

Exhibit No.:

Issues: OPEB

Witness: Richard J. Winterman

Sponsoring Party: Aquila Networks-MPS  
And L&P

Case No.: ER-2005-0436

FILED<sup>2</sup>

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Missouri Public  
Service Commission

Before the Public Service Commission  
of the State of Missouri

Surrebuttal Testimony

of

Richard J. Winterman

Exhibit No. 31  
Case No(s). ER-2005-0436  
Date 1-09-06 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF RICHARD J. WINTERMAN  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

1 Q. Please state your name and business address.

2 A. Richard J. Winterman, 20 West 9<sup>th</sup> Street, Kansas City, Missouri.

3 Q. Who is your employer and what is your title?

4 A. I am Senior Manager, Financial Analysis for Aquila, Inc. ("Aquila" or "Company").

5 Q. What is your educational and professional background?

6 A. I graduated from Kansas State University with a B.S. in Business Administration and

7 Accounting in 1984. I have worked as an auditor for the former Arthur Andersen &

8 Company, receiving my Certified Public Accountant license in Missouri in 1987.

9 Subsequently, I have worked in various accounting and financial positions with both

10 public and private companies. I have been employed by Aquila for the past eleven years

11 in various accounting and financial management positions.

12 Q. What is the purpose of this surrebuttal testimony?

13 A. I will respond to the suggestion by AARP witness David Effron in his rebuttal testimony

14 that Aquila should be penalized for its treatment of the VEBA trust.

15 **OPEB CARRYING COSTS**

16 Q. What is your general reaction to Mr. Effron's testimony?

17 A. First, Mr. Effron has failed to recognize or may be unaware that Staff and Aquila have

18 agreed to a correction to the OPEB expense adjustments proposed by Staff witness Steve

1 Traxler. Aquila and the Staff have agreed that the pro forma reduction of \$208,747 to the  
2 MPS test year OPEB expense and the pro forma reduction of \$282,480 to the L&P test year  
3 OPEB expense originally proposed by Mr. Traxler should be lowered to \$117,560 and  
4 \$163,565, respectively.

5 Q. Why is the correction being made?

6 A. This correction is based on the understanding that, in actuarial practice, the  
7 determination of annual FAS 106 expense does not include an expected return on current  
8 year contributions in the current year's expense.

9 Q. How do you respond to Mr. Effron's claim that an additional adjustment is necessary to  
10 reflect the time value of money related to the alleged OPEB funding deficiency?

11 A. Mr. Effron's claim is apparently based on his belief that Staff has not considered the time  
12 value of money in its case. This is not accurate. In fact, Staff did consider the time value of  
13 money and in its discussions with Aquila on this matter both parties determined that there  
14 was only an immaterial impact to the total funding deficiency.

15 Q. Please explain.

16 A. The time value of money is the earnings on the funding deficiency that would have been  
17 expected to accrue to the assets had the funding occurred in the year of the expense.

18 However, these expected earnings are also a component of Net Periodic Postretirement  
19 Benefit Cost and, as such, would have had the effect of decreasing the annual FAS 106  
20 ("OPEB") expense. Staff witness Traxler calculated a pro forma reduction to the test year  
21 OPEB expense to reflect this in his adjustments S-85.13 and S-84.12 for MPS and L&P,

1       respectively. (As noted above, Staff has since agreed to corrections to these pro forma  
2       adjustments.)

3   Q.    Can you give an example of this situation?

4   A.    Yes. Let's assume that in 2003 Aquila had a funding deficiency of \$100 and an expected  
5       return on assets of 7%. During 2004, this \$100 would be expected to return or earn \$7.  
6       From a funding perspective, one would assume that Aquila would need to contribute  
7       \$107, if this deficiency would be made up in the following year. However, the expected  
8       return would also reduce the 2004 FAS 106 expense by this same \$7, resulting in a lower  
9       contribution in 2004.

10   Q.   Has Aquila calculated the actual impact that you previously stated was agreed by Staff to  
11       be immaterial?

12   A.   Hewitt, Aquila's actuary, did calculate the impact of not funding the direct MPS and L&P  
13       VEBAs for 2003-2005. This direct portion accounts for 88% of the total alleged  
14       deficiency. Hewitt's results: the total deficiency without reflecting timing differences  
15       was \$6,166,724; the total reflecting timing differences is actually lower at \$6,160,259.  
16       The FAS 106 expense for these three years would have been lower by \$339,251, while  
17       the return on the additional contributions would have only been \$332,786.

18   Q.   Does this conclude your surrebuttal testimony?

19   A.   Yes.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

County of Jackson     )  
                                  )  
State of Missouri     )     ss

AFFIDAVIT OF RICHARD J. WINTERMAN

Richard J. Winterman, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Richard J. Winterman;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Richard J. Winterman  
Richard J. Winterman

Subscribed and sworn to before me this 13th day of December, 2005.

Terry D. Lutes  
Notary Public  
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES  
Jackson County  
My Commission Expires  
August 20, 2008