

Exhibit No.:

Issues: Major Maintenance,  
Customer Deposit  
Interest, JEC Expense,  
Iatan Expense, Customer  
Deposits and Customer  
Advances

Witness: Bryan S. Owens

Sponsoring Party: Aquila Networks-MPS  
& L&P

Case No.: ER-

FILED<sup>2</sup>

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Before the Public Service Commission  
of the State of Missouri

Missouri Public  
Service Commission

Direct Testimony

of

Bryan S. Owens

Exhibit No. 10  
Case No(s) ER-2005-0436  
Date 1-09-06 Rptr XF

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF BRYAN S. OWENS  
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 Bryan S. Owens and my business address is 10700 East 350 Highway,  
3 Kansas 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 Q. Please briefly describe your duties and responsibilities as a Senior Regulatory Analyst for  
7 Aquila.

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

10 Q. Please describe your educational background and experience.

11 A. In 1996, I received a Bachelor of Liberal Arts Degree from the University of Missouri-  
12 Kansas City. In 1998, I received a Bachelor of Science Degree in Accountancy from the  
13 University of Missouri-Kansas City. I am a Certified Public Accountant holding a  
14 certificate in the state of Missouri. In 1998, I joined KPMG, LLP holding various  
15 positions of increasing responsibility within the assurance and tax practices. I performed  
16 and led a variety of audits of company financial statements and prepared personal tax  
17 returns for numerous tax clients. In 2001, I joined Overland Consulting, Inc. as a Senior  
18 Consultant. This position involved special accounting and auditing projects in the

1 electric, gas and telecommunications industries. In 2004, I briefly joined  
2 PricewaterhouseCoopers as a Senior Auditor practicing in the audits of Mutual Fund  
3 Companies. Later in 2004, I joined Aquila in my current position.

4 Q. What is the purpose of your testimony in this proceeding before the Missouri Public  
5 Service Commission ("Commission")?

6 A. The purpose of my testimony is to describe certain accounting adjustments made to  
7 Aquila Networks – MPS ("MPS") and Aquila Networks – L&P ("L&P") cost of service  
8 filing.

9 Q. Please identify the schedules and any adjustments that you are sponsoring.

10 A. I am sponsoring the following cost of service (operational) adjustments:

- 11 • CS-26 Major Maintenance (MPS Only)
- 12 • CS-45 Customer Deposit Interest (MPS and L&P)
- 13 • CS-82 MPS's Share of JEC Expense (MPS Only)
- 14 • CS-82 L&P's Share of IATAN (L&P Only)

15 In addition, I am sponsoring the following rate base adjustments:

- 16 • RBO – 10 Customer Deposits (MPS and L&P)
- 17 • RBO – 20 Customer Advances (MPS and L&P)

18 **Major Maintenance (CS-26)**

19 Q. Please briefly discuss the nature of the MPS's Major Maintenance Adjustment No. CS-  
20 26.

21 A. This adjustment relates to the South Harper peaking facility near Peculiar, MO and the  
22 Jeffrey Energy Center Units #1, 2 and 3. The adjustment spreads significant future

1 periodic maintenance expense by annually accruing for the average levels of expense  
2 expected to occur periodically in the future.

3 Q. Is there a benefit of using the accrual method for recording significant periodic major  
4 maintenance expense?

5 A. Yes. Turbine maintenance expense is dynamic. Depending on the type of equipment  
6 being serviced, scheduled maintenance can follow a four to seven year cycle. As a result,  
7 actual expense can increase considerably in years corresponding to major maintenance  
8 service. To mitigate the possibility of a large expense increase in years corresponding to  
9 a proposed rate increase, major maintenance expense is spread out over the service life of  
10 the related equipment through this accrual process. This method provides a more  
11 consistent measurement of annual maintenance expense.

12 Q. What was the total Major Maintenance adjustment for MPS?

13 A. Please refer to the testimony of Company witness Susan Braun, specifically schedule  
14 SKB-4 for the adjustment total.

15 **Customer Deposit Interest (CS-45)**

16 Q. How is the customer deposit interest, Adjustment No. CS-45 calculated?

17 A. Customer deposits interest is calculated by multiplying an interest percentage (currently  
18 one percentage point (1%) above the prime rate published in the Wall Street Journal, on  
19 the first business day in December of the prior year) by the end-of-year electric  
20 jurisdictional customer deposit balance. The calculation for customer deposits for year  
21 ended December 31, 2004 is discussed later in my testimony for rate base adjustments.

22 Q. What interest rate was used to determine the customer deposits interest adjustment?

23 A. An interest rate of six percent (6%) was used.

1 Q. What was the total Customer Deposit Interest adjustment for both MPS and L&P?

2 A. Please refer to the testimony of Company witness Susan Braun, specifically schedule  
3 SKB-4 for the adjustment total.

4 **MPS Share of JEC Expense (CS-82)**

5 Q. Please explain the MPS Share of JEC Expense, Adjustment CS-82.

6 A. This adjustment begins with the MPS share of Jeffrey Energy Center ("JEC") operating  
7 and maintenance ("O&M") and administrative and general ("A&G") expenses, excluding  
8 JEC activity considered in other adjustments. JEC activity considered in other  
9 adjustments include labor, fuel operating expense, and transmission expense. Westar  
10 operates JEC as a department within its KPL business unit. Westar reports the MPS  
11 share of JEC related O&M and A&G activity through monthly billings. In addition,  
12 Westar bills directly to MPS costs associated with generation support and pension and  
13 benefits. Generation and support costs represent billings for people who work to support  
14 JEC's daily operations, but do not charge their time directly to the JEC department within  
15 Westar's KPL business unit. Included in the generation support costs are loadings for  
16 pension and benefits.

17 Q. Please explain how this adjustment was calculated.

18 A. The adjustment normalizes test year activity for the MPS share of JEC O&M and A&G  
19 costs as well as the direct costs related to generation support and pension and benefits.  
20 Normalizing activity includes reviewing recorded transactions and adjusting for any  
21 significant abnormalities that make the test year period not representative of an on-going  
22 level of expense.

1 Q. Were there any adjustments related to activity that would be considered abnormal?

2 A. Yes. There are two out-of-period adjustments reducing O&M expense that relate to a  
3 payable true-up and a billing adjustment. In addition there is an out-of-period adjustment  
4 that also decreased O&M expense relating to an inventory valuation error. These  
5 adjustments are considered abnormal as they relate to activity outside of the test year and  
6 make the test year period not representative of an on-going level of expense.

7 Q. Were there other adjustments to normalize the MPS share of JEC activity?

8 A. Yes. Beginning in 2004, the A&G load rate was reduced from 22.94% to 19.28%. As a  
9 result, an adjustment to reduce A&G expense is proposed to reflect the on-going level of  
10 A&G activity. Also, there were true-up adjustments made in March 2005 related to  
11 A&G, direct billed generation support and direct billed pension and benefits. The true-up  
12 adjustments represent billings received after year-end that relate to test year activity that  
13 adjusts for over or under accrued expenses posted during the test year.

14 Q. How is the MPS share of JEC A&G expense calculated?

15 A. The MPS share of JEC A&G expense is calculated by multiplying total O&M expense,  
16 excluding fuel and purchased power by the A&G load rates.

17 Q. What was the total MPS share of JEC expense adjustment?

18 A. Please refer to the testimony of Company witness Susan Braun, specifically schedule  
19 SKB-4 for the adjustment total.

20 **L&P Share of IATAN (CS-82)**

21 Q. Please briefly discuss the nature of the L&P's Share of Iatan Adjustment No. CS-82.

1 A. Monthly pension accruals are performed related to L&P share of Iatan. A year-end true-  
2 up is assessed based on review of the Iatan Statement of Pension Transactions received  
3 from Kansas City Power & Light Company ("KCPL"). The year-end Iatan Statement of  
4 Pension Transactions reports L&P's actual share of Iatan pension expense for the year  
5 being reported. The year-end true up corrects for the over or under accrual L&P recorded  
6 throughout the year.

7 Q. Please explain the purpose of the L&P Share of Iatan Adjustment No. CS-82.

8 A. The purpose of L&P Adjustment CS-82 is to correct an accounting entry error that  
9 occurred in December 2003. The adjustment eliminates an entry recorded during the test  
10 year-end December 31, 2004 that relates to a prior year and was recorded incorrectly.  
11 The December 2003 journal entry should have credited account 926000. Instead, a debit  
12 entry was recorded.

13 Q. What was the total adjustment for L&P Share of Iatan?

14 A. Please refer to the testimony of Company witness Susan Braun, specifically schedule  
15 SKB-4 for the adjustment total.

16 **Customer Deposits (RBO-10)**

17 Q. Please briefly explain the nature of the Customer Deposits Adjustment RBO-10.

18 A. Customer deposits include all amounts deposited with the Company by customers as  
19 security for the payment of bills. Customer deposits represent a customer provided  
20 source of capital and are used to finance plant investment. The customer deposit  
21 adjustment reduces rate base to ensure that a return is not earned on customer-financed  
22 assets.



- 1 Q. How was the Customer Deposit Adjustment RBO-10 computed?
- 2 A. For purposes of establishing a rate base level for the period in which the rates set in this  
3 case will be in effect, the year-end balance for FERC account 235000 was used.
- 4 Q. What is the significance of using a test year-end balance instead of a historical average?
- 5 A. Using a long-term historical average to normalize year-to-year fluctuations has the effect of  
6 ignoring the trend of an increasing account balance. While customer deposits experience  
7 slight variations from month to month, the ongoing trend has been an increasing balance.  
8 Basing the determination of an ongoing level of customer deposits on historical averages  
9 ignores the trend of an increasing balance.
- 10 Q. Does the use of a year-end balance for customer deposits represent a change in methodology  
11 from previous Aquila rate filings?
- 12 A. Yes.
- 13 Q. Please explain why Aquila has changed to a year-end balance for determining the on-going  
14 rate base level related to customer deposits.
- 15 A. Effective January 1, 2003, the Company implemented a new start service process, which  
16 included a provision for a deposit from previous customers based on payment history. As a  
17 result of this policy change, the customer deposit balance has consistently trended upward  
18 and therefore a year-end balance is appropriate for rate-making purposes.
- 19 Q. Please explain the utility allocation of this adjustment.
- 20 A. The charge department was used to differentiate between electric and gas utilities. Since  
21 customer deposits are supplied from retail customers, a 100% jurisdictional factor was  
22 applied to the electric customer deposits balance at December 31, 2004.

1 Q. What was the total customer deposits adjustment for both MPS and L&P?

2 A. Please refer to the testimony of Company witness Susan Braun, specifically schedule  
3 SKB-2, for both MPS and L&P adjustment totals.

4 **Customer Advances (RBO-20)**

5 Q. Please briefly explain the nature of the Customer Advances Adjustment RBO-20.

6 A. Customer advances include advances by customers used for construction. Like customer  
7 deposits, customer advances represent a customer provided source of capital and are used  
8 to finance plant investment. The customer advances adjustment reduces rate base to  
9 ensure that a return is not earned on customer-financed assets.

10 Q. How was Customer Advances, Adjustment RBO-20, computed?

11 A. For purposes of establishing a rate base level for the period in which the rates set in this  
12 case will be in effect, the year-end balance for FERC account 252000 was used.

13 Q. What is the significance of using a test year-end balance instead of a historical average?

14 A. Using a long-term historical average to normalize year-to-year fluctuations has the effect of  
15 ignoring the trend of an increasing account balance. While customer advances have slight  
16 variations from month to month, the ongoing trend is an increasing balance. Basing the  
17 determination of an ongoing level of customer deposits on historical averages ignores the  
18 trend of an increasing balance.

19 Q. Please explain the utility allocation of this adjustment.

20 A. The charge department was used to differentiate between electric and gas utilities. Amounts  
21 in common departments were allocated to electric and gas products based on the electric  
22 and gas totals for customer advances. Since customer advances are supplied from retail

1 customers, a 100% jurisdictional factor was applied to the electric customer advances  
2 balance at December 31, 2004.

3 Q. What was the total customer advances adjustment for both MPS and L&P?

4 A. Please refer to the testimony of Company witness Susan Braun, schedule SKB-2 for both  
5 MPS and L&P adjustment totals.

6 Q. Does this conclude your testimony?

7 A. Yes.

