

EXHIBIT

Exhibit No.: 13
Issue(s): Accounting Record Keeping/
Manufactured Gas Plant Remediation Costs/
St. Joseph Light & Power Merger Costs/
Accounting Authority Order Costs/
Automated Mapping/Facility
Management System Costs/
Incremental Security Costs
Witness: Ted Robertson
Type of Exhibit: Direct
Sponsoring Party: Public Counsel
Case Number: ER-2004-0034
Date Testimony Prepared: December 9, 2003

DIRECT TESTIMONY

OF

TED ROBERTSON

FILED

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Submitted on Behalf of
the Office of the Public Counsel

Missouri Public
Service Commission

AQUILA, INC.

Case No. ER-2004-0034

December 9, 2003

Exhibit No. 13
Case No(s). ER-2004-0034
Date 2/23/04 Rptr KF

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**DIRECT TESTIMONY
OF
TED ROBERTSON**

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

**CASE NOS. ER-2004-0034
AND
HR-2004-0024**

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

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

1 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

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

5
6 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
7 SERVICE COMMISSION ("MPSC")?

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

10
11 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

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

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I. GENERAL

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A. ACCOUNTING RECORD-KEEPING

Q. WHAT IS THE ISSUE?

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

Q. WHAT IS A DETAILED GENERAL LEDGER?

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

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

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

14
15 Q. HOW WAS THE ISSUE SETTLED IN CASE NO. ER-2001-672?

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

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

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

9
10 Q. COULD COMPANY HAVE MADE THE NEW ACCOUNTING SYSTEM
11 "REGULATOR FRIENDLY" WITH A COUPLE OF MINOR ADJUSTMENTS?

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

II. AQUILA NETWORKS - MPS

A. MANUFACTURED GAS PLANT REMEDIATION COSTS

Q. WHAT IS THE ISSUE?

A. Company financial records indicate that a small amount of costs related to manufactured gas plant ("MGP") remediation efforts may have been booked as an expense in the financial records of MPS during the updated test year. Public Counsel has not yet been able to ascertain the exact nature or amount of the costs included at this time, if any. I have issued a data request to the Company seeking to clarify the issue. Once Public Counsel receives the Company's response to the data request, I will update the Commission as necessary.

Q. SHOULD ANY COSTS ASSOCIATED WITH THE REMEDIATION OF MANUFACTURED GAS PLANT BE INCLUDED IN THE MPS REVENUE REQUIREMENT?

A. No. Public Counsel believes that there are many reasons that costs associated with the remediation of MGP should not be included in the revenue requirement of MPS, however, until we can ascertain for sure that costs for such activities have been included we will postpone our arguments on this issue until rebuttal testimony.

1 **B. ACCOUNTING AUTHORITY ORDER COSTS**

2 Q. WHAT IS THE ISSUE?

3 A. Pursuant to Commission order, Company has booked costs associated with several
4 accounting authority orders ("AAO") during the test year. The Company was authorized to
5 defer depreciation expenses, property taxes, and carrying costs associated with the capacity
6 life extension and western coal conversion projects at its Sibley generating station
7 ("SCLE/WC"). Approval to defer and recover those costs was made pursuant to the
8 Commission's Accounting Authority Orders in Case Nos. EO-90-114 and ER-90-101, and
9 subsequent reauthorization was provided in Case Nos. EO-91-358 and ER-93-37.
10 Company was also granted authority to defer and amortize costs incurred due to an ice
11 storm in its former Missouri Public Service area in January 2002. Approval to defer and
12 recover those costs was made pursuant to the Commission's Order Granting Accounting
13 Authority Order in Case No. EU-2002-1053.

14
15 Q. WHAT DOES THE TERM DEFERRED REPRESENT?

16 A. For purposes of this issue when a cost (expense/expenditure) has been deferred it is not
17 recognized on the income statement as an expense in the current period. The costs are
18 instead booked to a balance sheet account and ratably amortized to an income statement
19 expense account over some period of time. For example, in the case of the ice storm
20 AAO, the Commission Order stated:

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A. Aquila is authorized to defer actual incremental operation and maintenance expenses incurred as a direct result of the January 2002 ice storm to Uniform System of Accounts Account 182.3.

And,

C. Aquila shall ratably amortize the amount deferred to Account 182.3 over a five-year period beginning February 1, 2002.

Q. OVER WHAT PERIOD OF TIME IS COMPANY AUTHORIZED TO AMORTIZE THE COSTS ASSOCIATED WITH THE SIBLEY GENERATING STATION CAPACITY LIFE EXTENSION AND WESTERN COAL CONVERSION PROJECTS?

A. It's my understanding that the Company is, pursuant to Commission authorization, amortizing the Sibley and Western Coal Conversion deferred balances over twenty years.

Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE SIBLEY AND WESTERN COAL CONVERSION ACCOUNTING AUTHORITY ORDERS?

A. Public Counsel recommends that an annual amortization cost of \$339,339 be included in the MPS cost of service for these AAOs. Company's response to MPSC Staff Data Request No. 336 shows that Company has booked an annual amortization cost of \$340,128 for the updated test year; thus, Public Counsel is proposing an expense

1 adjustment to reduce the MPS cost of service by \$789. The remaining unamortized
2 deferred balance for the Sibley and Western Coal Conversion AAOs would then
3 approximate \$2,812,654. Public Counsel further recommends that the remaining
4 unamortized deferred balance not be included as an addition in the determination of the
5 MPS rate base.

6
7 Q. WHY DO THE PUBLIC COUNSEL'S NUMBERS FOR THE SIBLEY AND
8 WESTERN COAL CONVERSION AMORTIZATION AND BALANCE NOT MATCH
9 THE COMPANY'S NUMBERS?

10 A. The difference lies, I believe, in simple rounding errors associated with the calculations
11 along with a proper utilization of the jurisdictional allocation factor for the 1992 AAO
12 amortization.

13
14 Q. DID THE PUBLIC COUNSEL UTILIZE THE COMPANY'S ALLOCATION
15 FACTORS?

16 A. Yes. The Public Counsel did not perform an analysis necessary to derive a different set
17 of allocation factors; therefore, I utilized the KWH factor identified as appropriate by the
18 Company. Having said that, the Public Counsel does not necessarily agree that the
19 Company's allocation factors are the appropriate factors to use. Should the Commission

1 make the determination that the allocations factors calculated by the Company are not
2 appropriate, the results of my analysis would change accordingly.

3
4 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE ICE
5 STORM ACCOUNTING AUTHORITY ORDER?

6 A. Public Counsel recommends that an annual amortization cost of \$1,649,293 be included
7 in the MPS cost of service for this AAO. Company's response to MPSC Staff Data
8 Request No. 336 (provided in response to OPC Data Request No. 1027) shows that
9 Company has booked an annual amortization cost of \$1,649,118. Thus, Public Counsel is
10 proposing an expense adjustment to increase the MPS cost of service by \$175. The
11 remaining unamortized deferred balance for the ice storm AAO would then approximate
12 \$5,497,645. Public Counsel further recommends that the remaining unamortized deferred
13 balance not be included as an addition in the determination of the MPS rate base.

14
15 Q. DOES PUBLIC COUNSEL RECOMMEND NO RATE BASE TREATMENT FOR ALL
16 COSTS ASSOCIATED WITH THE ACCOUNTING AUTHORITY ORDERS?

17 A. No. Public Counsel's recommendation is that the AAO unamortized deferred balances not
18 be included as an addition to the rate case rate base, however, the deferred income tax
19 balances associated with the AAO deferred costs should be included as a reduction to rate

1 base because they are associated with the interaction of the actual expensing of the deferred
2 costs on the income statement for tax verses regulatory purposes.

3
4 Q. DOES THE PUBLIC COUNSEL KNOW THE AMOUNT OF THE DEFERRED
5 INCOME TAXES THAT SHOULD BE INCLUDED IN RATE BASE?

6 A. No. As I write this testimony, Public Counsel does not have that information. However,
7 Public Counsel currently has an outstanding a data request to the Company which seeks that
8 information. When the response to that data request is provided by the Company we will
9 update that Commission as necessary.

10
11 Q. WHY DOES THE PUBLIC COUNSEL BELIEVE THAT THE AAO UNAMORTIZED
12 DEFERRED BALANCES SHOULD NOT BE ALLOWED IN THE DETERMINATION
13 OF RATE BASE?

14 A. The Public Counsel's position on this issue is based on our belief that MPS is being given
15 what amounts to a guaranteed "return of" the deferrals associated with the SCLE/WC
16 projects and the ice storm damages; therefore, it should not be also provided with a "return
17 on" those same amounts.

18
19 Q. PLEASE EXPLAIN THE TERMS "RETURN OF" AND "RETURN ON."

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

7
8 Q. WHAT IS THE EFFECT OF THE COMPANY'S ACCOUNTING AUTHORITY
9 ORDERS?

10 A. The Commission's authorization of AAO treatment has the potential to insulate MPS
11 shareholders from the risks associated with regulatory lag that occurs when the SCLE/WC
12 construction projects are completed (also storm damage costs), and placed in service, before
13 the operation law date of a general rate increase case.

14
15 Q. PLEASE EXPLAIN THE CONCEPT OF REGULATORY LAG.

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

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

8
9 Q. HAS THIS COMMISSION RULED THAT IT IS NOT REASONABLE TO PROVIDE
10 SUCH PROTECTION TO SHAREHOLDERS?

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

13
14 Lessening the effect of regulatory lag by deferring costs is beneficial to a
15 company but not particularly beneficial to ratepayers. Companies do not
16 propose to defer profits to subsequent rate cases to lessen the effects of
17 regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part
18 of the regulatory process and can be a benefit as well as a detriment.
19 Lessening regulatory lag by deferring costs is not a reasonable goal unless
20 the costs are associated with an extraordinary event.

21
22 Maintaining the financial integrity of a utility is also a reasonable goal. The
23 deferral of costs to maintain current financial integrity, though, is of
24 questionable benefit. If a utility's financial integrity is threatened by high
25 costs so that its ability to provide service is threatened, then it should seek
26 interim rate relief. If maintaining financial integrity means sustaining a
27 specific return on equity, this is not the purpose of regulation. It is not

1 reasonable to defer costs to insulate shareholders from any risks. 1 Mo.
2 P.S.C. 3d 200, 207 (1991).
3
4

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

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

11
12 As both the OPC and the Staff point out, the Commission has to date,
13 granted AAO accounting treatment exclusively for one-time outlays or
14 capital caused by unpredictable events, acts of government, and other
15 matters outside the control of the utility or the Commission. It is also
16 pointed out that the terms "infrequent, unusual and extraordinary" connote
17 occurrences which are unpredictable in nature.
18

19 (Emphasis added by OPC)
20
21

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

25 A. Yes, it has. In Missouri Gas Energy, Case No. GR-98-140, the Commission ordered that
26 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
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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 accounting variance is to protect MPS from adverse financial impact,
3 caused by regulatory lag, by providing it with a vehicle that allows it the opportunity to
4 capture and recover costs it normally would not have had the opportunity to recover. The
5 accounting variance should not be used to place the Company in a better position than it
6 would have been in had plant investment and rate synchronization been achieved. Just as it
7 would be unfair to deny MPS recovery of its reasonable and prudent investment due to
8 regulatory delays which the Company could not control, it would be unfair if MPS were
9 allowed to reap a windfall, at ratepayer expense, due to a regulatory delay that ratepayers
10 could not control. Public Counsel's position is that issues caused by regulatory lag must be
11 treated in a fair manner for both ratepayers and MPS.

12
13 **C. ST. JOSEPH LIGHT & POWER MERGER COSTS**

14 Q. WHAT IS THE ISSUE?

15 A. Company indicated in its response to OPC Data Request No. 1023 that it has not included
16 merger costs in the calculations of the revenue requirement; however, Company's response
17 to OPC Data Request No. 1014 and MPSC Staff Data Request No. 1035 (supplement 2)
18 present conflicting information regarding the balances of the booked merger costs and their
19 amortization. Public Counsel has issued data requests (which are currently outstanding) to
20 the Company seeking to clarify the merger costs included in the MPS and L&P revenue

1 requirement calculations, if any. Once I receive the Company's responses to the data
2 requests, I will update the Commission as necessary.

3
4 Q. SHOULD RATEPAYERS BE RESPONSIBLE FOR REIMBURSING THE COMPANY
5 FOR ALL MERGER COSTS?

6 A. No. Public Counsel's position is that no portion of the SJLP purchase premium or the
7 purchase transaction costs associated with the merger should ever be recovered by the
8 Company from rates paid by MPS or L&P customers. Any premium and transactions costs
9 Company incurred should be treated below-the-line in the determination of rates for this and
10 all future MPS and L&P rate cases. Whereas costs associated with the actual transition
11 (sometimes called "costs to achieve") should only be allowed if they can be proven to truly
12 benefit ratepayers. Company's response to both OPC Data Request Nos. 1014 and 1023
13 stated that there were no transition costs included in the revenue requirements of the instant
14 cases.

15
16 Q. WHY HAS THE PUBLIC COUNSEL TAKEN THIS POSITION?

17 A. Public Counsel believes that the SJLP purchase premium, and purchase transaction costs,
18 were incurred with the sole intention of enhancing the financial interests of shareholders of
19 the two companies. From SJLP's perspective the sale was enacted to allow its shareholders
20 to acquire an increase in the shareholder value of their stock above that which existed if

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

10
11 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY ON THE APPROPRIATE
12 RATEMAKING TREATMENT OF THE SJLP PURCHASE PREMIUM AND
13 PURCHASE TRANSACTION COSTS?

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

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 purchase
6 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 of
24 utility properties are retained entirely by shareholders. Ratepayers
25 should not be required to fund the excess over book costs of utilities
26 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 far
2 exceeded its booked cost. Aquila knew this when it purchased SJLP.
3 Any sale of the generation assets could possibly yield Aquila with a
4 return that far exceeds the SJLP purchase premium and purchase
5 transaction costs.

6
7 7. UCU proposed to net merger savings with the merger costs but it has
8 no way to effectively identify and track merger savings.
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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
16 Counsel's recommendation that they be provided below-the-line treatment for ratemaking
17 purposes.

18
19 **D. INCREMENTAL SECURITY COSTS - MPS**

20 Q. WHAT IS THE ISSUE?

21 A. Company's response to MPSC Staff Data Request No. 277 indicates that capital
22 expenditures, and operating and maintenance expenses, associated with above normal or
23 incremental security costs (occasionally titled as "Homeland Security" costs) may have
24 been booked in the financial records of MPS during the updated test year. The response,
25 however, is incomplete regarding the actual level of costs included in the plant and

1 expense accounts of MPS. Thus, Public Counsel has not yet been able to ascertain the
2 exact nature or amount of the costs included at this time, if any. I have issued several
3 data requests (which are currently outstanding) to the Company seeking to clarify the
4 issue. Once Public Counsel receives the Company's response to the data requests, I will
5 update the Commission as necessary.
6

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

9 A. Public Counsel believes that there are many reasons that costs associated with the
10 incremental security costs should or should not be included in the revenue requirement of
11 MPS. For example, only an annualized level of reasonable costs should be included.
12 Until such time as we can ascertain that the costs for such activities have actually been
13 included in the MPS cost of service, and analyze their purpose and effect we will
14 postpone our arguments on this issue until rebuttal testimony.
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18
19
20

III. AQUILA NETWORKS - L&P

A. AUTOMATED MAPPING/FACILITY MANAGEMENT SYSTEM

Q. WHAT IS THE ISSUE?

A. On January 9, 1991, St. Joseph Light & Power Company filed an application (subsequently numbered as Case No. EO-91-247) with the Commission seeking an accounting order authorizing the deferral and amortization of labor costs associated with the implementation of an automated mapping/facilities management ("AM/FM") system. As a part of its process of considering implementation of the system, SJLP sought permission to defer and amortize labor costs over a period of six years and to include the unamortized balance of labor costs in rate base for purposes of calculating revenue requirements.

SJLP estimated the cost of the AM/FM system to be approximately \$1.4 million; consisting of, \$400,000 for hardware and software and \$1 million in labor expended over a five-year period. SJLP's application acknowledged that the type of labor costs involved have historically been expensed in the year incurred; however, it contends that those labor costs are a significant outlay for a system that will benefit customers for many years.

Q. WHAT WAS THE COMMISSION'S DECISION IN CASE NO. EO-91-247?

1 A. The Commission stated in its Order Granting Application For Accounting Order, Case
2 No. EO-91-247:

3
4 That the Application filed herein on January 9, 1991, by St. Joseph Light
5 & Power Company be granted and the Company is authorized to account
6 for the expenses associated with the proposed Automated
7 Mapping/Facilities Management System in Account 186. Pursuant thereto
8 St. Joseph Light & Power Company may defer and accumulate labor costs
9 including appropriate overheads and carrying costs associated with the
10 System, and to amortize the balance to the appropriate transmission and
11 distribution accounts over the same six-year period used to depreciate the
12 System's hardware and software costs. The Company is also authorized to
13 include the unamortized balance of Account 186 in rate base for purposes
14 of calculating revenue requirements.
15
16

17 Q. BY ISSUING THE AAO ORDER DID THE COMMISSION APPROVE THE
18 RATEMAKING TREATMENT FOR THE AM/FM SYSTEM COSTS?

19 A. No, the Commission's Order also states:

20
21 That nothing in this Order shall be considered as an acceptance by the
22 Commission of the estimates herein involved nor as an acquiescence in the
23 value of the property involved. The actual ratemaking treatment will be
24 considered in subsequent proceedings after verification of amount and
25 reasonableness.
26
27

28 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION ON THIS ISSUE?

1 A. Public Counsel recommends that all costs associated with this project be disallowed in
2 the determination of L&P's current case cost of service. For the twelve months ended
3 September 30, 2003, Company's response to OPC Data Request No. 1010 (Supplemental)
4 shows that L&P has expensed \$45,290.96 associated with the automated
5 mapping/facilities management project; thus, this is the annual level of expense Public
6 Counsel recommends be excluded from the cost of service. The response to the data
7 request also identifies that the remaining unamortized deferred balance is \$22,380.15.
8 Public Counsel further recommends that the remaining unamortized balance not be
9 included in the determination of L&P's rate base.

10
11 Q. WHY DOES PUBLIC COUNSEL OPPOSE THE RECOVERY OF THE AUTOMATED
12 MAPPING/FACILITIES MANAGEMENT COSTS?

13 A. The Public Counsel's position on this issue is essentially the same as that presented in
14 each L&P rate case since the Commission first approved the accounting authority order.
15 It is the Public Counsel's belief that the alleged costs were not appropriately accounted
16 for, that L&P's alleged cost structure deficit during the period the AAO was approved was
17 never adequately defined or substantiated, and lastly, that the six year timeframe over
18 which the Commission had authorized the amortization has long since past or will have
19 prior to the effective law date of the instant case.

20

1 **B. INCREMENTAL SECURITY COSTS - L&P**

2 Q. WHAT IS THE ISSUE?

3 A. This issue is the same as that presented for MPS. Company's response to MPSC Staff
4 Data Request No. 277 indicates that capital expenditures, and operating and maintenance
5 expenses, associated extra or incremental security costs may have been booked in the
6 financial records of L&P during the updated test year. The response, however, is
7 incomplete regarding the actual level of costs included in the plant and expense accounts
8 of L&P. Thus, Public Counsel has not yet been able to ascertain the exact nature or
9 amount of the costs included at this time. I have issued several data requests (which are
10 currently outstanding) to the Company seeking to clarify the issue. Once Public Counsel
11 receives the Company's response to the data requests, I will update the Commission as
12 necessary.

13
14 Q. SHOULD ANY COSTS ASSOCIATED WITH THE INCREMENTAL SECURITY
15 COSTS BE INCLUDED IN THE L&P ELECTRIC OR STEAM REVENUE
16 REQUIREMENTS?

17 A. Public Counsel believes that there are many reasons that costs associated with the
18 incremental security costs should or should not be included in the revenue requirements
19 of L&P. For example, only an annualized level of reasonable costs should be included.
20 Until such time as we can ascertain that the costs for such activities have actually been

Direct Testimony of Ted Robertson
Case Nos. ER-2004-0034 and HR-2004-0024

1 included in the L&P cost of service, and analyze their purpose and effect we will

2 postpone our arguments on this issue 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