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Issues: Merger Savings; Aries Unit
Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2004-0034

Date Testimony Prepared: January 26, 2004 as modified February 27, 2004

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE Missouri Public
Service Commission

FILED

FEB 27 2004

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric)

CASE NO. ER-2004-0034

Jefferson City, Missouri
January 2004

****Denotes Highly Confidential Information****

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks)
L&P and Aquila Networks MPS to implement a) Case No. ER-2004-0034
general rate increase in electricity.)

AFFIDAVIT OF CARY G. FEATHERSTONE

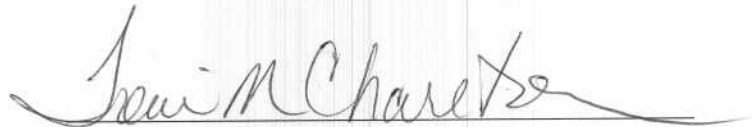
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the following rebuttal testimony as modified on February 27, 2004, in question and answer form, consisting of 57 pages to be presented in the above case; that the answers in the following rebuttal testimony as modified on February 27, 2004, were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 27th day of February 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

TABLE OF CONTENTS
REBUTTAL TESTIMONY OF
CARY G. FEATHERSTONE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

ARIES COMBINED CYCLE UNIT	52
BUILDING GENERATION CAPACITY FOR MISSOURI PUBLIC SERVICE.....	55

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **CARY G. FEATHERSTONE**

4 **AQUILA, INC., d/b/a AQUILA NETWORKS-MPS (Electric)**

5
6 **CASE NO. ER-2004-0034**

7
8 Q. Please state your name and business address.

9 A. Cary G. Featherstone, 3675 Noland Road, Independence, Missouri.

10 Q. By whom are you employed and in what capacity?

11 A. I am a Regulatory Auditor with the Missouri Public Service Commission
12 (Commission).

13 Q. Are you the same Cary G. Featherstone who has previously filed direct
14 testimony in this proceeding?

15 A. Yes, I am. I filed direct testimony in this case on December 9, 2003 on the
16 areas of cost of removal / salvage and the Aries Combined Cycle generating unit.

17 Q. What is the purpose of this rebuttal testimony?

18 A. The purpose of this rebuttal testimony is to address the direct testimony filed by
19 Aquila, Inc. (Aquila or Company; formerly known as UtiliCorp United, Inc.)

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I will address the direct testimony of Aquila witness Lisa A. Starkebaum on the issue of the Aries Purchased Power Agreement. Specifically, I will provide rebuttal testimony with regard to a cost overrun that occurred at the Aries Combined Cycle Unit (Aries) during construction. In addition, I will provide some rebuttal testimony relating to the decision to build the Aries project.

Q. Please describe how you are referring to Aquila, its divisions and affiliates in this rebuttal testimony?

A. When referring to the current Aquila corporate structure, I will be referring to Aquila Inc, the parent company of all of Aquila, Inc. including its operations regulated by this Commission: Aquila Networks-MPS. Aquila, Inc. was formerly named UtiliCorp United, Inc. I refer to the operating division Aquila Networks-MPS as MPS .

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Rebuttal Testimony of
Cary G. Featherstone

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Rebuttal Testimony of
Cary G. Featherstone

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Rebuttal Testimony of
Cary G. Featherstone

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Rebuttal Testimony of
Cary G. Featherstone

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Rebuttal Testimony of
Cary G. Featherstone

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Rebuttal Testimony of
Cary G. Featherstone

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Rebuttal Testimony of
Cary G. Featherstone

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ARIES COMBINED CYCLE UNIT

Q. Has the Company made an adjustment to annualize the capacity charges associated with MPS’ purchase of power from the Aries Generating Unit?

A. Yes, it has. Company witness Starkebaum sponsors Aquila’s adjustment to annualize capacity charges associated with MPS purchased power agreements (PPAs, purchased sales agreements or capacity agreement) at page 12 of her direct testimony. She states that the Company’s adjustment includes an annualization of Aries capacity charges.

Q. What level of capacity charges associated with the Aries unit has Aquila included in its case?

A. The Company has reflected an annualized level of \$27.66 million.

Q. Does the Staff agree that \$27.66 million is an appropriate level to include in rates for Aries capacity charges?

A. No. Because MPS is purchasing power from the Aries unit through an affiliated entity (Merchant Energy Partners – Pleasant Hill or MEPPH), Staff believes that the Company has overstated its capacity purchase relating to the Aries capacity agreement referred to as a “purchased power agreement” (PPA). Staff witness Mark L. Oligschlaeger will provide the rationale in his rebuttal testimony for Staff’s position that the Aries contract should be treated on lower of cost or market basis.

1 Q. Did the PPA between MPS and the partners of the Aries Combined Cycle
2 Unit allow the pass-through of construction cost amounts in excess over the original
3 estimate?

4 A. Yes. The agreement MPS reached allowed for certain costs to be absorbed
5 through the PPA. Some construction problems resulted in costs over the original
6 construction estimate. Installation of the two heat recovery steam generators (HRSGs)
7 caused some of the cost overruns. Also, the purchase and installation of the two combustion
8 turbines caused cost overruns.

9 The combustion turbine cost overruns have been charged back to MPS through terms
10 of the PPA.

11 Q. What amount has been charged to MPS relating to the increase in cost for the
12 combustion turbines at Aries?

13 A. In a March 19, 2001 letter from Aquila Energy, MPS was notified of a cost
14 increase for power purchased through the PPA. The letter from Aquila Energy stated that the
15 combustion turbines cost \$2.4 million more than expected and, in accordance with
16 Section 5.1(a) of the agreement, “an increase of the capacity charge to [MPS] by \$0.055 per
17 kW-month for the first \$1,000,000 of cost increase above the original estimate” would be
18 charged to MPS.

19 In addition, the March 19, 2001, letter indicated that there was a \$0.0297
20 per kW-month credit in the capacity charge. The credit offset to the increase results in an
21 overall increase in the capacity charge of \$0.0253 per kW-month.

22 Q. Should this increase be charged to MPS customers?

1 A. No. One of the purposes of purchasing capacity through a PPA is not having
2 to absorb the “risk” of ownership, in particular, the risks associated with the construction of
3 the generating facility. These cost overruns are clearly the responsibility of the owners,
4 Aquila and Calpine, and not the entities acquiring short-term power or capacity. Therefore,
5 if the Commission allows the capacity charge costs in rates as proposed by the Company, the
6 amount of the increase of \$0.0253 per kW-month for these associated overruns and
7 underruns should not be included in rates.

8 Q. What is the total amount of the increase relating to these overruns and
9 underruns?

10 A. The PPA provides MPS 200 megawatts for the 12 months of the year
11 (January 1 through December 31). The PPA also provides an additional 300 megawatts of
12 capacity for six months (April through September) of each year of the PPA starting
13 April 1, 2002 through May 31, 2005, the date the PPA terminates. Based upon this
14 information, the \$0.0253 per kW-month cost overrun pass through amounts to \$106,260 on
15 an annual basis:

16	200 megawatts for 12 months (200,000 kW-s)	\$ 60,720
17	[200,000 kW-s times \$0.0253 per month times 12]	
18	300 megawatts for six months (300,000 kW-s)	<u>45,540</u>
19	[300,000 kW-s times \$0.0253 per month times 6]	
20	TOTAL MPS - electric	\$106,260

21 Q. Is Aquila being charged the \$0.0253 per kW-month for the cost overruns?

22 A. Yes. A review of the Aries invoices charged MPS for capacity and energy
23 costs shows that the Aries partners are billing the overrun amount to MPS and MPS is paying
24 the \$0.0253 per kW-month above the agreed upon contract amount shown in the PPA signed
25 on February 22, 1999.

1 Q. How should the amounts identified above be considered by the Commission?

2 A. If the Commission adopts the Aries capacity agreement amounts identified in
3 the direct testimony (page 12) of Company witness Lisa A. Starkebaum, the overrun
4 adjustment determined above should reduce the amount of the costs for this capacity charge.
5 If the Commission values the Aries capacity agreement according to the Company's position,
6 then the contract demand charges should be used and not the inflated amount resulting from
7 the costs overruns.

8 **BUILDING GENERATION CAPACITY FOR MISSOURI PUBLIC SERVICE**

9 Q. Did Aquila examine the building of generating capacity as part of its regulated
10 operations?

11 A. Yes. In 1998, prior to the decision to build Aries by the non-regulated side of
12 Aquila, the Company considered building a 500-megawatt combined cycle unit on the same
13 land that Aries was built on by its non-regulated operations (MPS). This unit was intended to
14 be an Exempt Wholesale Generator (EWG) with Aquila's regulated operations bidding on
15 providing capacity to MPS.

16 In the summer of 1998 at the time of the initial evaluations of the request for
17 proposals (RFP) for capacity for MPS, which were issued on May 22, 1998, the regulated
18 operations of Aquila responded to its own RFP with a "build" proposal. This build option to
19 supply capacity and energy to MPS from a combined cycle unit operated by the EWG was
20 the low cost option at the time of the initial review phase of the RFP.

21 Q. Why didn't the regulated side of Aquila (MPS) build the combined cycle unit
22 as a EWG?

1 A. The regulated operations of the UtiliCorp presented its proposal to
2 Robert Green, then UtiliCorp President, who made the decision that the regulated side
3 of UtiliCorp's operations would not build the Aries project. The material covered
4 two different dates: 1) October 8, 1998-Financial Analysis of Supply Options, and 2)
5 October 28, 1998-Updated Analysis of Supply Options. The presentation material was
6 provided to Staff in response to Staff Data Request No. 301 and is attached to this testimony
7 as Highly Confidential Schedules 3 and 4.

8 Q. How did Staff find out about the process that was used to determine who
9 would build the Aries project?

10 A. This was discussed with former Aquila personnel who were involved in not
11 only the issuance and review of the RFP, but also as one of the bidders to the RFP to supply
12 capacity to MPS through the EWG. Staff conducted an interview with the individuals who
13 were directly involved in the issuance and review of the RFP and also in making the decision
14 to submit a bid to build a combined cycle unit to supply power to MPS as an EWG.

15 Q. How did the interview with the former Aquila personnel come about?

16 A. Staff indicated to Aquila that it wanted to discuss the RFP process and aspects
17 of how MPS came to agree to purchase power from the Aries partners. Aquila contacted two
18 individuals who were directly involved in these decisions and provided them for an interview
19 with Staff.

20 Q. Is it Staff's view that UtiliCorp should have given more consideration to the
21 building of the Aries project as a regulated unit?

Rebuttal Testimony of
Cary G. Featherstone

2 A. Yes. Staff believes that the option to build the Aries project by the regulated
3 operations of UtiliCorp and rate base the generating station in the traditional manner should
4 have been chosen.

5 Q. Is there another Staff witness who is providing rebuttal testimony on the Aries
6 issue concerning the build options?

7 A. Yes. Staff witness Mark L. Oligschlaeger also addresses the Aries build option
8 in his rebuttal testimony.

9 Q. Does this conclude your rebuttal testimony?

 A. Yes, it does.

SCHEDULES 1-1 THROUGH 1-4

SCHEDULES 2-1 THROUGH 2-8

ORIGINALLY FILED JANUARY 26, 2004

HAVE BEEN INTENTIONALLY

REMOVED

Featherstone

Schedules 3 and 4

Are Highly Confidential

In Their Entirety