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APR 29 2004

Missouri Public
Service Commission

Exhibit No.:

Issues: Emission Allowances,
Other Regulatory Assets,
Greenwood Lease
Expense & Subsidy For
Steam Customers

Witness: Susan K. Braun

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Susan K. Braun

Exhibit No. 142

Case No(s) ER-2004-0034

Date 2/23/04 Rptr KF

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF SUSAN K. BRAUN
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Susan K. Braun and my business address is 10700 East 350 Highway, Kansas
3 City, Missouri.

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

5 A. I am employed by Aquila, Inc. ("Aquila" or "Company") as a Senior Regulatory Analyst
6 in the Regulatory Services department.

7 Q. Please briefly describe your duties and responsibilities as a Senior Regulatory Analyst for
8 Aquila.

9 A. I am responsible for the preparation of financial and other data in connection with filings
10 before regulatory bodies having jurisdiction over Aquila's operations.

11 Q. Please describe your educational background and professional experience.

12 A. I graduated from Friends University in December 1989 with a Bachelors of Science
13 Degree in Business Administration with a major in Accounting. Prior to employment
14 with Aquila, I held the position of Senior Accountant with Sunflower Electric Power
15 Corporation and as Accountant with IBP, Inc.

16 Q. What is the purpose of your testimony in this proceeding?

17 A. The purpose of my testimony is to present certain schedules and to sponsor working
18 capital, rate base and cost of service accounting adjustments made to Aquila Networks –
19 MPS ("MPS") and Aquila Networks – L&P ("L&P").

1 Q. What schedules are you sponsoring in this proceeding?

2 A. I am responsible for the coordination, development and presentation of schedules SKB-1
3 through 4.

4 Q. Please identify the adjustments that you are sponsoring.

5 A. I am sponsoring the following working capital adjustment:

- 6 • WC-40 Emission Allowances (MPS & L&P)

7 In addition, I am sponsoring the following rate base adjustment:

- 8 • RB -- 40 Other Regulatory Assets (L&P Only)

9 In addition to the above-mentioned items, I am sponsoring the following cost of service
10 (operations) adjustments.

- 11 • CS -- 20 Greenwood Lease Expense (MPS Only)

- 12 • CS -- 27 Emission Allowances (L&P Only)

13 Q. Are you sponsoring all of the adjustments on Schedule SKB-4?

14 A. No. There will be several other Aquila witnesses sponsoring various income statement
15 adjustments.

16 Q. Were these schedules prepared by you or under your direct supervision?

17 A. Yes.

18 Q. Please describe Schedule SKB-1.

19 A. Schedule SKB-1 represents the revenue deficiency calculated with a return on equity of
20 12.25%. The amount of the deficiency is approximately \$14.6 million.

21 Q. What information is included on Schedule SKB-2?

22 A. This Schedule illustrates the detailed components of rate base. Rate base is Aquila's
23 investment to provide safe and reliable service to customers in the L&P service territory.

1 Q. Please describe Schedule SKB-3.

2 A. Schedule SKB-3 is the adjusted income statement, which reflects the net income
3 available after all known and measurable changes have been made.

4 EMISSION ALLOWANCES (MPS & L&P)

5 Q. What are emission allowances?

6 A. Emission allowances are held by utilities with generating plants classified by the
7 Environmental Protection Agency ("EPA") as Phase I or Phase II electric generating
8 plants, and pertain to the sulfur dioxide ("SO₂") emissions from coal-fired units. The
9 Missouri Public Service Commission ("Commission") has also considered SO₂
10 allowances public utility property. They are recorded in Federal Energy Regulatory
11 Commission ("FERC") Account 158.1 and are considered by MPS and L&P as inventory.
12 This balance is amortized in FERC Account 509, Allowances, based on the tons of SO₂
13 emissions each month.

14 Q. How was the rate case amount for emission allowances computed in this filing?

15 A. For emission allowances, the monthly balances of FERC Account 158.1 were averaged
16 for the months of December 2001 through 2002. This account pertains 100% to electric
17 operations.

18 Q. Please explain why a thirteen-month average calculation was selected.

19 A. The use of a thirteen-month average is a better measurement than any one single month-
20 end since monthly amounts fluctuate and no one-month is representative. The application
21 of thirteen-month averaging has been utilized by both MPS and L&P.

1 **OTHER REGULATORY ASSETS (L&P ONLY)**

2 Q. Please explain the purpose of rate base Adjustment No. RB-40 Other Regulatory Assets
3 (Arch Coal Costs and AM/FM Costs) for Aquila Networks – (“L&P”).

4 A. This rate base item represents unamortized balances of amounts prepaid in conjunction
5 with a renegotiated coal contract (“Arch Coal Contract”) at the jointly owned Iatan plant.
6 The December 31, 2002 balance was used as an addition to rate base. Also, the
7 December 31, 2002 balance was used to calculate the balance of the deferred Automated
8 Mapping/Facility Management (“AM/FM”) charges used as part of rate base.

9 Q. Have these same adjustments been made in previous L&P rate cases?

10 A. Yes. Both L&P and Commission staff have included these same adjustments in St.
11 Joseph Light & Power Case Number ER-99-247.

12 **GREENWOOD LEASE EXPENSE (MPS ONLY)**

13 Q. Please explain Adjustment No. CS-20 made to Aquila Networks – MPS electric
14 operations.

15 A. This adjustment eliminates 100% of the Greenwood Lease expense recorded to FERC
16 account 550 during the test year. Adjustment RB-50 includes the transfer of Greenwood
17 Generating Station Units 1, 2, 3, & 4 into MPS’ plant in service balance. Testimony
18 regarding Adjustment RB-50 in further detail, can be found in the testimony of Aquila
19 witness Stephanie A. Murphy.

20 **EMISSION ALLOWANCES (L&P ONLY)**

21 Q. What is the purpose of Adjustment No. CS-27 made to Aquila Networks – L&P’ cost of
22 service?

1 A. This adjustment annualizes the emission allowances recorded to FERC account 509
2 during the test year. Emission allowances for Iatan and Lake Road power plants have
3 been annualized in the fuel model and are accounted for in Adjustment FPP-10 made to
4 Fuel and Purchased Power Energy. The allowances for these two power plants have been
5 loaded in the fuel costs used in the fuel dispatch model which is the basis for calculating
6 FPP-10. The inputs used in this model will be further addressed in the direct testimony of
7 Company witness Jerry Boehm. However, the test year allowances for Nebraska Public
8 Power District ("NPPD") were not included in the fuel costs, therefore Adjustment No.
9 CS-27 is necessary to ensure that the allowances for the NPPD obligations for 2002 have
10 been accounted for in the rate proceeding.

11 **SUBSIDY FOR STEAM CUSTOMERS (L&P ONLY)**

12 Q. Are you proposing that the electric business for L&P subsidize the steam business?

13 A. Yes.

14 Q. Please explain the steam business at L&P.

15 A. L&P produces steam as a joint product from its Lake Road electric power plant. The
16 steam is sold to six steam customers. L&P has separate steam tariffs for these customers.

17 Q. Are you proposing a rate increase for these steam customers?

18 A. Yes. In a separate docket we have filed for a rate increase of approximately 18.6%.

19 Q. What is a subsidy?

20 A. In the utility business it is when a set of customers are not paying for their actual cost of
21 service.

22 Q. Are subsidies typically appropriate?

23 A. No, unless special circumstances apply.

1 Q. Is this a special circumstance?

2 A. Yes.

3 Q. Please explain?

4 A. Without the subsidy, steam rates would increase more than forty percent (40%). Such a
5 significant increase could result in a strong likelihood that steam customers would exit
6 the system and move operations. That would result in a negative impact on the electric
7 customers who would then have to pick up 100% of the costs that are currently being
8 absorbed by steam customers.

9 Q. How much of a subsidy are you proposing?

10 A. The amount of the subsidy to the electric business is approximately \$1.8 million.

11 Q. By what percent are L&P rates increased as a result of this subsidy?

12 A. A \$1.8 million subsidy results about 2.0% increase in L&P electric revenue requirement.

13 Q. Has an electric subsidy been proposed in previous rate cases?

14 A. Yes, this method has been implemented in Case No.'s EM-2000-292, ER-99-247 and
15 HR-99-245.

16 Q. Does this conclude your testimony?

17 A. Yes.

Aquila Networks - L&P
Case No. ER-
Twelve Months Ended December 31, 2002

Revenue Requirement

| Line | Low 9.727% Return | Mid 9.846% Return | High 9.964% Return |
|--------------------------------------|-------------------------|-------------------------|--------------------------|
| (a) | (b) | (c) | (d) |
| 1 Net Orig Cost of Rate Base (Sch 2) | \$ 197,243,352 | \$ 197,243,352 | \$ 197,243,352 |
| 2 Rate of Return | 9.727% | 9.846% | 9.964% |
| 3 Net Operating Income Requirement | \$ 19,185,466 | \$ 19,419,797 | \$ 19,653,919 |
| 4 Net Income Available (Sch 7) | \$ 11,509,529 | \$ 11,509,529 | \$ 11,509,529 |
| 5 Additional NOIBT Needed | 7,675,937 | 7,910,262 | 8,144,390 |
| 6 Additional Current Tax Required | \$ 4,782,876 | \$ 4,928,884 | \$ 5,074,769 |
| 7 Required Deferred ITC | | | |
| 8 Test Year Deferred ITC | | | |
| 9 Additional Deferred ITC Required | \$ - | \$ - | \$ - |
| 10 Total Additional Tax Required | 4,782,876 | 4,928,884 | 5,074,769 |
| 11 Gross Revenue Requirement | 12,458,813 | 12,839,146 | 13,219,159 |
| 12 Steam Subsidy | 1,800,000 | 1,800,000 | 1,800,000 |
| 13 Adjusted Revenue Requirement | 14,258,813 | 14,639,146 | 15,019,159 |

Schedule SKB-1

Aquila Networks - L&P
Case No. ER-
Twelve Months Ended December 31, 2002

Rate Base

| Line No. | Line Description (A) | Amount (B) |
|---|--|-----------------------|
| <i>Total Plant :</i> | | |
| 1 | Total Plant in Service-SJLP Only (Sch 3) | \$ 336,369,840 |
| 1a | Total Plant in Service-SJLP' Share of UCU (Sch 3a) | 17,713,154 |
| | Total Plant | <u>354,082,993</u> |
| <i>Subtract from Total Plant:</i> | | |
| 2 | Depr Reserve-SJLP Share (Sch 5) | 178,794,379 |
| | Total Depreciation Reserve | <u>178,794,379</u> |
| 3 | Net Plant in Service | <u>\$ 175,288,614</u> |
| <i>Add to Net Plant in Service</i> | | |
| 4 | Cash Working Capital | (1,496,271) |
| 5 | Materials and Supplies | 6,165,141 |
| 6 | Prepayments | 36,352,489 |
| 7 | Emissions Allowances | 124,847 |
| 8 | Other Regulatory Assets - AM/FM System | 53,419 |
| 9 | Other Regulatory Assets - Arch Coal Contract | 469,136 |
| 10 | Fuel Inventory - Coal | 2,397,005 |
| 11 | Fuel Inventory - Oil | 563,491 |
| 12 | <i>Subtract from Net Plant:</i> | |
| 13 | Customer Deposits | 352,795 |
| 14 | Deferred Income Taxes - Depreciation | 22,321,725 |
| 15 | Total Rate Base | <u>\$ 197,243,352</u> |

Aquila Networks - L&P
Case No. ER-
Twelve Months Ended December 31, 2002

Income Statement

| Line No. | Description | Total Electric | Adjustment | Jurisdictional As Adjusted |
|----------|---------------------------------|----------------|-------------|----------------------------|
| | (A) | (B) | (C) | (D) |
| 1 | Operating Revenue | 95,126,264 | (857,160) | 94,269,104 |
| 2 | Operating Expenses: | | | |
| 3 | Production | 45,171,147 | (352,444) | 44,818,703 |
| 4 | Transmission | 4,191,744 | 421,562 | 4,613,306 |
| 5 | Distribution | 5,070,549 | (120,702) | 4,949,847 |
| 6 | Customer Accounting | 1,997,393 | (183,381) | 1,814,012 |
| 7 | Customer Services | 255,315 | (24,832) | 230,483 |
| 8 | Sales | 259,362 | (31,270) | 228,092 |
| 9 | A & G Expenses | 6,258,711 | 4,696 | 6,263,407 |
| 10 | Total O & M Expenses | 63,204,221 | (286,371) | 62,917,850 |
| 11 | Depreciation Expense | 12,763,743 | 120,706 | 12,884,449 |
| 12 | Amortization Expense | 51,566 | - | 51,566 |
| 13 | Taxes other than Income Tax | 4,544,492 | (97,894) | 4,446,598 |
| 14 | Net Operating Income before Tax | 14,562,242 | (593,601) | 13,968,641 |
| 15 | Income Taxes | 3,101,391 | (167,405) | 2,933,986 |
| 16 | Income Taxes Deferred | (1,376,090) | 1,295,080 | (81,010) |
| 17 | Investment Tax Credit | (393,864) | - | (393,864) |
| 18 | Total Taxes | 1,331,437 | 1,127,675 | 2,459,112 |
| 19 | Total Net Operating Income | 13,230,805 | (1,721,276) | 11,509,529 |

AQUILA NETWORKS - L&P
CASE NUMBER ER-
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

| Adj No. | Description of Adjustment (A) | Witness (B) | Increase (Decrease) (C) |
|------------|--|----------------|-------------------------------|
| R-10 | Customer & Weather Adj This adjusts test period revenues to reflect normal cooling and heating degree days and annualizes revenues for 2002 customer level. Operating Revenues | E. Watkins | \$ (636,965) |
| R-20 | Unbilled Revenue This adjusts revenues to a billed basis. Operating Revenues | R. Clayburn | \$ (220,195) |
| FPP-10 | Fuel and Purchased Power Energy This adjustment annualizes the test year fuel expense. Steam Power/Other Power Generation - Fuel Purchased Power | L. Starkebaum | \$ (3,159,274) |
| FPP-20 | Purchased Power Demand Charge <i>This adjustment annualizes the demand component of purchased power for changes in capacity effective September 30, 2003.</i> Purchased Power | L. Starkebaum | \$ 1,727,200 |
| FPP-30 | Synergies from Joint Dispatch This adjustment annualizes the synergies resulting from joint dispatching. Steam Power/Other Power Generation - Fuel Purchased Power | L. Starkebaum | \$ 1,056,661 |
| FPP-40 | Gas Cost Cap Adjustment This adjustment annualizes gas costs at \$.50 above the base cost of fuel included in this case. Other Power Generation - Fuel | L. Starkebaum | \$ 382,363 |
| CS-5 | Payroll This adjustment annualizes payroll expense for the test year. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative & General Total | R. Klote | \$ (358,115) |
| CS-6 | Incentive This adjustment annualizes incentive expenses to be paid at target levels. Production Transmission Distribution Customer Accounting Customer Service | R. Klote | \$ 172,064 |

| | | | | |
|-------|---|-------------|----|-----------|
| | Sales | | | |
| | Administrative & General | | | |
| | Total | | | |
| CS-10 | Restructuring | R. Klote | \$ | (320,885) |
| | This adjustment amortizes restructuring related expenses during the test year over three years. | | | |
| | Production | | | |
| | Transmission | | | |
| | Distribution | | | |
| | Administrative & General | | | |
| | Taxes Other Than Income Taxes | | | |
| | Total | | | |
| CS-11 | Employee Benefits | S. Murphy | \$ | 2,099,674 |
| | This adjustment annualizes the L&P portion of the employee benefits made on behalf of its employees. | | | |
| | Administrative and General | | | |
| CS-16 | ESF/IBU Adjustments | B. Agut | \$ | (514,638) |
| | This adjustment updates the ESF and IBU corporate allocation factors to January 2003 drivers. | | | |
| | Production | | | |
| | Transmission | | | |
| | Distribution | | | |
| | Customer Accounting | | | |
| | Customer Service | | | |
| | Sales | | | |
| | Administrative and General | | | |
| | Total | | | |
| CS-26 | Electric_Steam Adjustment | R. Erickson | \$ | (365,960) |
| | This adjustment corrects per books between electric and steam. | | | |
| CS-27 | Elimination of Emission Allowances | S. Braun | \$ | (225,176) |
| | This adjustment annualizes of the emission allowances for the test year. | | | |
| | Allowances | | | |
| CS-30 | Injuries and Damages Expense | R. Klote | \$ | (527,284) |
| | This adjusts Injuries and Damages to an annualized level based on a three year average. | | | |
| | Administrative and General | | | |
| CS-35 | Bad Debt Expense | R. Erickson | \$ | (205,096) |
| | This adjusts bad debt expense to an annualized level based on a three year average rate times annualized revenue. | | | |
| | Customer Accounting Expense | | | |
| CS-40 | PSC Assessment | R. Erickson | \$ | (52,657) |
| | This adjustment annualizes the PSC assessment to the most current assessment received. | | | |
| | Administrative and General | | | |
| CS-45 | Customer Deposit Interest | R. Erickson | \$ | 21,168 |
| | This entry annualized the interest expense related to customer deposits. | | | |
| | Customer Accounting Expense | | | |

| | | | | |
|-------|--|---------------|----|-----------|
| CS-50 | Rate Case Expense This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 3 years. Administrative and General | R. Clayburn | \$ | 65,375 |
| CS-53 | Miscellaneous Per Books Adjustment This adjustment includes purchased power costs associated with inter-company sales to WPK to properly match intercompany revenues with intercompany purchased power expense. Purchased Power - Off-System | L. Starkebaum | \$ | 263,714 |
| CS-56 | Elimination of TransUCU This adjustment eliminates test year transportation related expenses allocated to L&P from TransUCU. Office Supplies and Expenses | L. Starkebaum | \$ | (219,264) |
| CS-57 | Transmission Expense This adjustment annualizes test year transmission expense per the terms of the NPPD contract. Transmission of Electricity by Others | L. Starkebaum | \$ | 163,800 |
| CS-60 | Dues and Donations This adjustment eliminates all dues and donations except EEI and Power Pool dues. Administrative and General | R. Erickson | \$ | (71,158) |
| CS-65 | Advertising Expense This adjustment eliminates all advertising except safety and informational. Production Distribution Customer Accounts Customer Service and Informational Expense Sales Expense Administrative & General Total | R. Erickson | \$ | (55,891) |
| CS-76 | MISO This adjustment annualizes the on-going level of MISO transmission membership dues. Transmission of Electricity by Others | L. Starkebaum | \$ | 276,084 |
| CS-81 | Homeland Security This adjustment annualizes Homeland Security costs not included in the test year. Office Supplies and Expenses | S. Murphy | \$ | 27,464 |
| CS-83 | Write-off Pre-2002 Misc. Payroll Expenses This adjustment eliminates miscellaneous payroll costs written off in December 2002 associated with time periods prior to 2002 that are included in test year expenses. Office Supplies and Expenses | R. Klote | \$ | (459,399) |
| CS-85 | Payroll Taxes This adjustment annualizes FICA and Medicare tax expense. Taxes Other Than Income Tax | R. Klote | \$ | (49,842) |
| CS-90 | Ad Valorem Taxes This adjustment annualizes Property taxes based on plant in service adjusted in this case. | S. Murphy | \$ | (55,193) |

Taxes Other Than Income Tax

| | | | | |
|---------|---|-----------|----|-----------|
| CS-95 | Depreciation This adjustment annualizes depreciation expense for plant additions through the known and measurable test period September 30, 2003. Depreciation Expense | S. Murphy | \$ | 120,706 |
| TAX-10A | Current Income Taxes Expense This adjustment annualizes the current income tax based on adjusted net operating income. Income Taxes, Operating Income | R. Klote | \$ | (167,405) |
| TAX-10A | Deferred Taxes This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences. Deferred Income Taxes | R. Klote | \$ | 1,295,080 |

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

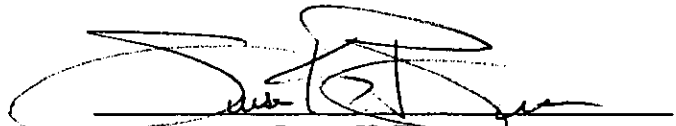
In the matter of Aquila, Inc. d/b/a Aquila)
Networks-MPS and Aquila Networks-L&P,)
for authority to file tariffs increasing electric)
rates for the service provided to customers in)
the Aquila Networks-MPS and Aquila)
Networks-L&P area)

Case No. ER-_____

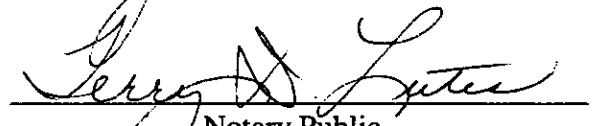
County of Jackson)
State of Missouri) ss

AFFIDAVIT OF SUSAN K. BRAUN

Susan K. Braun, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Susan K. Braun;" that said testimony was prepared by her and under her direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge, information, and belief.


Susan K. Braun

Subscribed and sworn to before me this 26th day of June, 2003.


Notary Public
Terry D. Lutes

My Commission expires:

8-20-2004

