

# EXHIBIT

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Accounting Authority Orders

Robertson/Surrebuttal

Public Counsel

ER-2007-0004

## SURREBUTTAL TESTIMONY

OF

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**FILED**

MAY 3 2007

Missouri Public  
Service Commission

**AQUILA, INC. D/B/A AQUILA NETWORKS-MPS  
AND AQUILA NETWORKS-L&P**

Case No. ER-2007-0004

March 20, 2007

*OPC* Exhibit No. 408  
Case No(s) ER-2007-0004  
Date 4/4/07 Rptr UV

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Tariff Filing of Aquila, Inc., to )  
Implement a General Rate Increase for Retail )  
Electric Service Provided to Customers in its )  
Aquila Networks—MPS and Aquila Networks— )  
L&P Missouri Service Areas. )

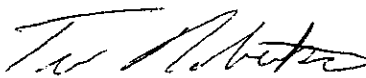
**Case No. ER-2007-0004**  
**Tariff No. YE-2007-0001**

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI     )  
                                      )   ss  
COUNTY OF COLE     )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

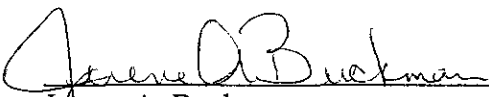
1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Public Utility Accountant III

Subscribed and sworn to me this 19<sup>th</sup> day of March 2007.



JERENE A. BUCKMAN  
My Commission Expires  
August 10, 2009  
Cole County  
Commission #05754036

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My commission expires August 10, 2009.

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**SURREBUTTAL TESTIMONY  
OF  
TED ROBERTSON**

**AQUILA INC.**

**d/b/a**

## AQUILA NETWORKS - MPS

AND

**AQUILA NETWORKS – L&P**

**CASE NO. ER-2007-0004**

11

## I. INTRODUCTION

O. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

Q. ARE YOU THE SAME TED ROBERTSON THAT PREVIOUSLY FILED  
TESTIMONY IN THIS CASE?

A. Yes.

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to address comments presented in the rebuttal testimony of Missouri Public Service Commission ("MPSC" or "Commission") Staff witness, Mr. Phillip K. Williams, on the issue of Accounting Authority Order ("AAO") costs.

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of Missouri Public Service Commission ("MPSC" or "Commission") Staff witness, Mr.

Phillip K. Williams, on the issue of Accounting Authority Order ("AAO") costs.

25

**II. ACCOUNTING AUTHORITY ORDERS**

Q. ON PAGE THREE, LINE 21, OF MR. WILLIAM'S REBUTTAL TESTIMONY HE STATES THAT THERE IS NO ISSUE CONCERNING THE EXPENSE AMORTIZATION FOR THE ACCOUNTING AUTHORITY ORDERS. IS THAT AN ACCURATE STATEMENT?

A. Yes and no. It is my understanding that there is no expense issue regarding the Sibley Rebuild and Western Coal Conversion AAOs. However, an agreement regarding the amount of annual expense to include in the determination of rates for the amortization of the deferred costs associated with the Ice Storm AAO has not been achieved by the parties.

Q. IS IT MR. WILLIAMS POSITION THAT RATE BASE INCLUDE THE ACCOUNTING AUTHORITY ORDER DEFERRED COSTS NOT YET AMORTIZED?

A. My understanding of his position is that rate base include the unamortized deferred costs for the Sibley Rebuild and Western Coal Conversion AAOs, but not the Ice Storm AAO. Rate base treatment for the costs deferred pursuant to the Ice Storm AAO (Case No. EU-2002-1053) was explicitly denied by the Commission in its authorization of the AAO.

Q. WHY DOES MR. WILLIAMS OPPOSE PUBLIC COUNSEL'S POSITION THAT THERE BE NO RATE BASE TREATMENT FOR THE UNAMORTIZED ACCOUNTING AUTHORITY ORDER DEFERRED COSTS?

A. His opposition appears to be that he believes the AAO deferred costs associated with the Sibley Rebuild and Western Coal Conversion projects are a pseudo-continuation of Federal

1 Energy Regulatory Commission ("FERC") construction accounting procedures. To support  
2 his position, on page five of his rebuttal testimony, lines 12-18, he states:

3  
4 The AAOs granted in those cases were the result of life extension projects  
5 and, as such, should be treated in the same way as normal capital  
6 expenditures (which are classified as plant in service and not as routine  
7 maintenance costs). Companies are routinely allowed to earn a return on  
8 amounts that are capitalized. These amounts were included in the AAOs to  
9 provide the Company an opportunity to recover the depreciation, property  
10 taxes and carrying costs associated with the rebuilds that occurred between  
11 the completion of the projects and the Company's next rate case.  
12  
13

14 Q. IS THE COMMISSION REQUIRED BY ANY AUTHORITATIVE ACCOUNTING  
15 PROCEDURE OR REGULATORY BODY TO TREAT THE DEFERRED COSTS AS IT  
16 WOULD FOR NORMAL CAPITAL EXPENDITURES OF A UTILITY?

17 A. No. Neither Generally Accepted Accounting Procedures ("GAAP") or FERC rules, nor any  
18 other authoritative accounting procedure or regulatory rule of which I am aware, require this  
19 Commission to treat the costs in the manner suggested by Mr. Williams. Ratemaking  
20 treatment of the AAO deferred costs is subject only to the direction of this Commission. As  
21 I discussed in my rebuttal testimony, this Commission determined in later cases that rate  
22 base treatment of the AAO deferred costs is not appropriate.  
23

24 Q. DOES THE COMMISSION'S RECENT POLICY OF ALLOWING A UTILITY TO  
25 EARN A "RETURN OF," BUT NOT A "RETURN ON" THE AAO DEFERRED COSTS  
26 CREATE AN INCENTIVE FOR THE UTILITY TO COMMIT SIGNIFICANT CAPITAL  
27 INVESTMENT ON A TIMELY BASIS?

1 A. Yes. Ignoring the fact that the Company's monopoly franchise requires it to provide safe  
2 and efficient service at a reasonable price, the Commission's recent policy on the ratemaking  
3 treatment of AAO deferred costs does allow the utility to recover the costs incurred in rates.  
4 According to Mr. Williams (rebuttal, page five, lines 19-20), "Absent AAO treatment, these  
5 amounts would have been lost as a result of booking these costs directly to expense  
6 following completion of the projects." Surely, the benefits associated with earning a "return  
7 of" the costs via the AAO process is an incentive for the utility to do what is necessary to  
8 satisfy its franchise requirements given that absent an AAO, the only option left is to incur  
9 the costs without ever being allowed to include them in rates.

10  
11 Q. HAS THE ISSUE CONCERNING RATE BASE TREATMENT FOR THE  
12 ACCUMULATED DEFERRED INCOME TAXES ASSOCIATED WITH THE SIBLEY  
13 REBUILD AND WESTERN COAL CONVERSION ACCOUNTING AUTHORITY  
14 ORDERS BEEN RESOLVED?

15 A. No. It is my understanding that the Company continues to object to the inclusion of the  
16 accumulated deferred income taxes associated with the Sibley Rebuild and Western Coal  
17 Conversion AAOs if the unamortized AAO deferred costs are not also included in rate base.

18  
19 Q. DOES COMPANY SUPPORT THE INCLUSION OF ACCUMULATED DEFERRED  
20 INCOME TAXES ASSOCIATED WITH THE ICE STORM ACCOUNTING  
21 AUTHORITY ORDER IN RATE BASE EVEN THOUGH ITS UNAMORTIZED  
22 DEFERRED COSTS ARE NOT INCLUDED?

1 A. Yes. Company's proposed rate base includes the accumulated deferred income taxes  
2 associated with the Ice Storm AAO even though the commission ordered no rate base  
3 treatment for the unamortized deferred costs.  
4

5 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

6 A. Yes, it does.