

EXHIBIT

EXHIBIT No.: _____
ISSUE(S): Accounting Record Keeping
and Reporting/
Eastern System Write-Down and Sale/
Manufactured Gas Plant Remediation Costs/
Accounting Authority Order Costs/
St. Joseph Light & Power Merger Costs-MPS/
Incremental Security Costs-MPS/
St. Joseph Light & Power Merger Costs-L&P /
Incremental Security Costs-L&P
WITNESS: Ted Robertson
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CASE NUMBER: GR-2004-0072
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DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

AQUILA, INC.

CASE No. GR-2004-0034

January 6, 2004

Exhibit No. 71
Case No(s) GR-2004-0072
Date 3-30-04 Rptr AE

TABLE OF CONTENTS

Testimony	Page
Introduction	1
I. General:	
A. Accounting Record-Keeping and Reporting	3
II. Aquila Networks - MPS	
A. Eastern System Write-Down and Sale	9
B. Manufactured Gas Plant Remediation Costs	12
C. Accounting Authority Order Costs	17
D. St. Joseph Light & Power Merger Costs - MPS	28
E. Incremental Security Costs - MPS	33
III. Aquila Networks - L&P	
A. St. Joseph Light & Power Merger Costs - L&P	35
B. Incremental Security Costs - L&P	39

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**DIRECT TESTIMONY
OF
TED ROBERTSON**

**AQUILA INC.
d/b/a
AQUILA NETWORKS - MPS
AND AQUILA NETWORKS - L&P**

CASE NO. GR-2004-0072

12

INTRODUCTION

13 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

15
16 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

17 A. I am employed by the Office of the Public Counsel of the State of Missouri ("OPC" or
18 "Public Counsel") as a Public Utility Accountant III.

19
20 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER
21 QUALIFICATIONS.

22 A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a
23 Bachelor of Science Degree in Accounting. In November, 1988, I passed the Uniform
24 Certified Public Accountant Examination, and obtained C. P. A. certification from the
25 State of Missouri in 1989.

26

1 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE EMPLOY
2 OF THE OPC?

3 A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W.
4 Trippensee, I am responsible for performing audits and examinations of the books and
5 records of public utilities operating within the State of Missouri.

6
7 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
8 SERVICE COMMISSION ("MPSC")?

9 A. Yes, I have. Please refer to Schedule TJR-1, attached to this direct testimony, for a listing
10 of cases in which I have previously submitted testimony.

11
12 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

13 A. The purpose of this testimony is to express the Public Counsel's recommendations
14 regarding the ratemaking aspects of various costs associated with the gas operations of
15 Aquila Networks - MPS ("MPS") and the gas operation of Aquila Networks - L&P
16 ("L&P" or "SJLP"), both of which are operating divisions of Aquila Inc. ("Aquila" or
17 "Company"). The issues I intend to address in this testimony include, 1) accounting
18 record-keeping and reporting, 2) Eastern System write-down and sale, 3) manufactured
19 gas plant remediation costs, 4) accounting authority order costs, 5) St. Joseph Light &
20 Power merger costs, and 6) incremental security costs.

1
2 **I. GENERAL**

3
4 **A. ACCOUNTING RECORD-KEEPING AND REPORTING**

5 Q. WHAT IS THE ISSUE?

6 A. The issue pertains to the Company's accounting systems apparent inability to produce a
7 usable detailed general ledger. Public Counsel believes that the audit of the Company's
8 instant cases have been unduly hampered by the lack of access to this most basic and
9 primary accounting document.

10
11 Q. WHAT IS A DETAILED GENERAL LEDGER?

12 A. A detailed general ledger is the primary accounting source or location where all the
13 financial transactions of the Company for a test period are aggregated. It is often call the
14 financial books of record. It contains the fundamental financial data upon which auditors
15 rely when comparing a utility's alleged cost structure with the cost structure that actually
16 occurred. It is the financial record wherein the detail of the accounting entries related to a
17 company's balance sheet and income statement information for a specific period of time
18 is recorded. It contains the detailed accounting entries cost description and amounts.

19
20 Q. WHAT IS THE SIGNIFICANCE OF A DETAILED GENERAL LEDGER?

1 A. The detailed general ledger contains the financial data that allows an auditor to trace an
2 actual cost of service item from the recorded amount back to the source documents from
3 which it was created and forward to the published public financial reports upon which
4 investors and/or other stakeholders rely. It is the pivotal brick in the audit trail that allows
5 an auditor to conduct an independent unbiased audit. It provides the auditor with a listing
6 of all the detailed financial data which can then be compared to public sources and/or
7 documentation originating outside the utility.

8
9 Q. IS THE FINANCIAL DATA PRESENTED IN A DETAILED GENERAL LEDGER
10 THEN SUMMARIZED AND PRESENTED IN PUBLIC FINANCIAL STATEMENTS?

11 A. Yes. A summary of the detailed financial data contained in the general ledger is
12 subsequently presented in monthly, quarterly and yearly financial statements which are
13 then provided to investors and regulatory authorities such as the MPSC, FERC and the
14 IRS. A company's presentation of these summary financial documents to the regulatory
15 authorities provide another level of creditability upon which an auditor can independently
16 rely that the financial information for the period being audited is indeed valid and
17 accurate.

18
19 Q. HOW IS AN AUDITOR CONSTRAINED IF A DETAILED GENERAL LEDGER IS
20 NOT AVAILABLE?

1 A. Without access to a detailed general ledger an auditor must rely on the utility's employees
2 for the aggregation and presentation of the financial data for the period being reviewed.

3 Without access to a detailed general ledger an auditor cannot see in one place a complete
4 descriptive listing of all vendors and/or charges and their associated costs incurred during
5 the test period. Without it, the auditor must rely on the utility's employees for the
6 aggregation and presentation of all detailed financial data subject to audit. Potentially,
7 the audit may be compromised because the utility's employees are unable to provide in a
8 comprehensive and timely manner the source documents that support the detail behind
9 the summary financial data presented in the financial statements.

10
11 Time is of the essence in all audits; even more so when a detailed general ledger is not
12 available for the auditors review. Sole reliance on utility employees for access to and
13 provision of the financial data subject to review seriously hinders an audit in that it may
14 not allow an auditor to obtain a complete picture of the utility's operations and certainly
15 obstructs their **independence** level and faith or reliance in the data the utility's employees
16 are able to provide. The auditors are put into a position whereby they must trust the
17 utility employees to provide complete and accurate financial data subject to audit rather
18 than relying on impartial sources for verification. The Public Counsel believes that in
19 this case the Company has not provided the support for the detailed financial data
20 necessary to support an audit of its filing.

1

2 Q. WAS THIS AN ISSUE IN THE COMPANY'S LAST MISSOURI PUBLIC SERVICE
3 ELECTRIC RATE CASE?

4 A. Yes. In Missouri Public Service, Case No. ER-2001-672, Public Counsel stated that the
5 lack of the detailed general ledger had presented many problems; not the least of which is
6 the inability of the auditors to identify and audit, in a timely manner, the detailed costs
7 which the Company alleges to have incurred and allocated to MPS. Public Counsel has
8 always been led to believe that if a detailed general ledger could be prepared, the end
9 result would be extremely voluminous. In fact, it has been stated, if prepared, the
10 document would in all likelihood be so voluminous that it would fill a room and that
11 most of the entries would be basically (or at least initially) indecipherable due to the fact
12 that they would be allocations (without detailed descriptions) from the various Enterprise
13 Support Functions and/or Intra-Business Units that provided services to MPS and
14 affiliates.

15

16 Q. HOW WAS THE ISSUE SETTLED IN CASE NO. ER-2001-672?

17 A. It was stipulated that Company would make available certain new financial reports for
18 both MPS and SJLP. The reports to be provided were to include division specific total,
19 direct and allocated costs, by resource code, along with other relevant plant and allocable
20 and non-allocable cost information.

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Q. HAS THE PUBLIC COUNSEL FOUND THE NEW REPORTS SUFFICIENT IN MEETING ITS NEEDS FOR THE AUDITS?

A. No. While Company, and its employees involved in developing and providing the new reports, should be commended for trying to meet the needs of the regulatory auditors, the lack of a detailed general ledger is still a major obstacle in the path of the of the Public Counsel auditors. The inherent lack of descriptive cost detail in the reports is a major hindrance to the Public Counsel, and I believe, other intervenors lacking sufficient resources to do an onsite audit of Company for an extended period of time.

Q. COULD COMPANY HAVE MADE THE NEW ACCOUNTING SYSTEM "REGULATOR FRIENDLY" WITH A COUPLE OF MINOR ADJUSTMENTS?

A. Yes. If the PeopleSoft Accounting System had been setup to create a regulated operations general ledger that identifies in detail the cost source (provider/vendor, invoice number and date, detailed cost description/purpose, amount, etc.) and purpose of each specific entry (direct and allocated) along with the portion of the total amount allocated that it represents (if applicable), then the problems we are now encountering would have been essentially eliminated.

1 Q. SINCE THE COMPANY IS REPOSITIONING ITS SELF BACK TO THAT OF A
2 REGULATED UTILITY COMPANY, SHOULDN'T ITS ACCOUNTING SYSTEM BE
3 FOCUSED ON PROVIDING REGULATED ACCOUNTING INFORMATION IN AN
4 EASILY UNDERSTANDABLE FORMAT?

5 A. Yes. Inasmuch as Aquila has stated its intention to return to its roots as a regulated utility
6 company (Aquila Inc., Case No. EF-2003-0465, Ex. 31, p.13, 1. 1-20), an accounting
7 system focused on the provision of regulated accounting information should be a guiding
8 principal for the retransformation of this Company. Public Counsel believes that the
9 current setup of the Company's accounting system is so complicated and unhelpful to
10 regulated auditors, in large part, because it was designed and developed to handle the
11 Company's many non-regulated operations and/or for the Company's own internal
12 purposes. Now that the Company is returning to its "roots" and those non-regulated
13 operations are being jettisoned, or soon will be, it only makes sense for the financial
14 books of record on a going-forward basis to focus more on presenting the basic financial
15 accounting data of the regulated operations in a more easily understood and auditable
16 format. A detailed general ledger would be an appropriate start in that direction.

II. AQUILA NETWORKS - MPS

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A. EASTERN SYSTEM WRITE-DOWN AND SALE

Q. WHAT IS THE ISSUE?

A. The issue is twofold, 1) Company has booked certain adjustments to effect an operating write-down of the costs of the Eastern System due to a perceived impairment of operations, and 2) On or about Monday October 6, 2003, the Associated Press issued a press release that stated the Ameren Corp. plans to purchase the gas distribution facilities of Aquila Inc. in east-central Missouri (i.e., the Eastern System) from Aquila. On December 3, 2003 Ameren Corp. and Aquila, Inc., filed a joint application regarding the purchase of the Eastern System, Case No. GM-2004-0244.

Q. WHAT IS THE EASTERN SYSTEM?

A. The Eastern System refers to the collective distribution systems serving the three individual towns of Rolla, Salem and Owensville. The individual applications to service these towns were approved by the MPSC in 1994, 1995 and 1997, respectively.

Q. REGARDING THE FIRST ISSUE, DOES THE PUBLIC COUNSEL OPPOSE THE OPERATING COSTS WRITE-DOWN PROPOSED BY THE COMPANY?

1 A. Public Counsel does not oppose the actual write-down of the plant costs due to the fact
2 that the Company booked the associated loss to a non-operating expense account. It's my
3 understanding that the original entry to write down the operations was consummated on
4 Aquila's corporate books but that in May 2003 the original entries were reversed and the
5 write off was assigned to the MPS books. According to the Company's response to OPC
6 Data Request No. 1005, the following accounting entries were utilized:

7
8 Year End 2002 Corporate Books:

9
10 Debit Acct. 108/216 - Accumulated Depreciation/RE - \$8,980,000
11 Credit Acct. 102 - Plant Purchase Or Sold - \$8,980,000

12
13 May 2003 Corp. Entry Reversed and following entry put on MPS books:

14
15 Debit Acct. 421 - Misc. Nonoperating Income - \$8,980,000
16 Credit Acct. 108 - Accumulated Depreciation - \$8,980,000
17
18

19 It's Public Counsel's understanding that because the impairment entry reduced regulated
20 income on a book basis, a tax timing difference occurs because recognition of the expense
21 for tax purposes is not made until the asset is disposed. Thus, OPC believes that any
22 deferred income tax liabilities recorded on the Eastern System books that are associated
23 with the written-off plant should not be reduced until such time as the actual payment of
24 the deferred income taxes are forwarded to the appropriate taxing authorities.
25

1 Q. DOES PUBLIC COUNSEL BELIEVE THAT THE COMPANY'S METHODOLOGY
2 OF ACCOUNTING FOR THE WRITE DOWN IS APPROPRIATE?

3 A. No. OPC believes that by crediting the accumulated depreciation reserve for the full
4 amount of the write-off Company's entries overstates the plant, accumulated depreciation
5 reserve and the expense balances. A more appropriate methodology would have been to
6 reduce plant accounts by the full amount of the identified write off associated with the
7 plant, reduce the accumulated depreciation reserve account by the actual amount of
8 depreciation expense previously recognized for the plant being written down, and then the
9 net difference between those two amounts would have been the loss expense amount
10 booked.

11
12 Q. REGARDING THE SECOND ISSUE, WHAT IS THE PUBLIC COUNSEL'S
13 CONCERN?

14 A. Though the sale to Ameren Corp. has not yet been approved by the Commission, Public
15 Counsel believes that, if it is subsequently authorized and finalized, the rate base,
16 revenues and expense costs (i.e., cost of service) associated with remaining operations
17 should also be excluded from the determination of the instant case MPS rates.

18
19 During a recent meeting with Company and Ameren Corp. personnel, Public Counsel was
20 informed that the agreement between the parties which defines the purchase terms has a

1 "sunset" provision. The sunset provision basically states if the purchase transaction is not
2 authorized by the Commission by a specific date set in the early summer of 2004, the
3 agreement is null and void. Public Counsel believes that the Commission should be
4 aware that the date set for the sunset provision coincides very closely with the June 30,
5 2004 effective law date of the instant case.

6
7 **Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE**
8 **EASTERN SYSTEM?**

9 **A.** It is the Public Counsel's recommendation that the write-off should be authorized, as long
10 as any resultant losses associated with the write-off are booked to a non-operating
11 account, and the plant balance, accumulated depreciation reserve balance and expense
12 balance are factually represented. However, deferred income tax liabilities associated
13 with the plant being written off, if applicable, should remain on the books of the Eastern
14 System until such time as the taxes associated with the deferrals are actually paid to the
15 appropriate taxing authorities.

16
17 **B. MANUFACTURED GAS PLANT REMEDIATION COSTS**

18 **Q. WHAT IS THE ISSUE?**

19 **A.** Company's response to OPC DR No. 1029 identifies that during the twelve months ended
20 September 30, 2003, MPS booked to Uniform System of Accounts ("USOA") Account

1 No. 735 - Miscellaneous Production Expenses net charges of (\$1,964.77) for costs related
2 to remediation activities associated with formerly operated manufactured gas plant
3 ("MGP"). USOA Account No. 735, which is an expense account, would normally have a
4 debit balance but the credit balance occurred due to Company receiving what it termed as
5 environmental settlements.

6
7 It's the Public Counsel's belief that no costs associated with the remediation of
8 manufactured gas plant should be allowed in the determination of the Company's cost of
9 service for ratemaking. Public Counsel opposes allowing any of the costs to flow through
10 to current ratepayers primarily because they have never benefited from the gas service that
11 was provided by the MGP because the plant has been out of service for many decades.

12
13 Q. WHAT IS A MANUFACTURED GAS PLANT?

14 A. Many years ago, before the advent of interstate gas pipelines, gas was produced or
15 manufactured for sale by utilities via a chemical process of coal gasification. The plant used
16 to produce the gas has been termed as a manufactured gas plant facility.

17
18 Q. WHAT ARE MANUFACTURED GAS SITE REMEDIATION COSTS?

19 A. Remediation costs can be defined as all investigations, testing, land acquisition if
20 appropriate, remediation and/or litigation costs/expenses or other liabilities excluding

1 personal injury claims and specifically relating to former gas manufacturing facility sites,
2 disposal sites, or sites to which material may have migrated, as a result of the operation or
3 decommissioning of gas manufacturing facilities. The remediation and cleanup costs, if
4 applicable, are in actuality a legal requirement that must be met in order to satisfy federal or
5 state statutes on the proper handling of hazardous wastes in order to alleviate adverse
6 environmental effects. The expenditures have been incurred to identify and assess the MGP
7 sites contamination potential. They are not expenditures related to the providing of utility
8 service to current or future MPS ratepayers.

9
10 Q. SHOULD RATEPAYERS BE HELD RESPONSIBLE FOR COSTS ASSOCIATED
11 WITH ASSETS THAT ARE NO LONGER IN SERVICE?

12 A. No. Current ratepayers should not be held responsible for costs that do not increase
13 service capabilities or provide cost benefits. The MGP site remediation costs being
14 incurred are associated with plant that is no longer in service and therefore no longer used
15 and useful. The Company is asking the Commission to have current ratepayers pay plant
16 decommissioning costs for MGP plant that does not operate to provide current utility
17 service. I don't believe this is a normal practice of this Commission, and it is
18 unreasonable to force a consumer to pay for something they are not using. It's the Public
19 Counsel's belief that MPS is entitled the opportunity to earn a fair rate of return and

1 recover expenses associated with money prudently invested in property used and useful in
2 rendering utility service.

3
4 Q. PLEASE EXPLAIN THE CONCEPT "USED AND USEFUL".

5 A. One of the Public Counsel's main objections to the Company proposed treatment of this
6 issue is that it violates the regulatory "used and useful" standard. The general rule is that,
7 "the rate base on which a return may be earned is the amount of property used and useful, at
8 the time of the rate inquiry, in rendering a designated utility service." (A.J.G. Priest,
9 Principles of Public Utility Regulation (1969), p. 139, vol. 1). This principle is certainly
10 grounded in common sense. In dividing the responsibility for a utility's operations between
11 ratepayers and stockholders, regulators have traditionally required that stockholders rather
12 than ratepayers be required to bear the costs of any utility investment which is not used and
13 useful to provide service to the ratepayers.

14
15 In a discussion of the policy in Missouri, State ex rel. Union Electric v. Public Service of
16 the State of Missouri, 765 S.W. 2d 618 (Mo. App. 1988), the Court of Appeals for the
17 Western District endorsed the used and useful policy. That case involved Union Electric's
18 appeal of the Commission's denial of the costs of cancellation of its Callaway II nuclear
19 unit. The Commission ruled that the risk of cancellation should be borne by the

1 shareholder, since if it was not, the shareholder's investment would be practically risk free.

2 The Court, in upholding the Commission's decision, stated:

3
4 The utility property upon which a rate of return can be earned must be
5 utilized to provide service to its customers. That is, it must be used and
6 useful. This used and useful concept provides a well-defined standard for
7 determining what properties of a utility can be included in its rate base.
8
9

10 Q. WHAT WERE THE REMEDIATION ACTIVITIES FOR WHICH COMPANY
11 INCURRED THE COSTS?

12 A. According to the Company's response to OPC Data Request No. 1074, the costs were
13 related to the following MGP sites and activities:

14
15 Four sites - Clinton, Lexington Highland, Nevada and Sedalia.

16
17 Clinton - Company conducted an investigation and removal action under
18 an EPA Administrative Order on Consent. The site has been fenced and a
19 deed restriction placed on the property. The Company inspects the site at
20 least annually.

21
22 Lexington Highland - Company is addressing the site under an
23 Administrative Order on Consent with EPA. Work completed to date
24 includes a Removal Site Evaluation and Baseline Risk Assessment. The
25 Company is currently preparing an Engineering Evaluation /c Analysis.

26
27 Nevada - Company conducted a Preliminary Assessment. The MDNR
28 conducted a site investigation. Company had a property survey performed.
29 Company has not conducted either an investigation or any removal action
30 at the site.
31

1 Sedalia - Company conducted an investigation and removal action under
2 an EPA Administrative Order on Consent. A deed restriction was placed
3 on the property.
4
5

6 It's my understanding that the Clinton and Sedalia are fully owned by Company, but it is
7 only a partial owner in the Nevada site and has no ownership interest in the Lexington
8 (10th St. & Highland Ave.) site.
9

10 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION?

11 A. It is the Public Counsel's recommendation that the Company's cost of service, USOA
12 Account No. 735 - Miscellaneous Production Expenses, for the period twelve months
13 ended September 30, 2003, be increased by \$1,965 to zero out the negative balance
14 booked for the period. OPC's recommendation is based upon the belief that it is
15 inappropriate for ratepayers to be held responsible for reimbursement of expenses
16 associated with the remediation activities of the MGP; thus, it would be unfair to the
17 Company to allow ratepayers to benefit or share in any environmental settlement or
18 payments it receives that offset the remediation expenses it incurs.
19

20 C. **ACCOUNTING AUTHORITY ORDER COSTS**

21 Q. WHAT IS THE ISSUE?

1 A. On December 6, 1989, the Company filed an application (Missouri Public Service, Case
2 No. GO-90-115) for issuance of an accounting authority order ("AAO") to defer and book
3 to Account 186 the costs incurred to conduct accelerated leak surveys, the additional
4 operation and maintenance costs which have or will be incurred, depreciation expense,
5 property taxes and carrying costs which would normally be expensed at the in-service date
6 on amounts placed in service in connection with a "major gas safety program initiated by
7 MPS." Company stated that it was seeking Commission approval to defer and record
8 expenditures and costs incurred in connection with its gas safety projects from January 1,
9 1989 to the effective date of rates established in the Company's next general rate case.
10 Subsequently, the Commission in its Order dated January 12, 1990 granted the Company's
11 application. The Stipulation and Agreement in Company's subsequent gas rate case, Case
12 No. GR-90-198, effective November 1, 1990, allowed the Company to include in rate base
13 \$818,578 of deferred safety costs to be amortized to cost of the service over twenty years.

14
15 Furthermore, on May 10, 1991, the Company again filed an application (Missouri Public
16 Service, Case No. GO-91-359) for issuance of an accounting authority order to defer and
17 book to Account 186 depreciation expenses and carrying costs incurred in connection with
18 its gas line safety replacement project in the same manner as approved by the Commission
19 in Case No. GO-90-115 from January 1, 1991 through the effective date of rates established
20 in the Company's next general rate case. The Commission in its Order dated January 17,

1 1992 approved the Company's application. The Stipulation and Agreement in Company's
2 subsequent gas rate case, Case No. GR-93-172, effective September 1, 1993, was a
3 negotiated dollar settlement that did not define the amount of deferred costs associated with
4 AAO Case No. GO-91-359 that would be included in the cost of service. However, on page
5 five of the Stipulation and Agreement (Appendix 1) attached to the Order in Case No. GR-
6 93-172, Company agreed not to file an application with the Commission for an accounting
7 authority order with respect to expenditures identified in said case. To my knowledge,
8 Company never requested any other AAO for gas safety related costs. Thus, in my opinion,
9 the recovery of the deferred costs associated with the Case No. GO-91-359 were included in
10 the determination of the negotiated dollar settlement of Case No. GR-93-172.

11
12 Q. WHAT REASONS DID COMPANY PROVIDE FOR REQUESTING APPLICATION OF
13 THE TWO ACCOUNTING AUTHORITY ORDERS?

14 A. In its AAO applications, Company stated that it is currently involved with significant
15 projects involving its natural gas distribution operations; that said projects have been
16 undertaken as part of a major gas safety program initiated by the Company and pursuant to
17 rules of the Commission. The activities include gas leak surveys of service lines and a gas
18 main and services replacement project that has caused it to incur and will continue to incur a
19 substantial increase in annual operating and maintenance expense as well as a substantial
20 increase in capital expenditures. In addition, the Company described the expenditures as

1 extraordinary and material. That they have not previously been fully reflected in the gas
2 rates of Company and no additional revenue will result on completion of the projects.
3

4 Q. BY APPROVING THE AAO APPLICATIONS, DID THE COMMISSION
5 ACQUIESCE AS TO VALUE OR REASONABLENESS OF COMPANY'S
6 ACCUMULATED DEFERRED EXPENSES?

7 A. No. The Order in Case No. GO-90-115 states on page one:

8
9 The Commission has determined it can grant the authority without reaching
10 a decision as to the appropriate ratemaking treatment for the expenditures
11 and costs in question. A review of the appropriate ratemaking treatment in a
12 general rate case is necessary.
13
14

15 While the Order in Case No. GO-91-359 states on page four:

16
17 That nothing in this order shall be considered a finding by the Commission
18 of the reasonableness of the expenditures involved herein, nor as an
19 acquiescence in the value placed upon said properties by Missouri Public
20 Service. Furthermore, the Commission reserves the right to consider the
21 ratemaking treatment to be afforded these expenditures, and their resulting
22 cost of capital, in any later proceeding.
23
24

25 Q. WHAT DOES THE TERM DEFERRED REPRESENT?

1 A. For purposes of this issue when a cost (expense/expenditure) has been deferred it is not
2 recognized on the income statement as an expense in the current period. The costs are
3 instead booked to a balance sheet account and ratably amortized to an income statement
4 expense account over some period of time. Originally when Company's gas cost (expense)
5 was deferred, it was removed from the income statement and entered on the balance sheet
6 (in Account 186, Miscellaneous Deferred Debits), pending the final disposition of these
7 costs in a rate case; however, due to various subsequent Commission orders the deferrals
8 have been booked or transferred to USOA Account No. 182 - Extraordinary Property
9 Losses.

10
11 Q. HAVE YOU REVIEWED THE COMPANY'S INCLUSION OF THE DEFERRED GAS
12 SAFETY PROGRAM COSTS IN EXPENSES?

13 A. Yes. For the twelve months ended December 31, 2002, and the twelve months ended
14 September 30, 2003, the Company amortized to expense \$135,715 and \$135,714,
15 respectively. The two amounts represent the total annual amortization of deferred costs
16 associated with both AAOs for those two periods based on an amortization period of
17 twenty years.

18
19 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE
20 GAS ACCOUNTING AUTHORITY ORDERS?

1 A. Public Counsel recommends that an annual amortization cost of \$76,957 be included in
2 the Company's cost of service for these two AAOs. Public Counsel believes that the
3 Company has overstated the amount of the deferred costs expense that should be included
4 in the cost of service; thus, OPC recommends an adjustment of (\$58,757) to reduce the
5 AAO expenses Company booked.

6
7 MPSC Staff work papers, in MPS Case No. GR-93-172, updated through April 1993,
8 identified \$76,957 as the appropriate level of annual amortization expense to include in
9 the cost of service for the two AAOs. Since no other AAOs were authorized for these
10 costs, Public Counsel is unaware of any events that would have changed the annual
11 amortization amount; however, in order clarify the Company's position, I have issued it a
12 data request seeking additional information. If additional information regarding a
13 material change in the appropriate level of annual amortization expense becomes
14 available, I will inform the Commission of such in either my rebuttal or surrebuttal
15 testimony. Also, Public Counsel further recommends that any remaining unamortized
16 deferred costs balance associated with the two AAOs not be included as an addition in the
17 determination of the Company's rate base.

18
19 Q. DOES PUBLIC COUNSEL RECOMMEND NO RATE BASE TREATMENT FOR ALL
20 COSTS ASSOCIATED WITH THE ACCOUNTING AUTHORITY ORDERS?

1 A. No. Public Counsel's recommendation is that the AAO unamortized deferred balances not
2 be included as an addition to the rate case rate base, however, the deferred income tax
3 balances associated with the AAO deferred costs should be included as a reduction to rate
4 base because they are associated with the interaction of the actual expensing of the deferred
5 costs on the income statement for tax versus regulatory purposes.

6
7 OPC believes that the total accumulated deferred income taxes associated with the AAOs is
8 \$250,795 (GO-90-115 \$86,070 and GO-91-359 \$164,725). Public Counsel calculated the
9 \$250,795 using a twenty year amortization schedule of the deferred income tax amounts
10 identified by the OPC and MPSC Staff work papers in MPS Case No. GR-93-172. It is
11 Public Counsel's recommendation that the \$250,795 be treated as a reduction in the
12 determination of the Company's rate base amount.

13
14 Q. WHY DOES THE PUBLIC COUNSEL BELIEVE THAT THE UNAMORTIZED AAO
15 DEFERRED BALANCES SHOULD NOT BE ALLOWED IN THE DETERMINATION
16 OF RATE BASE?

17 A. The Public Counsel's position on this issue is based on our belief that Company is being
18 given what amounts to a guaranteed "return of" the deferrals associated with the gas safety
19 projects; therefore, it should not be also provided with a "return on" those same amounts.
20

1 Q. PLEASE EXPLAIN THE TERMS "RETURN OF" AND "RETURN ON."

2 A. If an expenditure is recorded on the income statement as an expense it is compared dollar
3 for dollar to revenues. This comparison is referred to as a "return of" because a dollar of
4 expense is matched by a dollar of revenue. A "return on" occurs when an expenditure is
5 capitalized with the balance sheet and then included in the calculation of rate base. This
6 calculation is a preliminary step in determining the earnings a company achieves on its
7 total regulatory investment.

8

9 Q. WHAT IS THE EFFECT OF THE COMPANY'S ACCOUNTING AUTHORITY
10 ORDERS?

11 A. The Commission's authorization of AAO treatment insulates Company shareholders from
12 the risks associated with regulatory lag that occurs when the gas safety projects are
13 completed, and placed in service, before the operation law date of a general rate increase
14 case.

15

16 Q. PLEASE EXPLAIN THE CONCEPT OF REGULATORY LAG.

17 A. This concept is based on a difference in the timing of a decision by management and the
18 Commission's recognition of that decision and its effect on the rate base rate of return
19 relationship in the determination of a company's revenue requirement. Management
20 decisions that reduce or increase the cost of service without changing revenues result in a

1 change in the rate base rate of return relationship. This change either increases or decreases
2 the profitability of the Company in the short-run until such time as the Commission
3 reestablishes rates to properly match revenues with the new level of service cost.
4 Companies are allowed to retain cost savings (i.e., excess profits during the lag period
5 between rate cases) and are required to absorb cost increases. When faced with escalating
6 costs regulatory lag places pressure on management to minimize the change in the
7 relationship because it cannot be recognized in a rate increase until the Commission
8 approves such in a general rate proceeding.

9
10 Q. HAS THIS COMMISSION RULED THAT IT IS NOT REASONABLE TO PROVIDE
11 SUCH PROTECTION TO SHAREHOLDERS?

12 A. Yes, it has. In Missouri Public Service Co., Case Nos. EO-91-358 & EO-91-360, the
13 Commission stated:

14
15 Lessening the effect of regulatory lag by deferring costs is beneficial to a
16 company but not particularly beneficial to ratepayers. Companies do not
17 propose to defer profits to subsequent rate cases to lessen the effects of
18 regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part
19 of the regulatory process and can be a benefit as well as a detriment.
20 Lessening regulatory lag by deferring costs is not a reasonable goal unless
21 the costs are associated with an extraordinary event.

22
23 Maintaining the financial integrity of a utility is also a reasonable goal. The
24 deferral of costs to maintain current financial integrity, though, is of
25 questionable benefit. If a utility's financial integrity is threatened by high
26 costs so that its ability to provide service is threatened, then it should seek
27 interim rate relief. If maintaining financial integrity means sustaining a

1 specific return on equity, this is not the purpose of regulation. It is not
2 reasonable to defer costs to insulate shareholders from any risks. 1 Mo.
3 P.S.C. 3d 200, 207 (1991).
4
5

6 Q. DID THE COMMISSION MADE A DETERMINATION THAT THE COMPANY'S
7 ACCOUNTING AUTHORITY ORDERS WERE RELATED TO EXTRAORDINARY
8 EVENTS?

9 A. Yes. The Commission, however, has more recently refined how an extraordinary event is
10 identified when it stated on page thirteen of its Report and Order in St. Louis County Water
11 Company, Case No. WR-96-263:

12
13 As both the OPC and the Staff point out, the Commission has to date,
14 granted AAO accounting treatment exclusively for one-time outlays or
15 capital caused by unpredictable events, acts of government, and other
16 matters outside the control of the utility or the Commission. It is also
17 pointed out that the terms "infrequent, unusual and extraordinary" connote
18 occurrences which are unpredictable in nature.
19

20 (Emphasis added by OPC)
21
22

23 Q. HAS THE COMMISSION DENIED THE INCLUSION IN RATE BASE OF
24 UNAMORTIZED DEFERRED BALANCES ASSOCIATED WITH AN ACCOUNTING
25 AUTHORITY ORDER?

26 A. Yes, it has. In Missouri Gas Energy, Case No. GR-98-140, the Commission ordered that
27 the unamortized deferred balances associated with the Company's gas safety line

1 replacement program would not be included in the determination of the Company's rate
2 base. On page nineteen of the Order in Case No. GR-98-140, it states:

3
4 The Commission finds that the unamortized balance of SLRP deferrals
5 should not be included in the rate base for MGE. The AAOs issued by the
6 Commission authorize the Company to book and defer the amount requested
7 but do not approve any ratemaking treatment of amounts from the deferred
8 and booked balances. AAOs are not intended to eliminate regulatory lag but
9 are intended to mitigate the cost incurred by the Company because of
10 regulatory lag.
11
12

13 Continuing on page twenty, it states:

14
15 All of the parties agree that it is the purpose of the AAO to lessen the effect
16 of the regulatory lag, not to eliminate it nor to protect the Company
17 completely from risk. Without the inclusion of the unamortized balance of
18 the AAO account included in the rate base, MGE will still recover the
19 amounts booked and deferred, including the cost of carrying these SLRP
20 deferral costs, property taxes and depreciation expenses through the true-up
21 period ending May 31, 1998. The Commission finds that OPC's position on
22 this issue is just and reasonable and is supported by competent and
23 substantial evidence in the record.
24
25

26 Q. SINCE THE COMMISSION DECISION IN GR-98-140 HAS THE COMMISSION
27 TREATED THIS ISSUE CONSISTENTLY?

28 A. Yes, it's my understanding that it has.
29

1 Q. PLEASE CONTINUE.

2 A. The purpose of the AAO accounting variance is to protect Company from adverse
3 financial impact, caused by regulatory lag, by providing it with a vehicle that allows it the
4 opportunity to capture and recover costs it normally would not have had the opportunity
5 to recover. The accounting variance should not be used to place the Company in a better
6 position than it would have been in had plant investment and rate synchronization been
7 achieved. Just as it would be unfair to deny Company recovery of its reasonable and
8 prudent investment due to regulatory delays which the Company could not control, it
9 would be unfair if MPS were allowed to reap a windfall, at ratepayer expense, due to a
10 regulatory delay that ratepayers could not control. Public Counsel's position is that issues
11 caused by regulatory lag must be treated in a fair manner for both ratepayers and MPS.

12
13 **D. ST. JOSEPH LIGHT & POWER MERGER COSTS - MPS**

14 Q. SHOULD RATEPAYERS BE RESPONSIBLE FOR REIMBURSING THE COMPANY
15 FOR ALL MERGER COSTS?

16 A. No. Public Counsel's position is that no portion of the SJLP purchase premium or the
17 purchase transaction costs associated with the merger should ever be recovered by the
18 Company from rates paid by MPS or L&P customers. The purchase premium and
19 transactions costs Company incurred should be treated below-the-line in the determination
20 of rates for this and all future MPS and L&P rate cases; whereas, costs associated with the

1 actual transition (sometimes called "costs to achieve") of SJLP from a stand-alone company
2 to a division of Aquila Inc., should only be allowed if they can be proven to truly benefit
3 ratepayers.

4
5 Q. HAVE ANY SJLP MERGER PREMIUM OR TRANSACTION COSTS BEEN
6 INCLUDED BY THE COMPANY IN THE CURRENT MPS OR L&P GAS CASES?

7 A. No. Company's response to OPC Data Request No. 1033 states that there were no premium
8 and transactions costs included in the revenue requirements of the instant cases. As
9 identified in the Company's response to OPC Data Request No. 1014, most, but not all, of
10 these costs have been booked to L&P financial records, and as with the transition, they are
11 being amortized to both a MPS and L&P non-operating expense account, USOA No. 425 -
12 Miscellaneous Amortization.

13
14 Q. HAVE ANY SJLP MERGER TRANSITION COSTS BEEN INCLUDED BY THE
15 COMPANY IN THE CURRENT MPS OR L&P GAS CASES?

16 A. No. Company's response to OPC Data Request No. 1023 states that no transition costs were
17 included in the revenue requirements of the instant cases; however, Company's response to
18 MPSC Staff Data Request No. 142 in Aquila, Inc., Case No. ER-2004-0034, shows that
19 certain alleged transition costs of the merger are being amortized to both a MPS and L&P
20 non-operating expense account, USOA No. 425 - Miscellaneous Amortization.

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Q. WHY HAS THE PUBLIC COUNSEL TAKEN THE POSITION THAT, EXCLUDING CERTAIN TRANSITION COSTS, ALL MERGER COSTS SHOULD BE EXCLUDED?

A. Public Counsel believes that the SJLP purchase premium, and purchase transaction costs, were incurred with the sole intention of enhancing the financial interests of shareholders of the two companies. From SJLP's perspective the sale was enacted to allow its shareholders to acquire an increase in the shareholder value of their stock above that which existed if SJLP remained a stand-alone utility company. It is Aquila's shareholders who are most likely to receive the benefits associated with the increasing size and economies of scale of a larger company. One example would be possible access to lower costs of investment capital which would benefit the entire Aquila organization. Another example is the possibility of achieving better purchase terms and prices from the various suppliers of Aquila due to the aggregation of requirements of a larger company. Also, Aquila has stated that it sought to acquire SJLP to strengthen its position going into what it viewed was a competitive (deregulated) market (see Robertson Rebuttal Testimony, Case No. EM-2000-292, page forty-four, lines one through eleven).

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY ON THE APPROPRIATE RATEMAKING TREATMENT OF THE SJLP PURCHASE PREMIUM AND PURCHASE TRANSACTION COSTS?

1 A. Yes, I have. In UtiliCorp United Inc.; St. Joseph Light & Power Company, Case No. EM-
2 2000-292, I testified in my rebuttal testimony (page sixty-three, lines eight through ten) that
3 it is never appropriate to allow a utility rate recovery of an acquisition adjustment. The
4 acquisition adjustment is merely an accounting entry that consists of the purchase premium
5 and the purchase transaction costs.
6

7 Q. WHAT SUPPORT DID THE PUBLIC COUNSEL RELY ON TO REACH THE
8 POSITION IT HAS TAKEN RELATING TO THESE COSTS?

9 A. There are a multitude of reasons why purchase premiums and purchase transaction costs
10 should not be reimbursed by ratepayers. For example, as I discussed in my rebuttal
11 testimony in Case No. EM-2000-292, reasons to place the purchase premium and
12 purchase transaction costs below-the-line include the following:
13

- 14 1. The acquisition premium and transaction costs consist of nothing
15 more than costs associated with a financial transaction that valued
16 the excess purchased cost over and above the net original book cost
17 of the SJLP properties.
18
- 19 2. The Commission should not be required to make a determination
20 that the acquisition premium and transaction costs associated with
21 the merger are reasonable. That is, the Commission should not be
22 put in the position of having to determine the appropriate price at
23 which utilities should acquire other utilities.
24
- 25 3. The Commission has consistently endorsed the "original cost"
26 concept for valuing utility property. Purchases at below or above
27 book cost are recorded at historical costs for regulatory ratemaking.
28 Utilities benefit from the consistent treatment of acquisition

1 adjustments. Neither positive nor negative acquisition adjustments
2 are included in rates.
3

4 4. Shareholders own the properties purchased. Any gains on the sale
5 of utility properties are retained entirely by shareholders.
6 Ratepayers should not be required to fund the excess over book
7 costs of utilities purchased.
8

9 5. Aquila purchased SJLP to enhance the competitive position of its
10 shareholders going into what it viewed would be a deregulated
11 market. Ratepayers interests were secondary, if at all.
12

13 6. The generation assets of SJLP had an appraised market value that
14 far exceeded its booked cost. Aquila knew this when it purchased
15 SJLP. Any sale of the generation assets could possibly yield
16 Aquila with a return that far exceeds the SJLP purchase premium
17 and purchase transaction costs.
18

19 7. UCU proposed to net merger savings with the merger costs but it
20 has no way to effectively identify and track merger savings.
21
22

23 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

24 A. Public Counsel has not changed its position from that first filed in UtiliCorp United Inc.;
25 St. Joseph Light & Power Company, Case No. EM-2000-292, with regard to the SJLP
26 merger purchase premium and purchase transaction costs. OPC believes that the costs were
27 incurred to benefit the shareholders of SJLP and Aquila; therefore, it is the Public Counsel's
28 recommendation that they be provided below-the-line treatment for ratemaking purposes.
29 However, Public Counsel does believe that an amortization of certain merger transition
30 costs should have been included in the cost of service. To-date Company has not provided
31 any evidence of the amount of those costs that should be included in the determination of

1 the cost of service; thus, until it provides data attesting to the validity, reasonableness and
2 accuracy of the amount of transition costs that should be included, Public Counsel
3 recommends a zero amount be allowed.
4

5 **E. INCREMENTAL SECURITY COSTS - MPS**

6 Q. WHAT IS THE ISSUE?

7 A. Company's response to MPSC Staff Data Request No. 277 in Aquila Inc., Case No. ER-
8 2004-0034 indicates that capital expenditures, and operating and maintenance expenses,
9 associated with above normal or incremental security costs (occasionally titled as
10 "Homeland Security" costs) may have been booked in the financial records of the MPS
11 gas operations during the updated test year. The data response, however, is incomplete
12 regarding the actual level of costs included in the plant and expense accounts of MPS.
13 Thus, Public Counsel has not yet been able to ascertain the exact nature or amount of the
14 costs included at this time, if any. In addition to issuing several data requests to the
15 Company seeking to clarify the matter, I have scheduled for an onsite visit at the
16 Company's offices to review the voluminous and confidential costs information. The
17 scheduled visit, due in part to the holidays, has been set for dates subsequent to the filing
18 date of this direct testimony. Once the Public Counsel receives the Company's response
19 to the data requests and is able to review the onsite information, I will update the
20 Commission as necessary.

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Q. SHOULD ANY COSTS ASSOCIATED WITH THE INCREMENTAL SECURITY BE INCLUDED IN THE MPS REVENUE REQUIREMENT?

A. Public Counsel believes that there are many reasons that costs associated with the incremental security should or should not be included in the revenue requirement of MPS. For example, only an annualized level of reasonable costs should be included. Until such time as we can ascertain that the costs for such activities have actually been included in the MPS cost of service, and analyze their purpose and effect we will postpone any arguments on this issue, if necessary, until rebuttal testimony.

III. AQUILA NETWORKS - L&P

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A. ST. JOSEPH LIGHT & POWER MERGER COSTS - L&P

Q. WHAT IS THE ISSUE?

A. This issue is exactly the same as that presented earlier for the MPS gas case.

Q. SHOULD RATEPAYERS BE RESPONSIBLE FOR REIMBURSING THE COMPANY FOR ALL MERGER COSTS?

A. No. Public Counsel's position is that no portion of the SJLP purchase premium or the purchase transaction costs associated with the merger should ever be recovered by the Company from rates paid by MPS or L&P customers. The purchase premium and transactions costs Company incurred should be treated below-the-line in the determination of rates for this and all future MPS and L&P rate cases; whereas, costs associated with the actual transition (sometimes called "costs to achieve") of SJLP from a stand-alone company to a division of Aquila Inc., should only be allowed if they can be proven to truly benefit ratepayers.

Q. HAVE ANY SJLP MERGER PREMIUM OR TRANSACTION COSTS BEEN INCLUDED BY THE COMPANY IN THE CURRENT MPS OR L&P GAS CASES?

1 A. No. Company's response to OPC Data Request No. 1033 states that there were no premium
2 and transactions costs included in the revenue requirements of the instant cases. As
3 identified in the Company's response to OPC Data Request No. 1014, most, but not all, of
4 these costs have been booked to L&P financial records, and as with the transition, they are
5 being amortized to both a MPS and L&P non-operating expense account, USOA No. 425 -
6 Miscellaneous Amortization.

7
8 Q. HAVE ANY SJLP MERGER TRANSITION COSTS BEEN INCLUDED BY THE
9 COMPANY IN THE CURRENT MPS OR L&P GAS CASES?

10 A. No. Company's response to OPC Data Request No. 1023 states that no transition costs were
11 included in the revenue requirements of the instant cases; however, Company's response to
12 MPSC Staff Data Request No. 142 in Aquila, Inc., Case No. ER-2004-0034, shows that
13 certain alleged transition costs of the merger are being amortized to both a MPS and L&P
14 non-operating expense account, USOA No. 425 - Miscellaneous Amortization.

15
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17 CERTAIN TRANSITION COSTS, ALL MERGER COSTS SHOULD BE EXCLUDED?

18 A. Public Counsel believes that the SJLP purchase premium, and purchase transaction costs,
19 were incurred with the sole intention of enhancing the financial interests of shareholders of
20 the two companies. From SJLP's perspective the sale was enacted to allow its shareholders

1 to acquire an increase in the shareholder value of their stock above that which existed if
2 SJLP remained a stand-alone utility company. It is Aquila's shareholders who are most
3 likely to receive the benefits associated with the increasing size and economies of scale of a
4 larger company. One example would be possible access to lower costs of investment
5 capital which would benefit the entire Aquila organization. Another example is the
6 possibility of achieving better purchase terms and prices from the various suppliers of
7 Aquila due to the aggregation of requirements of a larger company. Also, Aquila has stated
8 that it sought to acquire SJLP to strengthen its position going into what it viewed was a
9 competitive (deregulated) market (see Robertson Rebuttal Testimony, Case No. EM-2000-
10 292, page forty-four, lines one through eleven).

11
12 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY ON THE APPROPRIATE
13 RATEMAKING TREATMENT OF THE SJLP PURCHASE PREMIUM AND
14 PURCHASE TRANSACTION COSTS?

15 A. Yes, I have. In UtiliCorp United Inc.; St. Joseph Light & Power Company, Case No. EM-
16 2000-292, I testified in my rebuttal testimony (page sixty-three, lines eight through ten) that
17 it is never appropriate to allow a utility rate recovery of an acquisition adjustment. The
18 acquisition adjustment is merely an accounting entry that consists of the purchase premium
19 and the purchase transaction costs.
20

1 | Q. WHAT SUPPORT DID THE PUBLIC COUNSEL RELY ON TO REACH THE
2 | POSITION IT HAS TAKEN RELATING TO THESE COSTS?

3 | A. There are a multitude of reasons why purchase premiums and purchase transaction costs
4 | should not be reimbursed by ratepayers. For example, as I discussed in my rebuttal
5 | testimony in Case No. EM-2000-292, reasons to place the purchase premium and
6 | purchase transaction costs below-the-line include the following

- 7 |
- 8 | 1. The acquisition premium and transaction costs consist of nothing
9 | more than costs associated with a financial transaction that valued
10 | the excess purchased cost over and above the net original book cost
11 | of the SJLP properties.
 - 12 | 2. The Commission should not be required to make a determination
13 | that the acquisition premium and transaction costs associated with
14 | the merger are reasonable. That is, the Commission should not be
15 | put in the position of having to determine the appropriate price at
16 | which utilities should acquire other utilities.
 - 17 | 3. The Commission has consistently endorsed the "original cost"
18 | concept for valuing utility property. Purchases at below or above
19 | book cost are recorded at historical costs for regulatory ratemaking.
20 | Utilities benefit from the consistent treatment of acquisition
21 | adjustments. Neither positive nor negative acquisition adjustments
22 | are included in rates.
 - 23 | 4. Shareholders own the properties purchased. Any gains on the sale
24 | of utility properties are retained entirely by shareholders.
25 | Ratepayers should not be required to fund the excess over book
26 | costs of utilities purchased.
 - 27 | 5. Aquila purchased SJLP to enhance the competitive position of its
28 | shareholders going into what it viewed would be a deregulated
29 | market. Ratepayers interests were secondary, if at all.
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1 6. The generation assets of SJLP had an appraised market value that
2 far exceeded its booked cost. Aquila knew this when it purchased
3 SJLP. Any sale of the generation assets could possibly yield
4 Aquila with a return that far exceeds the SJLP purchase premium
5 and purchase transaction costs.

6
7 7. UCU proposed to net merger savings with the merger costs but it
8 has no way to effectively identify and track merger savings.
9
10

11 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

12 A. Public Counsel has not changed its position from that first filed in UtiliCorp United Inc.;
13 St. Joseph Light & Power Company, Case No. EM-2000-292, with regard to the SJLP
14 merger purchase premium and purchase transaction costs. OPC believes that the costs were
15 incurred to benefit the shareholders of SJLP and Aquila; therefore, it is the Public Counsel's
16 recommendation that they be provided below-the-line treatment for ratemaking purposes.
17 However, Public Counsel does believe that an amortization of certain merger transition
18 costs should have been included in the cost of service. To-date Company has not provided
19 any evidence of the amount of those costs that should be included in the determination of
20 the cost of service; thus, until it provides data attesting to the validity, reasonableness and
21 accuracy of the amount of transition costs that should be included, Public Counsel
22 recommends a zero amount be allowed.

23
24 **B. INCREMENTAL SECURITY COSTS - L&P**

25 Q. WHAT IS THE ISSUE?

1 A. This issue is the same as that presented for MPS. Company's response to MPSC Staff
2 Data Request No. 277 in Aquila Inc., Case No. ER-2004-0034 indicates that capital
3 expenditures, and operating and maintenance expenses, associated extra or incremental
4 security costs may have been booked in the financial records of the L&P gas operations

Direct Testimony Of Ted Robertson
Case No. GR-2004-0072

1 included in the L&P cost of service, and analyze their purpose and effect we will
2 postpone any arguments on this issue, if necessary, until rebuttal testimony.

3

4 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5 A. Yes, it does.

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Gas Energy	GM-2003-0238
Aquila, Inc.	EF-2003-0465
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072