. -- at a high enough capacity --

13 A. That's correct.

14 Q. -- or capacity for a first time?

15 A. That's correct.

16 Q. All right. Apologize if they were  
17 simplistic. I appreciate you being patient.

18 A. No problem, Commissioner.

19 COMMISSIONER GUNN: I don't have  
20 anything else.

21 JUDGE JONES: Any recross from anyone  
22 other than Missouri-American?

23 MS. BAKER: Public Counsel does.

24 JUDGE JONES: Okay. Public Counsel.

25 MS. BAKER: Okay. All right.

1 JUDGE JONES: Well, before you do that,  
2 does AGP have cross?

3 MR. CONRAD: Yes.

4 JUDGE JONES: You go ahead and go first.

5 MR. CONRAD: Okay.

6 CROSS-EXAMINATION BY MR. CONRAD:

7 Q. Mr. Merciel, do I recall correctly your  
8 degree is in engineering?

9 A. Yes, it is.

10 Q. Do you have any legal training?

11 A. Legal training?

12 Q. Yeah.

13 A. No, sir.

14 Q. Kind of bump -- bump elbows occasionally  
15 with lawyers around here, right?

16 A. Occasionally we do, yes.

17 Q. Any of it rub off that you're aware of?

18 A. Probably some of it does. We -- yes, it  
19 probably does.

20 Q. Okay. So when Commissioner Murray was  
21 talking to you about single-tariff pricing versus  
22 district-specific pricing and you responded to her,  
23 you're not giving a legal opinion as to the legality  
24 of single-tariff pricing, are you?

25 A. Not legality. I heard her questions

1 more -- more what has been done in the past --

2 Q. Okay.

3 A. -- with respect to what we've been doing  
4 here.

5 Q. Now, what's -- what's been done in the  
6 past you made reference to the -- I believe it's the  
7 2000-281 case?

8 A. I believe that's right.

9 Q. Okay. Do you remember what happened to  
10 that case after it left the Commission?

11 A. It went on to court.

12 Q. Yeah. Did it come back?

13 A. Yes.

14 MR. CONRAD: Thank you. That's all.

15 JUDGE JONES: Recross from the Office of  
16 Public Counsel?

17 MS. BAKER: Thank you.

18 RECROSS-EXAMINATION BY MS. BAKER:

19 Q. Going back to Commissioner Murray's  
20 questions on -- on the subsidies for the Cedar Hill  
21 district, is the Cedar Hill district receiving any  
22 subsidies in the current rates?

23 A. I -- I don't think so. I could be wrong  
24 about that. There are -- there are subsidies -- I know  
25 there's subsidies in the Incline Village service area.

1 Q. But that is not the Cedar Hill --

2 A. That's not the Cedar Hill area. I -- I  
3 don't think there are in Cedar Hill today.

4 Q. All right. And you were also asked  
5 about whether the rate structure right now was a  
6 hybrid between single-tariff pricing and  
7 district-specific. Do you remember that question?

8 A. Yeah. Yes, I do.

9 Q. And you stated that it was a bit of a  
10 hybrid; is that correct?

11 A. Yeah, I think I stated you could  
12 consider it that way.

13 Q. All right. Is it your understanding that  
14 between the 2000 case and -- and the rates that are  
15 in effect at the moment, that there has been a  
16 movement toward strict district-specific pricing?

17 A. That's been the direction, yes.

18 MS. BAKER: I believe that's all the  
19 questions I have. Thank you.

20 JUDGE JONES: We'll move on to redirect --  
21 oh, I'm sorry -- recross from Missouri-American.

22 MR. COOPER: Thank you, your Honor.

23 RECROSS-EXAMINATION BY MR. COOPER:

24 Q. Mr. Merciel, you talked about a -- the  
25 idea of a phase-in. Do you remember that?



1           A.       Yes.

2           Q.       Would your concept of a phase-in include  
3   some level of carrying costs associated with the  
4   revenues not received by the company during a  
5   phase-in period?

6           A.       Excuse me. Well, it could, I guess not  
7   necessarily. That's more of a, I guess, accounting  
8   and may be even -- may be even negotiable. My answer  
9   is it -- it may or may not include that.

10          Q.       Now, you also talked about a 15 percent  
11   figure that you used as a part of your -- your  
12   analysis of the capacity of the plant, correct?

13          A.       Yes.

14          Q.       You don't believe that you can build  
15   plants such as this in 15 percent increments, do you?

16          A.       No, and that wasn't what I was  
17   suggesting.

18          Q.       I believe you also talked about the  
19   plant being under capacity, correct?

20          A.       Yes.

21          Q.       When you referred to it being under  
22   capacity, does that include any analysis of committed  
23   loads?

24          A.       No. No, that was -- that was more  
25   actual flows, and I'm not sure if I've actually seen

1 actual flows or what you could expect to be actual  
2 flows from existing customers. No, I understand  
3 there are some commitments to serve future customers,  
4 and it does not include that.

5 Q. Would you agree with -- with Mr. Dunn  
6 that when DNR looks at a plant and its capacity, that  
7 DNR is concerned about committed loads in addition to  
8 current loads?

9 A. I can see where DNR would have that  
10 concern, yes.

11 MR. COOPER: I don't have any other  
12 questions, your Honor.

13 JUDGE JONES: Okay. Redirect from  
14 Staff?

15 REDIRECT EXAMINATION BY MS. BRUEGGEMANN:

16 Q. Mr. Merciel, when we're talking about  
17 the effect the rates have, I want to go back to a  
18 CIAC charge. Are you aware if there's a CIAC charge  
19 built in for customers hooking onto the system?

20 A. Yes. There are actually two CIAC  
21 charges in the Cedar Hill area.

22 Q. Could you explain what those are?

23 A. Well, one -- one is a -- what you might  
24 call a common contribution charge, or actually, I  
25 think it's called a connection charge of the tariff.

1 We don't like to call it that, but I believe that's  
2 what it is. And then in the last case, there was  
3 another, what's termed a capacity charge. I don't  
4 have the tariff here, but...

5 Q. Are you aware at all of what that -- the  
6 connection charge or the capacity charge CIAC is?

7 A. Yeah, that's what I was looking up. I  
8 believe the connection charge just for a residential  
9 customer, \$1,425, and the capacity charge is \$1,500.

10 Q. Okay. So what does that mean in  
11 laymen's terms?

12 A. It means you would pay -- if you have a  
13 residential structure that you're connecting, you  
14 would pay whatever that adds up to, twenty -- 29 --  
15 \$2,925.

16 Q. Okay. So for every new customer,  
17 they're getting onto the system, are they paying the  
18 \$2,925?

19 A. Yes, should be.

20 Q. Okay. And let me clarify residential  
21 customer.

22 A. That's per resident, right. It's a  
23 little bit different for other types of customers.

24 Q. Okay. Now, is Missouri-American blocked  
25 from future recovery by the disallowance that you've

1 recommended?

2 A. Well, the accountants seem to be arguing  
3 about that. I -- it's -- I -- I don't think they  
4 should be. It's not -- it's not right that they  
5 should be blocked.

6 Q. Okay. Is it your understanding that  
7 they can come back in a future proceeding and -- and  
8 go ahead and take into account...

9 A. From our perspective, yes.

10 Q. Okay.

11 A. That's not -- doesn't seem to be the  
12 argument that -- when the company argues, that they  
13 have to write it off the books. That sounds like  
14 they're arguing that would not be the case, but  
15 that's not my understanding is the way it should be.

16 MS. BRUEGGEMANN: Okay. Nothing  
17 further. Thank you.

18 JUDGE JONES: You may step down,  
19 Mr. Merciel. Staff, go ahead and call your next  
20 witness.

21 MS. BRUEGGEMANN: Staff calls Kimberly  
22 Bolin to the stand.

23 JUDGE JONES: Good afternoon, Ms. Bolin.  
24 Could you please raise your right hand?

25 (The witness was sworn.)

1 JUDGE JONES: Thank you.

2 DIRECT EXAMINATION BY MS. BRUEGGEMANN:

3 Q. Ms. Bolin, could you state your name for  
4 the record, please.

5 A. My name is Kimberly K. Bolin.

6 Q. And where are you employed?

7 A. I'm employed with the Missouri Public  
8 Service Commission as a utility regulatory auditor.

9 Q. And are you the same Kimberly K. Bolin  
10 who prepared and caused to be filed numerous exhibits  
11 that I will discuss with you? Have you filed  
12 testimony in this case and been a part of the cost of  
13 service report?

14 A. Yes, I have.

15 Q. Have you also been a part of the  
16 accounting schedules that are filed?

17 A. Yes, I have.

18 Q. Okay. I'd like to take those one by one  
19 for clarity in the record. Okay. Now, as to the  
20 cost of service report that was filed by the Staff  
21 and labeled Staff's Exhibit 1, what was your  
22 participation in that report?

23 A. I participated in various portions of  
24 the report, and it is marked so where I have  
25 participated.

1 Q. Okay. Does that include Section 1?

2 A. Yes, it does.

3 Q. Section 2?

4 A. Yes.

5 Q. Section 3?

6 A. Yes.

7 Q. Section 4?

8 A. Yes.

9 Q. Section 7 A, 2 H?

10 A. Yes -- wait. H, you said?

11 Q. Yes. I believe there's a sub H.

12 A. What page is that?

13 Q. Page 26, I believe. Oh, excuse me.

14 Page 27.

15 A. Yes.

16 Q. Okay. Section 8, subsection C 5?

17 A. What page was that?

18 Q. 39. "Lobbying costs."

19 A. Yes.

20 Q. And D, subsection -- subsection 2,

21 "Painting"?

22 A. Yes.

23 Q. Now, did you also contribute to the

24 accounting schedules that accompanied this Staff's

25 cost of service report?

1           A.       Yes, I did.

2           Q.       Okay. And was the first Staff  
3   accounting schedule labeled Staff Exhibit 6? Is that  
4   what you supervised being put together?

5           A.       Yes, it is.

6           Q.       Okay. And did you rely on the  
7   information from others and the inputs they developed  
8   to put it into this accounting schedule?

9           A.       Yes, I did.

10          Q.       Okay. Did you believe them to be -- be  
11   true and accurate to the best of your belief?

12          A.       Yes. We did make a revision to 6 A.

13          Q.       Uh-huh. And you made that revision to  
14   correct for certain discrepancies that you found?

15          A.       Yes, we did.

16          Q.       Okay. Did you file direct testimony  
17   with the cost of service report labeled as Staff  
18   Exhibit 5?

19          A.       Yes, I did.

20          Q.       Okay. And did -- because of that same  
21   revision, did you file revised direct testimony  
22   labeled Staff Exhibit 5A?

23          A.       Yes, I did.

24          Q.       Okay. And did you file rebuttal  
25   testimony labeled Staff's Exhibit 7?

1           A.       Yes, I did.

2           Q.       And finally, did you file surrebuttal  
3 testimony labeled Staff's Exhibit 8?

4           A.       Yes, I also did that too.

5           Q.       Okay. Are there any corrections that  
6 you need to make associated with your testimony or  
7 the cost of service report or the accounting  
8 schedules?

9           A.       No, there is not.

10          Q.       Okay. And if you were asked the same  
11 questions or the basis for the information that you  
12 provided in the cost of service report, the  
13 accounting schedules or your testimony, would your  
14 answers be the same today?

15          A.       Yes, they would.

16          Q.       And are the Exhibits 1, 1A, 7, 8, 5A, 5,  
17 6 A and 6 true and accurate to the best of your  
18 knowledge and belief?

19          A.       Yes, they are.

20                   MS. BRUEGGEMANN: I would ask that all  
21 but Exhibit Staff 1 be entered into evidence at this  
22 time.

23                   JUDGE JONES: What are those exhibit  
24 numbers again?

25                   MS. BRUEGGEMANN: 1A, 5, 5A, 6, 6A, 7



1 and 8.

2 JUDGE JONES: What's 1A?

3 MS. BRUEGGEMANN: Is the revised cost of  
4 service report with two -- or with one page  
5 substituted.

6 JUDGE JONES: And what is 5A?

7 MS. BRUEGGEMANN: 5A is the revised  
8 direct testimony of Kimberly Bolin, her direct  
9 testimony.

10 JUDGE JONES: And what is 5? Is that  
11 direct?

12 MS. BRUEGGEMANN: Direct testimony.  
13 Your Honor, if I could approach? I have a list  
14 and -- I'm sorry. If you --

15 JUDGE JONES: Well, we've just got a few  
16 more. What's 6?

17 MS. BRUEGGEMANN: Okay. 6 is the  
18 accounting schedules.

19 JUDGE JONES: And those are attached to  
20 the cost of service reports?

21 MS. BRUEGGEMANN: Yes, essentially.

22 JUDGE JONES: And 6A?

23 MS. BRUEGGEMANN: Is revised accounting  
24 schedules.

25 JUDGE JONES: And 7 and 8 is rebuttal

1 and surrebuttal?

2 MS. BRUEGGEMANN: Yes.

3 JUDGE JONES: Are there any objections  
4 to any of these exhibits?

5 MR. ENGLAND: Your Honor, I don't know  
6 the -- well, I'd ask that you defer ruling on them.  
7 And my reason for that request is that all of these  
8 exhibits, whether it's Ms. Bolin's testimony, the  
9 Staff revised cost of service report, the accounting  
10 schedules or the revised accounting schedules deal  
11 with a number of issues besides the one we're here  
12 today to hear. And I anticipate there will be other  
13 cross-examination on these other witness -- other  
14 issues, if you will, some involving other witnesses.

15 MS. BRUEGGEMANN: Your Honor, if I could  
16 simplify, then, to deal with Mr. England's objection.  
17 Ms. Bolin's direct testimony, Exhibit 5, is only her  
18 direct testimony.

19 JUDGE JONES: Well, I think his -- his  
20 concern is with cost of service report and accounting  
21 schedules; is that right?

22 MR. ENGLAND: Well, it's with all of  
23 them because I think Ms. Bolin's scheduled to come  
24 back on several other unrelated issues in the case,  
25 and -- and I believe her testimony addresses multiple

1 issues other than just the Cedar Hill plant  
2 disallowance.

3 MS. BRUEGGEMANN: But your Honor, she's  
4 verifying her testimony that she wrote it.

5 JUDGE JONES: Her testimony will be  
6 allowed. Of course, the questions that are discussed  
7 outside of the issue, then they're irrelevant, but  
8 her testimony should be allowed. Now, what's your  
9 concern with the cost of service report and the  
10 accounting schedules?

11 MR. ENGLAND: Well, the cost of service  
12 report, as I understand, is supported by numerous  
13 Staff witnesses, many of which we haven't heard from,  
14 so I don't think a proper foundation's been laid for  
15 the entire report.

16 MS. BRUEGGEMANN: And I wasn't asking to  
17 offer the entire report at this time, only the  
18 one-page executive summary and background that she  
19 had filed, but we can wait on that, the revised.  
20 I'll withdraw that at this time if it makes it  
21 easier, your Honor.

22 MR. ENGLAND: I don't think you have to  
23 withdraw it. I just was asking that you just defer  
24 ruling on that until later in the proceeding.

25 JUDGE JONES: Are you saying they should

1 offer that then when the last person who had a part  
2 of the report testifies?

3 MR. ENGLAND: They can do it at that  
4 time or --

5 JUDGE JONES: Or now?

6 MR. ENGLAND: -- as I said, the offer  
7 can stand now and just -- just defer ruling.

8 JUDGE JONES: You don't have a problem  
9 with that, do you?

10 MS. BRUEGGEMANN: No, your Honor.

11 JUDGE JONES: So I will admit, then,  
12 Staff Exhibit 5 and 5A which is the direct and  
13 revised direct. We'll admit Staff Exhibit 7 which is  
14 the rebuttal and Staff Exhibit 8 which is  
15 surrebuttal.

16 (STAFF EXHIBIT NOS. 5, 5A, 7 AND 8 WERE  
17 RECEIVED INTO EVIDENCE AND MADE A PART OF THE  
18 RECORD.)

19 MR. ENGLAND: Just to summarize, then,  
20 Exhibit 5, 5A, 7 and 8 have been admitted?

21 JUDGE JONES: Correct.

22 MR. ENGLAND: Thank you.

23 JUDGE JONES: Now we will have  
24 cross-examination from -- Riverside, any cross?

25 MR. BEDNAR: No, your Honor.

1 JUDGE JONES: AGP, any cross?

2 MR. CONRAD: No questions.

3 JUDGE JONES: Public Counsel?

4 MS. BAKER: No questions. Thank you.

5 JUDGE JONES: Missouri-American Water?

6 MR. COOPER: Thank you, your Honor.

7 CROSS-EXAMINATION BY MR. COOPER:

8 Q. Ms. Bolin, did you hear Mr. Merciel  
9 earlier refer to a connection charge and capacity  
10 charge that are associated with new customers when  
11 they're connected to the system?

12 A. Yes, I heard his testimony.

13 Q. Okay. Is it your understanding that  
14 those charges are only relevant to new hookups to the  
15 system?

16 A. I believe they are for new hookups, not  
17 for if a customer leaves and they would buy the  
18 premises and it would be charged again.

19 Q. But a whole new premises that's been  
20 connected to the system, correct?

21 A. Yes, a new hookup.

22 Q. And is it your understanding that  
23 amounts collected under that connection charge and  
24 the capacity charge would be treated as contributions  
25 in aid of construction?

1           A.       Yes.

2           Q.       And the ultimate impact of that is that  
3       those contributions in aid of construction would be  
4       used to reduce rate base, correct?

5           A.       That is correct.

6           Q.       In future cases, I assume, when -- when --  
7       when we're examining a period where those -- those  
8       charges have been collected?

9           A.       Any new case where those -- that amount  
10       is offset and is used to show a contribution made by  
11       the ratepayer toward the plant.

12          Q.       Now, earlier today in some of the  
13       questioning, there was a reference to a change in the  
14       Staff's position in regard to how contributions in  
15       aid of construction associated with the new treatment  
16       plant were going to be treated. Do you remember  
17       that?

18          A.       Yes, I do.

19          Q.       And I believe that in the original,  
20       maybe even in the revised accounting schedules that  
21       were filed by the Staff, initially there was a  
22       negative rate base, correct?

23          A.       That is correct.

24          Q.       And that was a result of how those  
25       O'Brien Place and school contributions were being

1 treated at that point in time, correct?

2 A. Yes, that is correct. Staff was not  
3 aware that those amounts of contributions in aid of  
4 construction were tied to the new construction of the  
5 plant.

6 Q. And in your surrebuttal testimony I  
7 believe you indicated that the Staff was going to  
8 change how they treated those contributions, correct?

9 A. Yes, we removed them from CIAC amounts  
10 that are deducted from rate base.

11 Q. What was the total rate base for the  
12 company after you did that, after you removed those  
13 CIAC amounts?

14 A. I believe it was roughly \$100,000-some  
15 total rate base.

16 Q. \$149,000, does that sound familiar?

17 A. That sounds close, yes.

18 Q. If the Commission accepts Staff's  
19 recommendation to classify this two hundred -- or  
20 this \$2.1 million of investment as plant held for  
21 future use, will MAWC ultimately recover a return on  
22 and a return of its entire investment?

23 A. Under Staff's current proposal, I  
24 believe the company will receive a return on and a  
25 return of their investment when the customers hook up

1 to this plant.

2 Q. Do you know when that will be?

3 A. I am not sure when it will be.

4 Q. During the period of time that that  
5 investment is -- is treated as plant held for future  
6 use, would you agree with me that the company will  
7 receive neither a return of nor a return on the  
8 investment?

9 A. The company has already received some  
10 CIAC so will not be the complete \$2.1 million cost of  
11 the plant.

12 Q. The amount that is -- that is placed in  
13 plant held for future use --

14 A. Okay.

15 Q. -- during the time it's -- it's in plant  
16 held for future use, will the company receive any  
17 return on or return of that investment?

18 A. In traditional ratemaking, items that  
19 are classified in plant, held for future use are not  
20 included in rate base.

21 Q. So they would neither receive a return  
22 on nor would they receive depreciation or a return of  
23 that investment, correct?

24 A. That is correct.

25 Q. At such time as the company would begin



1 to receive a return on and of its investment,  
2 would -- is there any mechanism for making the  
3 company whole for those returns that it loses while  
4 the plant is in plant held for future use?

5 A. They will receive a return when the  
6 plant is put into rate base.

7 Q. And only from that point going forward,  
8 correct?

9 A. That is my understanding, yes.

10 Q. You're not aware of any mechanism to go  
11 back and make up for the return that it's lost during  
12 the time that it's in plant held for future use?

13 A. Whenever it's removed from plant held  
14 for future use, then it will start to earn a return  
15 on the plant.

16 Q. So for that period of time there's --  
17 there's no carrying costs associated with that  
18 investment, correct?

19 A. I'm not aware of any carrying costs that  
20 would be included.

21 Q. Earlier Mr. Merciel had also had some  
22 testimony in regard to phase-in proposals. Do you  
23 remember that?

24 A. Yes, I do.

25 Q. Okay. And he had -- well, I had asked

1 him about that phase-in and whether a phase-in -- a  
2 phase-in plan or a rate phase-in would necessarily  
3 include carrying costs associated with the amounts  
4 that -- that the company did not receive during that  
5 phase-in period. Do you remember that?

6 A. Yes, I do.

7 Q. What's your understanding of -- of a  
8 phase-in? Is it your understanding that -- that a  
9 phase-in would need to include carrying costs for  
10 those amounts that the -- that the company does not  
11 receive?

12 A. I'm not sure I could say that. I think  
13 I would have to look at the proposed phase-in,  
14 exactly what it entailed, what were the circumstances  
15 behind the phase-in before I could actually determine  
16 that carrying costs would be appropriate.

17 Q. If carrying costs are not included,  
18 would you agree that the company will not be made  
19 whole during the phase-in?

20 A. I don't know exactly what you're meaning  
21 by "being made whole." Could you define that a  
22 little farther?

23 Q. Well, let's say that there's a --  
24 there's a \$100 revenue requirement. Year one we're  
25 going to add \$33, year two we're going to increase

1 rates \$33, year four 34 to catch up the difference.  
2 In my hypothetical, \$67 should have been received by  
3 the company in year one, some amount should have been  
4 received in year two, but they were not received  
5 because of the phase-in.

6                   Wouldn't you agree with me that -- that  
7 in order to be made whole in that hypothetical, the  
8 company would have to receive carrying costs  
9 associated with those amounts it did not receive in  
10 years one and two?

11           A.       I think that would be under a different  
12 type of phase-in than what Mr. Merciel may be  
13 proposing. I think he may be proposing more of one  
14 that is in line with what the Staff is saying right  
15 now; when your new customers come on, your additional  
16 customers are added, either additional plant is  
17 added. I think this may be a comparison of apple to  
18 oranges.

19                   MR. COOPER: That's all the questions I  
20 have, your Honor.

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

23                   COMMISSIONER MURRAY: Yes, I do. Thank  
24 you.

25                   QUESTIONS BY COMMISSIONER MURRAY:

1 Q. Good afternoon, Ms. Bolin.

2 A. Good afternoon.

3 Q. I want to go back to the -- when new  
4 customers hook on, the contributions in aid of  
5 construction that will be calculated. Is it accurate  
6 that both the connection charge and the capacity  
7 charge will be considered contribution in aid of  
8 construction?

9 A. I believe that's how it will be treated.  
10 I'm not -- looked at the tariffs close enough for  
11 this.

12 Q. Okay. Well, assume that that's so, and  
13 \$2,900 --

14 A. Uh-huh.

15 Q. -- and 29.25 per customer, new customer  
16 that hooks on. That amount goes in as a contribution  
17 in aid of construction?

18 A. Yes, it does.

19 Q. Which, doesn't that mean that those  
20 amounts, there will never be a return on the  
21 investment?

22 A. That is true because the ratepayers are  
23 paying that money at that point. They are paying for  
24 that investment.

25 Q. So if the company waits to recover, I

1 believe the Staff report indicated that the company  
2 would realize full recovery when the plant reaches  
3 85 percent capacity?

4 A. That's what Mr. Merciel based his  
5 calculations on. The Staff used that number.

6 Q. Okay. And -- and assuming that's  
7 accurate, that full recovery would not include a  
8 return on a good percentage of that investment; is  
9 that correct?

10 A. On the CIAC, is that what you're --

11 Q. Well, anything that would have been  
12 included as CIAC, there would be no return on,  
13 correct?

14 A. Right, because they would have already  
15 received their money from the ratepayers.

16 Q. And during the period in which there was  
17 the disallowance in effect and the 85 percent  
18 capacity had not yet been reached, those amounts that  
19 were disallowed, there would be no return on or of  
20 the investment; is that right?

21 A. During that time period until all the  
22 customers are connected, there would not be a return  
23 on or a return of the investment.

24 Q. So under Staff's recommendation as it  
25 stands now, how could the company fully recover?

1           A.       When the company's customers come on  
2 line, they would -- they could fully recover the  
3 amounts then.

4           Q.       But I don't understand if -- okay.  
5 You're saying they could fully recover the amount of  
6 the investment; they couldn't recover the return on  
7 the investment; is that right?

8           A.       They will not receive a return of or  
9 return on until all the customers -- until the  
10 majority of the customers are on line.

11          Q.       And then once the majority is on line,  
12 there is a significant portion for which they will  
13 never receive a return on; is that correct?

14          A.       During the time period between the  
15 customers coming on and the -- you know, the  
16 disallowance period, they will not receive the return  
17 on their money.

18          Q.       But they will never receive a return on  
19 the \$2,925 per new hookup; is that correct?

20          A.       That's -- yes, that's correct, because  
21 we believe the ratepayers have paid for that  
22 investment so they should not receive a return on  
23 ratepayer money.

24          Q.       What about the time period that elapses  
25 in between that 85 percent capacity and the company's

1   having made the investment? I know the carrying  
2   charges were mentioned earlier, but isn't that a  
3   significant loss if there is a period of -- of years,  
4   for example, where the company has made the  
5   investment and there is neither a return of or a  
6   return on that investment?

7           A.       There is a period where they will --  
8   yeah, they will not receive a return on or a return  
9   of.

10          Q.       And then when they do reach 85 percent  
11   capacity, they will receive -- you're -- you're  
12   indicating they will receive a full return of their  
13   investment minus whatever it costs them to carry that  
14   over the period of time?

15          A.       They will start receiving depreciation  
16   expense, which is their return of on that plant.

17          Q.       And do you know -- numberwise I'm having  
18   trouble understanding how much -- well, first of all,  
19   I don't know how many customers would be 85 percent  
20   capacity. And the CIAC, how much of that -- how much  
21   CIAC is there in relation to the total investment at  
22   the time that there are 85 percent -- there is an  
23   85 percent capacity?

24          A.       Currently the company has indicated they  
25   have a total CIAC -- CIAC of 538,000. I'm not for

1     sure -- I'm not quite certain how many customer  
2     hookups this would relate to. This was paid by the  
3     developer of the subdivision.

4             Q.       Okay.

5             A.       And is also paid by Northwest High  
6     School.

7             Q.       And do you know what -- well, let me ask  
8     you that since we're on that subject. The Staff's  
9     change in relation to that amount, the Staff removed  
10    that amount from contributions in aid of construction  
11    because of the disallowance of the total amount; is  
12    that correct?

13            A.       That is correct.

14            Q.       So that actually reduced the  
15    disallowance?

16            A.       Yes, it did. It reduced it by 538,000.

17            Q.       And then when the plant reaches  
18    85 percent capacity, how many customers will be  
19    hooked up, do you know?

20            A.       I believe it's -- I think that  
21    additional 185 customers were needed. I don't  
22    remember the exact numbers. Mr. Merciel was the one  
23    who did the customer numbers.

24            Q.       All right. That's -- that's really not  
25    that important. If your interpretation of the



1    general accounting principles is correct and the  
2    company does not have to write off any of these  
3    amounts, then -- and -- and the Commission accepts  
4    Staff's disallowance, does not do any kind of a  
5    phase-in or any kind of a subsidy, is it your  
6    understanding that the company will eventually  
7    recover a return of the entire investment minus  
8    contributions in aid of construction, minus whatever  
9    it costs them to carry that amount for the period of  
10   time involved?

11           A.       I don't believe Staff's proposal  
12   includes any carrying costs at this -- we've not  
13   considered carrying costs in our amount that we would  
14   put into plant held for future use.

15                   COMMISSIONER MURRAY: All right. Thank  
16   you.

17                   JUDGE JONES: Commissioner Jarrett?

18                   COMMISSIONER JARRETT: No questions,  
19   thank you.

20                   JUDGE JONES: Commissioner Gunn?

21                   COMMISSIONER GUNN: Just -- just a quick  
22   clarification. I apologize again.

23   QUESTIONS BY COMMISSIONER GUNN:

24           Q.       CIAC wouldn't get a return on that  
25   because that's not their investment, that's already

1 being paid for by the ratepayers?

2 A. That's been a reimbursement by the  
3 ratepayers.

4 Q. Ratepayers. So they'll recover that as  
5 they're -- as they're moving on already for the  
6 expansion?

7 A. Yes.

8 COMMISSIONER GUNN: All right. Thanks.  
9 I don't have any other questions.

10 JUDGE JONES: Any recross from  
11 Riverside?

12 MR. BEDNAR: On that last question --

13 THE COURT REPORTER: Will you turn your  
14 mic on? Thanks.

15 MR. BEDNAR: Sorry about that.

16 RE-CROSS-EXAMINATION BY MR. BEDNAR:

17 Q. On the CIAC -- CIAC charge, is it --  
18 only those contributions made by a ratepayer. What  
19 would be a contribution by a nonratepayer?

20 A. I guess we'd also include it in  
21 contributions in aid of construction. I'm not aware  
22 of that situation ever happening, but --

23 Q. You're not aware of the -- of any  
24 agreement between the company and the City of  
25 Riverside to contribute two and a half million

1     dollars in infrastructure?

2             A.       I am aware of that, but I'm not sure how  
3     that plays out.

4             MR. BEDNAR:   Okay.   Thank you.

5             JUDGE JONES:   Any recross from AGP?

6             MR. CONRAD:   No, sir, thank you.

7             JUDGE JONES:   Recross from the Office of  
8     Public Counsel?

9             MS. BAKER:   Thank you.

10    RE CROSS-EXAMINATION BY MS. BAKER:

11            Q.       For contributions in aid of construction  
12    as -- as was asked of you before, it's true that this  
13    is money that is provided by the ratepayers that is  
14    not required to be invested by the company; is that  
15    correct?

16            A.       That is correct.

17            Q.       And contributions in aid of construction  
18    can also come from developers; is that correct?

19            A.       Yes, and that's what has happened in  
20    this circumstance.

21            Q.       All right.   And so would it be something  
22    that you would agree that with contributions in aid  
23    of construction, that getting the money from the  
24    ratepayers or from the developers lowers the -- the  
25    amount of money that the company is required to -- to

1 put up front or to carry through this project?

2 A. Yes, it does.

3 Q. And so therefore, that is why a return  
4 on that amount is not appropriate; is that correct?

5 A. That is correct.

6 MS. BAKER: That's all the questions I  
7 have.

8 JUDGE JONES: Recross from  
9 Missouri-American?

10 MR. COOPER: No questions, your Honor.

11 JUDGE JONES: Any redirect from Staff?

12 MS. BRUEGGEMANN: Just one, your Honor,  
13 thank you.

14 REDIRECT EXAMINATION BY MS. BRUEGGEMANN:

15 Q. Ms. Bolin, since we've been talking  
16 about all the CIAC contributions and everyone's  
17 trying to get a firm grasp of this, does CIAC  
18 contributions or -- or people contributing, did you  
19 hear the testimony of Mr. Dunn saying four more  
20 customers as of 30 days ago had hooked on from the  
21 first number Staff had used of one customer being  
22 hooked on?

23 A. Yes, I heard that.

24 Q. What does that do to Staff's position?

25 A. If that amount is not already included

1 in the CIAC that was contributed by the developer, it  
2 would reduce Staff's disallowance.

3 Q. Okay. But --

4 A. Also we would add on more customers.  
5 The disallowance would be less.

6 Q. So because of this constant flow of --  
7 of customer hook-ons in -- in this ever-changing  
8 situation, the situation -- the disallowance itself  
9 can -- can change?

10 A. Yes, it would -- this -- the additional  
11 four customers would cause the disallowance possibly  
12 to shrink.

13 Q. And would you need verification of that?

14 A. Yes, I would.

15 MS. BRUEGGEMANN: Okay. No further  
16 questions.

17 JUDGE JONES: Thank you, Ms. Bolin. You  
18 may step down.

19 Do we have one more witness today?

20 Let's go ahead and push through unless anyone has to  
21 take a break. Does anyone need to take a break?

22 (NO RESPONSE.)

23 JUDGE JONES: Okay. OPC, you can call  
24 your witness.

25 (The witness was sworn.)

1 DIRECT EXAMINATION BY MS. BAKER:

2 Q. Could you state your name for the  
3 record, please.

4 A. Ted Robertson.

5 Q. And by whom are you employed?

6 A. The Missouri Office of the Public  
7 Counsel.

8 Q. And in what capacity?

9 A. I'm a regula -- excuse me -- public  
10 utility accountant III.

11 Q. Are you the same Ted Robertson who  
12 prepared and filed rebuttal which is -- has been  
13 given Exhibit No. OPC-1, surrebuttal NP, which has  
14 been given Exhibit No. OPC-2 NP and surrebuttal HC  
15 which has been given Exhibit No. OPC-2 HC?

16 A. I believe so.

17 Q. Okay. Do you have any changes to your  
18 testimony?

19 A. I do not.

20 Q. If you were asked the same questions  
21 today, would your answers be the same?

22 A. They would.

23 Q. Are your answers true and correct to the  
24 best of your knowledge and belief?

25 A. Yes, they are.

1 MS. BAKER: Now I would like to tender  
2 Exhibits OPC-1, OPC-2 NP and OPC-2 HC.

3 JUDGE JONES: Okay. Any objections?

4 (NO RESPONSE.)

5 JUDGE JONES: OPC-1, OPC-2 NP and OPC-2  
6 HC are admitted for the record.

7 (OPC EXHIBIT NOS. 1, 2 NP AND 2 HC WERE  
8 RECEIVED INTO EVIDENCE AND MADE A PART OF THE  
9 RECORD.)

10 MS. BAKER: And at this time I'll tender  
11 the witness for cross-examination.

12 JUDGE JONES: Any cross-examination from  
13 Riverside?

14 MR. BEDNAR: None, your Honor.

15 JUDGE JONES: Any from AGP?

16 MR. CONRAD: No questions, your Honor.

17 JUDGE JONES: Any cross from Staff?

18 MS. BRUEGGEMANN: Yes, your Honor.

19 CROSS-EXAMINATION BY MS. BRUEGGEMANN:

20 Q. Mr. Robertson, were you in the room when  
21 Kevin Dunn testified?

22 A. I was.

23 Q. Were you also in the room when Dennis  
24 Williams testified?

25 A. Yes, I was.

1           Q.       Okay. And did you hear Mr. Williams'  
2 discussion of FASB, paragraph 59, paragraph 60, 61  
3 going into 144?

4           A.       I did.

5           Q.       Okay. Do you agree with Mr. Williams'  
6 rendition of the FASB guidelines as he talked about  
7 them?

8           A.       Actually, I do not. I think everything  
9 that Mr. Williams said was incorrect, but I did find  
10 it interesting in a perverse, convoluted way.

11          Q.       Okay. I would love for you to elaborate  
12 on that last statement.

13          A.       Well --

14                   MR. COOPER: Your Honor, I would object  
15 if Mr. Williams is going to be allowed to  
16 essentially -- or Mr. Robertson is going to be  
17 allowed to supplement his testimony at this point in  
18 time.

19                   JUDGE JONES: Objection sustained.

20                   MS. BRUEGGEMANN: Okay.

21 BY MS. BRUEGGEMANN:

22          Q.       Mr. Robertson, did you supply testimony  
23 in your surrebuttal about FASB 90 -- 90, paragraph 59  
24 and 60?

25          A.       I did. If you turn to page 4 of my



1 surrebuttal, I actually -- I actually quote paragraph  
2 60 in its entirety.

3 Q. Okay. And can you explain to us what  
4 paragraph 60 is addressing?

5 A. Essentially, FASB 90 does talk about  
6 disallowance of plant and the result of impact of  
7 writing -- having to write off a loss. But as  
8 described in Mr. Williams' testimony where he  
9 describes paragraph 59, that is correct.

10 But in paragraph 60 which follows the  
11 response to this FASB accounting standard, I had  
12 concerns regarding excess capacity disallowances,  
13 which is what Staff's issue is, the finding of the --  
14 of the FASB board was that without a specific finding  
15 that the enterprise should not have constructed the  
16 capacity or should have delayed the construction of  
17 the capacity, this FASB statement -- FASB statement  
18 90 that does -- does not apply. The paragraph was  
19 rather short.

20 Like I said, it's on page 4 of my  
21 surrebuttal. It's rather short and it's -- it's not  
22 very convoluted. It's -- it's very easy to  
23 understand. So in essence, what -- when Mr. Williams  
24 stated that he -- the company would have to write off  
25 a loss, he -- he was incorrect.

1           Q.       Okay. Do you know of any other FASB  
2 sections that somehow change that opinion?

3           A.       No. As -- I was in the room when  
4 Mr. Williams was here and he started -- he started  
5 discussing paragraph 61 which follows 60, of course.  
6 But paragraph 61 doesn't even deal with excess  
7 capacity. It deals with a -- it is when you build  
8 plant and you try to base the cost of that plant on  
9 the other plants' building costs, it's -- it's not  
10 even related.

11          Q.       So in your opinion, what type of  
12 Commission directive would have to be issued for the  
13 company not to have to report a loss on the 2.1  
14 million or 1.7 million, however you see it?

15          A.       Essentially, all the Commission has to  
16 do is accept the Staff's position. The Staff has  
17 stated that they -- they're not saying excess  
18 capacity shouldn't have been constructed and -- or  
19 shouldn't have been delayed.

20                    So as long as the Commission doesn't  
21 come up with -- in their word saying one of those two  
22 things, the company won't have to run off a loss.

23                   MS. BRUEGGEMANN: No further questions.

24                   JUDGE JONES: Commissioner Murray, do  
25 you have a question?

1                   MR. COOPER: I think we're up, your  
2 Honor.

3                   JUDGE JONES: Oh, I'm sorry.  
4 Missouri-American.

5                   MR. COOPER: One question.

6 CROSS-EXAMINATION BY MR. COOPER:

7           Q.       Mr. Robertson, when the company files  
8 its financial statements, do you sign off on those  
9 statements or does a third-party auditor have to sign  
10 off on those statements?

11          A.       Counsel knows I'm not their outside  
12 auditor.

13          Q.       So that's a no, you don't?

14          A.       It's obvious.

15                   MR. COOPER: That's all the questions I  
16 have, your Honor.

17                   JUDGE JONES: Commissioner Murray, do  
18 you have questions?

19                   COMMISSIONER MURRAY: Yes, I do. Thank  
20 you.

21 QUESTIONS BY COMMISSIONER MURRAY:

22          Q.       Mr. Robertson, good afternoon.

23          A.       Good afternoon, Commissioner.

24          Q.       I was -- I was just sitting here trying  
25 to think through what would be the result if the

1 Commission were to allow the company to place the  
2 \$2.1 million in rate base during this rate case that  
3 Staff and OPC are suggesting should be disallowed.

4           Could that result in the company earning  
5 a return on the full investment plus getting new  
6 customers hooked on and receiving contributions in  
7 aid of construction between now and the next rate  
8 case so that they would be earning a return between  
9 now and the rate -- next rate case on the full amount  
10 of the investment and not having to subtract from the  
11 rate base those contributions until the next rate  
12 case?

13       A.     I believe you are correct in what you're  
14 stating, if I understand correctly. If the  
15 Commission allowed in -- the full amount of rate  
16 base, the company would be allowed a return on that.  
17 During the interim between this case and the next  
18 case, they would have more customers come on, those  
19 customers would pay CIAC, the company wouldn't have  
20 to subtract that from the full amount of rate base,  
21 so therefore, they would -- they'd get to use that  
22 money and still get the return on the full amount.  
23 If that's what you stated --

24       Q.     Yes, that is.

25       A.     Then that would be correct.

1           Q.       Has -- to your knowledge, has there ever  
2   been any kind of a -- an arrangement in a rate case  
3   where rather than allow the full amount of the  
4   investment in rate base, it would be calculated to  
5   determine at least an estimate of the number of  
6   customers that would hook on in a two- or four-year  
7   period and -- and subtract that amount because that  
8   would be contributions of aid of construction  
9   eventually?

10          A.       Actually, to my knowledge, it's not.  
11   And probably the reason, because -- the cost would  
12   be -- that would be forecasted cost in that realm of  
13   thinking.

14                   And Public Counsel and I don't think  
15   Staff have ever really been on board with trying to  
16   do that because it's obviously -- because it's so  
17   difficult to do with any accuracy. So not that --  
18   not that I can recall, no.

19          Q.       Okay. So if we -- would it be accurate  
20   to say that if we take Staff's position and OPC's  
21   position on this issue, that regulatory lag would be  
22   working against the company; whereas, if we take the  
23   company's position, regulatory lag would be working  
24   in the company's favor?

25          A.       Just -- to some degree, that's true, but

1 another way to look at this is Staff is not  
2 recommending that the plant be disallowed. They're  
3 just recommending that you build it in in kind of a  
4 phase-in way based on the customer's ability to hook  
5 up to it.

6               So in reality, the company won't lose a  
7 return on or return of the plant, return on being  
8 depreciation expense. When the plant's built in, as  
9 long as there's a rate case within that time frame,  
10 they'll start getting a return on that plant. It's  
11 just essentially delayed. They'll get the regulatory  
12 expense, regulatory return on a delayed basis.

13              There isn't a small loss, and I say  
14 "small" because I -- I don't know what it is. It --  
15 it can be probably easily calculated to some degree.  
16 During that time frame, if you had got the return up  
17 front -- and you're not going to because the plant's  
18 not going to be put in until later -- they would have  
19 got that money and there would have been some kind of  
20 an economic opportunity cost.

21              But essentially, as far as the plant's  
22 concerned, except for that early return on money,  
23 time valued money, use opportunity cost type of  
24 thing, they will get the full return of the plant on  
25 it when it's put in. As long as it's in rate base,

1 they'll earn a return on it, and they'll get the  
2 depreciation expense as long as it's in rate base.

3               So essentially, that's just a -- it's  
4 delayed. It's not that they won't get a full return  
5 on -- a full -- full return on or full return of it,  
6 but they will lose a small economic opportunity cost.  
7 And -- and I say "small" because if they get 10  
8 percent of the plant as a return, whatever they could  
9 earn on that 10 percent, if they can earn 10 percent  
10 of that, and some other investment...

11               COMMISSIONER MURRAY: Okay. Thank you.

12               JUDGE JONES: Commissioner Jarrett?

13               COMMISSIONER JARRETT: No questions.

14 Thank you, Mr. Robertson.

15               THE WITNESS: Yes, sir.

16               JUDGE JONES: Commissioner Gunn?

17 QUESTIONS BY COMMISSIONER GUNN:

18               Q.       Is there -- is there any mechanism to  
19 allow them to make up for that small loss once the  
20 customers were hooked onto a slightly accelerated  
21 depreciation schedule? Are there other things that  
22 we can do that would -- that would make up that in  
23 your opinion?

24               A.       I think there is. I think Mr. Merciel  
25 in his surrebuttal testimony was open to some kind of

1 ideas. I don't think anything's been spelled out.

2 Q. But there are -- there are, just as a  
3 general -- as a general matter, there are ways to  
4 make it, let's call it economically neutral to the  
5 company once all the customers have -- have hooked  
6 on?

7 A. I think there is, but also I'd like you  
8 to keep in mind that the customers did not come on  
9 line so the developer of the -- of the site and the  
10 company itself are taking this at risk. They're at  
11 risk when the customer's coming on -- ever coming on.  
12 And part of the return is for these kind of risks,  
13 the return you provide means a business risk that  
14 what they plan for may or may not occur, so --

15 Q. But -- but let's just -- let's assume  
16 that the customers do come on line for a second. And  
17 that -- in your answer to Commissioner Murray, that  
18 was one of the assumptions that you made because  
19 you're not opposed to them getting the full return;  
20 really, you're looking to delay it. Rate shock is  
21 the -- is the biggest concern here.

22 A. It is, that's correct.

23 Q. So if -- if we were to delay it and the  
24 customers were to come on line, then there are things  
25 that we could do once the customers came on line and



1 we would guarantee that their customers were there to  
2 help make up for that, that -- to make it  
3 economically neutral for them, in your opinion?

4 A. Obviously you could do something, sure.

5 Q. All right.

6 THE COURT REPORTER: I didn't hear a  
7 single word.

8 BY COMMISSIONER GUNN:

9 Q. I'm not asking you to say what those  
10 mechanisms are. I just want to make sure that there  
11 are -- in you -- in your opinion there would be some  
12 mechanisms?

13 A. You are correct.

14 COMMISSIONER GUNN: I apologize once  
15 again to the court reporter.

16 THE WITNESS: As do I.

17 COMMISSIONER GUNN: I don't have any  
18 further questions.

19 JUDGE JONES: Any recross from  
20 Riverside?

21 MR. BEDNAR: No.

22 JUDGE JONES: Recross from AGP?

23 MR. CONRAD: No, sir.

24 JUDGE JONES: From Staff?

25 MS. BRUEGGEMANN: No, your Honor.

1 JUDGE JONES: Missouri-American Water?

2 MR. COOPER: No, your Honor.

3 JUDGE JONES: Any redirect from OPC?

4 RECROSS-EXAMINATION BY MS. BAKER:

5 Q. I just wanted to have you elaborate a  
6 little bit more on -- on Commissioner Murray's  
7 question about the company. If -- if they were  
8 allowed to -- to earn a return on while they were  
9 waiting for customers to come on line, can you  
10 explain how the company would be getting -- have the  
11 possibility of getting a return on an investment that  
12 they might be getting CIAC as well? Do you need me  
13 to rephrase that?

14 A. That would be -- yes.

15 Q. Okay. I'm sorry. Commissioner Murray  
16 asked you a question about -- about whether --  
17 whether if -- if you gave them full recovery for the  
18 plant now, they would be getting return on, but  
19 there's also the capacity charges and the -- and the  
20 connection charges that they would be receiving as  
21 well --

22 A. Sure.

23 Q. -- would there be some double recovery  
24 of some of that amount at that same time?

25 A. Well, in essence, I mean, that -- that

1 is really the regulatory model to some degree. Once  
2 you set rates, the company earns or certainly the  
3 opportunity to earn, is what it is. Some expenses go  
4 down, some -- some -- some expenses go up. The  
5 company potentially could earn some additional CIAC  
6 which, if you were in a rate case setting, would  
7 reduce the rate base which they would be allowed to  
8 earn on.

9 That's -- that's -- that's part of the  
10 devil of the -- of the process we work in. The  
11 company benefits, sometimes -- sometimes they -- they  
12 don't. So I mean, hopefully, it all works out in the  
13 wash and that's what attorneys are for.

14 Q. Okay. And so the -- the ability to get  
15 a return on an investment, as you said, includes the  
16 risk of maybe that not coming on line right away; is  
17 that correct? Can you explain that?

18 A. Yes. Well, if the Commission were to  
19 accept the Staff's position, I believe there would be  
20 an economic loss, a time value of money loss kind of  
21 scenario. Not a loss on a return of or return on the  
22 plant itself and it's -- it's built in but an  
23 economic cost for not receiving the returns sooner  
24 rather than later.

25 I personally believe that the rate of

1 return that the company's allowed to earn  
2 incorporates a business risk associated with these  
3 kind of activities where the company has built a plan  
4 anticipating that a subdivision will be fully built  
5 out based on whatever discussions they've had with  
6 the developer or whatever other belief they --  
7 they -- they did due diligence on.

8                   If it doesn't occur, there's a risk that  
9 it may not happen, and I think the rate of return the  
10 company sees incorporates that type of business risk.

11                   So essentially, I -- I -- I guess in my  
12 mind there's kind of a tradeoff. There could be a  
13 small economic opportunity loss from doing a gradual  
14 phase-in of the plant, but at the same time -- same  
15 time they get a return from the business risk aspect  
16 of their -- of their rate of return. So...

17           Q.       Are you familiar with cases that -- that  
18 have come before the Commission where a plant has  
19 been put into -- into service, but was delayed as far  
20 as a return on that investment has occurred?

21           A.       Actually, the only thing that's popping  
22 into my mind right now is that I was doing research,  
23 is the Callaway Nuclear Plant phase-in of years ago.  
24 And -- but I just don't remember all the details  
25 associated with that.

1           Q.       So is -- from your testimony, it's  
2       certainly possible that the company can come back and  
3       recoup those costs once the customers come on line?

4           A.       I'm sure. I think that's the parties'  
5       position as -- as customers are added to the plant,  
6       when they come in for a rate change, that will be  
7       incorporated into -- into their cost of service and  
8       essentially base rates.

9                   MS. BAKER: That's all the questions I  
10      have.

11                  JUDGE JONES: Thank you. You're  
12      excused, Mr. Robertson. Okay. That's all the  
13      witnesses we have for today. Let's go off the  
14      record.

15                  (DISCUSSION HELD OFF THE RECORD.)

16                  (WHEREUPON, the hearing of this case was  
17      recessed until November 4, 2008.)

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1 I N D E X

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4 Disallowance

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