

Exhibit No.

Policy and Infrastructure

Testimony

C. A. Buescher

Direct Testimony

St. Louis County Water Co.

WR-95-145

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-95-145

DIRECT TESTIMONY

OF

C. A. BUESCHER

Exhibit No. 4
Date 6/1/95 Case No. WA-95-145
Reporter DAT

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

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AFFIDAVIT OF C. A. BUESCHER

The undersigned, C. A. Buescher, having been first duly sworn on his oath, states that the exhibit entitled "Direct Testimony of C. A. Buescher", and consisting of 9 pages, contains his answers under oath to the questions therein propounded to him, and that the Appendix A, inclusive, to the testimony of C. A. Buescher, Chairman of the Board of St. Louis County Water Company, St. Louis, Missouri, are true and correct copies of the appendix referred to in his testimony, all of which testimony and appendix have been prepared in written form by him for introduction into evidence in Public Service Commission Case No. WR-95-145 on behalf of St. Louis County Water Company.


C. A. Buescher

Subscribed and sworn to before me this 6th day of
December, 1994.



Notary Public
SHARON K. LEE, Notary Public
STATE OF MISSOURI, ST. LOUIS COUNTY
MY COMMISSION EXPIRES FEBRUARY 21, 1995

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St. Louis County Water Company
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WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME PLEASE?

A. Charles A. Buescher

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I hold several positions within Continental Water Company and its subsidiaries including St. Louis County Water Company. Among those positions are Executive Vice President of Continental, Chairman of the Board of Directors of each of its operating companies, and President and Chairman of the Board of Water Utility Service Company (WUSCo). WUSCo provides special services to all the subsidiary operating companies of Continental including the St. Louis County Water Company. My credentials and education are outlined in the Appendix to this testimony. My principle responsibility, however, within the organization can be very generally described as having oversight for engineering and operations for all of the Companies' operating subsidiaries.

PURPOSE AND SCOPE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY ON THE ISSUE OF
GENERAL POLICY?

A. To state the Company's policy with respect to infrastructure replacement. In the Company's previous case, WR-94-166, I offered testimony about the Company's financial dilemma which had caused the Company to fail to meet its interest coverage for nine straight months and had left the Company unable to obtain secured debt financing. I described infrastructure problems, changing accounting rules, increasing governmental rules affecting operations, maintenance and construction, as well as ever increasing demands of the Safe Drinking Water Act. All of these directly impact the Company's revenue requirement.

I then addressed what I called a "fundamental problem" with the Commission's Rate Case methodology which was not allowing the Company to receive adequate revenue to meet requirements. This was tied to the Company's large expenditure for infrastructure improvements which was and is the principle reason for the size and frequency of the Company's rate increase requests.

That case resulted in a settlement agreement, one portion of which required the Company to make a presentation to the Commission Staff and Public Counsel, detailing all aspects of its proposed water main infrastructure

1 replacement program. The Report and Order, dated July 19,
2 1994, stated the following:

3 "...Said presentation will include, but is not
4 limited to, a definition of the problem, the extent of
5 the problem, currently available solutions to the
6 problem, a plan to begin to address the problem, the
7 estimated cost of the plan, ratemaking alternatives to
8 implement the plan, and benefits to the customers. The
9 presentation will also discuss the long-term aspects of
10 the program, a cost\benefit analysis for the program,
11 and other financial information pertinent to the
12 program."

13 Q. WAS SUCH A PRESENTATION MADE?

14 A. Yes. The Company on September 29, 1994, sent to the
15 Commission and Public Counsel a letter confirming that the
16 Company had made the presentations to the Staff of the
17 Commission and Public Counsel, as well as to the Commission.

18 Q. WOULD YOU SUMMARIZE THE IMPORTANT ASPECTS OF THE
19 PRESENTATION?

20 A. Basically, there were three components of the presentation:

- 21
22 (1) Increasing maintenance costs due to increased
23 main failures and higher costs which are not
24 now covered by rates.
- 25 (2) Delineation of a phased capital program to
26 replace those mains which are causing greatest
27 breakage.
- 28
29 (3) Most important, financial means to do needed
30 maintenance and to begin a phased capital
31 program. If procedural changes are not made
32 the Company cannot expand the present
33 replacement program.

34 THE COMPANY'S INFRASTRUCTURE
35 NEEDS AND SOLUTION
36

1 Q. HOW ARE MAINTENANCE EXPENSE TREATMENT AND CASH FLOWS RELATED
2 TO THE PROBLEM WITH RATE BASING OF INFRASTRUCTURE
3 INVESTMENT?

4 A. In the last 5 years, maintenance costs have increased
5 dramatically and for the last few years have not been
6 covered in rates. For example, normalized maintenance costs
7 between 1990 to 1992 were approximately \$4.5 million. For
8 rates effective September 1993, this is what was covered;
9 while for the year 1993, actual maintenance costs were \$5.7
10 million, a shortfall of \$1.2 million not covered in rates.
11 In our last rate case with rates effective August 1994,
12 approximately \$5.9 million of maintenance expenses were
13 covered in rates. It is now anticipated that 1994 will be
14 our most costly maintenance year with costs exceeding \$8.1
15 million, leaving a shortfall of \$2.2 million not covered in
16 rates. This is a loss of \$3.4 million in the last two years
17 funded by the shareholder.

18 Keep in mind that it is the ultimate financial
19 condition of the Company that is at issue. All the parts
20 are consequently interrelated. The Company has no option
21 other than to continue maintenance of broken mains, whether
22 or not any rate making procedures can be improved. But
23 present normalizing methods for maintenance expenses cause
24 an attrition in earnings which usurp cash flows needed for
25 the commitment to additional main replacement investment.
26 Whether to undertake an infrastructure replacement program
27 is the only optional decision the Company effectively has,

1 and it would be ineffective and inconsistent to deal with
2 investment lag problem without addressing the growing cost
3 to ownership of unrecovered maintenance expenses.

4 Q. WOULD YOU SUMMARIZE WHAT THE COMPANY PROPOSED WITH REGARD TO
5 ITS INFRASTRUCTURE REPLACEMENT PROGRAM?

6 A. Yes. In our presentations we explained how the Company's
7 distribution and transmission piping is aging, and how
8 certain vintages are beginning to fail at what we believe
9 are unacceptable levels. We explained that the Company
10 believes that management has an obligation to provide the
11 equivalent service to future customers as has been provided
12 to past customers. Therefore, the responsible thing to do
13 is to begin a replacement program. But that program cannot
14 be feasibly undertaken without regulatory help. In our
15 presentation, the Company explained that we were willing to
16 commit to a level of investment and a schedule for that
17 investment if some machinery could be devised which was
18 acceptable to all the parties which could mitigate the
19 effects of regulatory lag, help provide necessary cash flows
20 and deal realistically with maintenance costs. Mr. Turner
21 and Mr. Jenkins speak in particulars on these subjects.

22 Q. HOW DOES YOUR TESTIMONY DIFFER FROM THE PARTICULARS OFFERED
23 BY MR. TURNER AND MR. JENKINS?

24 A. I have authority to commit the Company to a schedule of
25 investment to be financed by additional equity and debt,
26 contingent upon assurances from the Commission and Public

1 Counsel that the procedural changes which are needed can be
2 accomplished.

3 Q. WHAT COMMITMENT CAN THE COMPANY MAKE AT THIS TIME?

4 A. As Chairman of the Board, I wish to report that our owners
5 are willing to make a one time infusion of equity in the
6 amount of \$10 million in the Company in the next three years
7 to allow the phase-in of the infrastructure replacement
8 program until sufficient cash flows are generated as more
9 specifically explained by Mr. Turner. This commitment is
10 contingent upon the ability of the Commission and the
11 parties to this case to devise acceptable methodology to
12 eliminate the penalties built into present procedures which
13 cause deficient earnings on new investment.

14 Q. WHERE WILL THE MONEY COME FROM?

15 A. The infusion of equity investment will come from retained
16 earnings by reducing dividends to ownership. This approach
17 maximizes the purchasing power of those earnings by avoiding
18 taxation and stock issuance costs. The debt will be, if
19 possible and feasible, from new EIERA tax-free issues.

20 Q. ARE YOU ASKING THE COMMISSION TO GUARANTEE EARNINGS?

21 A. Absolutely not. As has always been the case, each dollar
22 invested will have to pass the same tests which have
23 historically applied, and the rate of return on those
24 dollars invested will be determined in the same way it has
25 always been. All we need are changes in the approach to
26 procedures which will permit these evaluations to take place
27 expediently, not months or years after the investment is

1 made. In addition, we need some agreement regarding the way
2 legitimate, provable maintenance expenses will be recovered,
3 and a way that cash flows can be reliably generated.

4 Q. HOW CAN THE COMMISSION DETERMINE A RATE INCREASE FOR THE
5 COMPANY IF THE COMPANY IS ATTACHING CONTINGENCY CONDITIONS
6 TO IT? SHOULDN'T IT BE THE OTHER WAY AROUND?

7 A. Of course. It is in fact the other way around. If the
8 Commission does not effect the necessary changes, and if the
9 Company attempted the infrastructure replacement program
10 under existing procedures, it would result in financial
11 disaster. The Company is just coming out of a situation with
12 the rehabilitation of a production facility causing major
13 financial stress to the Company. The magnitude of this main
14 replacement investment relative to the Company's existing
15 rate base, coupled with the lag and maintenance deficits
16 built into the existing process, would literally guarantee
17 significant underearnings and inadequate cash flows. It
18 would be difficult and quite possibly, at some point,
19 impossible to raise the necessary capital to fund a program.
20 This would thereby make such a decision, at best,
21 impractical. As always, the Commission will determine:
22 Whether a rate increase is warranted; the conditions, if any
23 which attach to it; and the policies and procedures employed
24 in the process. The Company is only indicating that if it
25 can foresee the financial capacity to undertake such a
26 program, the Company believes it both desirable and
27 appropriate to begin it now.

1 Q. IS THE INFRASTRUCTURE REPLACEMENT PROGRAM OPTIONAL?

2 A. As I explained in the presentations, the Company can
3 continue to deal with infrastructure failures with
4 maintenance repair. Whether or not the replacement program
5 is undertaken, maintenance will continue to increase. It is
6 less expensive in the short run to repair rather than
7 replace, if you do not attempt to place a value on the
8 quality of service or reliability. However, it is the
9 Company's recommendation, with its shareholder's approval,
10 that the replacement program should not be delayed and
11 should be begun at this time. Since it is infeasible
12 economically to do this without Commission help, the
13 decision is effectively in the Commission's hands.

14 Q. WHAT EXACTLY DO YOU WANT FROM THE COMMISSION AT THIS TIME TO
15 BEGIN THE PROGRAM?

16 A. Procedural changes. As we stated in the infrastructure
17 presentation, if regulatory practices can be modified to: a)
18 eliminate the devastating effects of regulatory lag
19 associated with capital infrastructure replacement; b)
20 increase and stabilize cash flow; and c) provide for the
21 true recovery of maintenance costs; then the Company will
22 have the practical capability to raise the necessary
23 external capital to fund the program. The Company will have
24 the ability to obtain necessary external debt capital on
25 reasonable terms and necessary additional equity capital
26 through dividend abeyance or other means of raising equity
27 capital.

1 The Company's infrastructure replacement program is
2 unique because it does not involve the construction of one
3 extraordinary asset over a long construction cycle, but a
4 continuous multitude of short-cycle construction projects
5 which taken as a whole, are extraordinary in nature. A
6 continuation of ratemaking methodologies that restrict
7 synchronization of rates with plant completion will prohibit
8 the Company from obtaining the funds to finance its capital
9 program and force the Company to abandon the program. We
10 believe that with the spirit of cooperation, the parties to
11 this case can come up with solutions to these problems which
12 are progressive and which meet the Company's needs with no
13 detrimental effect on the public.

14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15 A. Yes, it does.

C. A. Buescher, age 60, has been Chairman of the Board of St. Louis County Water Company since 1982. He also serves as Executive Vice President of the parent company, Continental Water Company and, since 1982, serves as Chairman of the Board of Continental Water Company's properties, including Long Island Water Company, Lynbrook, NY, Gary-Mobart Water Company Gary, IN and Northern Illinois Water Company, Champaign, IL. He has been associated with St. Louis County Water Company for 26 years, and has held positions of Staff Engineer, Superintendent of Purification, and Vice President - Engineering. Mr. Buescher holds a B. S. Degree in Civil Engineering and a M. S. Degree from Washington University, St. Louis, where he also served briefly as a Professor. He has also been active in national drinking water organizations including:

American Water Works Association (AWWA)

Missouri Section	-	Chairman	1984
Missouri Section	-	Director	1985 - 1988
Standards Council	-	Member	1978 - 1984
Water Utility Council	-	Member	1979 - 1984; 1989 - 1992
General Policy Council	-	Member	1989 - 1991; 1992 - Present

National Academy of Science (NAS)

Committee on Water Treatment Chemicals (Chemical Codex)	-	Member	1980 - 1982
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National Association of Water Companies (NAWC)

Director	-	1979 - Present
Past President	-	1991 - 1992
President	-	1990 - 1991
First Vice President	-	1989 - 1990
Govt. Relations Committee	-	1981 - Present
Committee on Mgt & Efficiency	-	1976 - 1979

Missouri River Public Water Supplies Assoc. (MRPWSA)

President	-	1976 - 1980
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AAEE Diplomate

-	1975 - Present
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Selected Publications on Water Treatment

- "Reduction of Foaming of ABS by Ozonation" - Buescher & Ryekman
Proceedings of 16th Industrial Water Conference, 1961, Purdue University
- "Chemical Oxidation of Selected Pesticides" - Buescher, Dougherty & Skrinde
Journal Water Pollution Control Federation, August 1964
- "Application of Electron Affinity Analyses to Oxidation of Pesticides
in Water" - Dougherty, Buescher & Skrinde
Proceedings of the 19th Industrial Waste Conference, 1964, Purdue Univ.
Air and Water Pollution International Journal, Vol. 10, pp.611-625,
1966 Great Britain
- "Operation and Maintenance of Rapid Sand and Mixed-Media
Filters in a Lime Softening Plant" - Tuetpker and Buescher
Journal American Water Works Association, December, 1968
- "Effects of Effluent Guidelines on Public Water Supply Industry" - Buescher
Proceedings of American Water Works Association Annual Conference, 1975
- "Problems in Rehabilitation of and Additions to Existing Treatment Plants
- Owner's Viewpoint" - Buescher
Proceedings of American Water Works Association Annual Conference, 1977
- "What is Conservation - Water Supply Viewpoint" - Buescher
Proceedings of American Water Works Association Annual Conference, 1979
- "The Regulatory Climate and the Waterworks Manager" - Buescher
Proceedings of American Water Works Association Annual Conference, 1981
- "Safe Drinking Water Update" - Buescher
Proceedings of the Missouri Section AWWA - Annual Conference, 1984
- "Plumbing Materials and Drinking Water Quality - Regulatory and Compliance
Aspects - Water Supply Viewpoint" - Buescher
Proceedings of EPA Seminar on Plumbing Materials and Drinking Water, 1984
- "Meeting the Water Quality/Supply Requirements for Large Midwestern
Metropolitan Areas" - Buescher
Bilateral Water Quality/Supply Issues - Moscow, Russia - 1989