

*Exhibit No.:*

*Issues: Test Year; Accounting Schedules; Jurisdictional Allocation Factors; Asset Impairment/Write-down of the Eastern System*

*Witness: Phillip K. Williams, CPA, CIA*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Direct Testimony*

*Case No.: GR-2004-0072*

*Date Testimony Prepared: January 6, 2004*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**FILED<sup>3</sup>**

**DIRECT TESTIMONY**

**JUN 21 2004**

**OF**

**Missouri Public  
Service Commission**

**PHILLIP K. WILLIAMS, CPA, CIA**

**AQUILA, INC.**

**D/B/A AQUILA NETWORKS - MPS GAS**

**AND AQUILA NETWORKS - L&P GAS**

**CASE NO. GR-2004-0072**

*Jefferson City, Missouri  
January 2004*

**EXHIBIT NO. 58**  
**Date 3-30-04 Case No. GR-2004-0072**  
**Reporter KF**

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


In the Matter of Aquila, Inc. d/b/a Aquila     )  
Networks-MPS and Aquila Networks-L&P,     )  
Natural Gas General Rate Increase             )

Case No. GR-2004-0072

AFFIDAVIT OF PHILLIP K. WILLIAMS

STATE OF MISSOURI     )  
   )  
COUNTY OF COLE       )     ss.

Phillip K. Williams, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 16 pages to be presented in the above case; that the answers in the following Direct Testimony 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.

  
Phillip K. Williams

Subscribed and sworn to before me this 5<sup>th</sup> day of January 2004.



  
Notary

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

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**DIRECT TESTIMONY**

**OF**

**PHILLIP K. WILLIAMS, CPA, CIA**

**AQUILA, INC.**

**D/B/A AQUILA NETWORKS - MPS GAS**

**AND AQUILA NETWORKS - L&P GAS**

**CASE NO. GR-2004-0072**

Q. Please state your name and business address

A. My name is Phillip K. Williams, and my business address is Noland Office Plaza Office Building, Suite 110, 3675 Noland Road, Independence, MO 64055.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission or MoPSC).

**BACKGROUND OF WITNESS**

Q. Please describe your education and other qualifications.

A. I graduated from Central Missouri State University (CMSU) at Warrensburg, Missouri, in August of 1976, with a Bachelor of Science degree in Business Administration. My functional major was Accounting. Upon completion of my undergraduate degree, I entered the masters program at CMSU. I received a Masters of Business Administration degree from CMSU in February 1978, with an emphasis in Accounting. In May 1989, I passed the Uniform Certified Public Accountant (CPA) examination. I am currently licensed as a Certified Public Accountant in the state of Missouri. In May 1994, I passed the Certified Internal Auditors (CIA) examination, and received my CIA designation.

Direct Testimony of  
Phillip K. Williams

1 Q Have you previously filed testimony before this Commission?

2 A Yes. Please refer to Schedule 1, attached to this direct testimony, for a list of  
3 cases in which I have filed testimony before this Commission.

4 Q What knowledge, skill, experience, training or education do you have in  
5 regulatory matters?

6 A I have acquired general knowledge of these topics through my experience and  
7 analyses in prior rate cases and merger cases before this Commission. I have also acquired  
8 knowledge of these topics through review of Staff workpapers for prior rate cases brought  
9 before this Commission. I have reviewed prior Commission decisions with regard to these  
10 areas. I have reviewed the Company's testimony, workpapers and responses to Staff's data  
11 requests addressing these topics. In addition, my college coursework included accounting  
12 and auditing classes. Additionally, I received a Masters in Business Administration degree.  
13 I have also successfully passed the Certified Public Accountants Exam, which included  
14 sections on accounting practice and theory, as well as auditing. I currently hold a license to  
15 practice in Missouri. I also successfully passed the Certified Internal Auditors Exam. Since  
16 commencing employment with the Commission in September, 1980, I have attended various  
17 in-house training seminars and NARUC conferences. I have participated in approximately  
18 40 formal rate case proceedings. I have also participated in and supervised the work on a  
19 number of informal rate proceedings. As a senior auditor and the Lead Auditor on a number  
20 of cases I have participated in the supervision and instruction of new accountants and  
21 auditors within the Utility Services Division.

1 **PURPOSE OF TESTIMONY**

2 Q. With reference to Case No. GR-2004-0072, have you made an examination of  
3 the books and records of Aquila Networks – MPS (MPS) Gas and Aquila Networks - L&P  
4 (L&P) Gas divisions of Aquila, Inc?

5 A. Yes, I have, with the assistance of other members of the Commission Staff  
6 (Staff).

7 Q. What are your areas of responsibility in regard to Case No. GR-2004-0072?

8 A. I was assigned the area of allocations and to support other Auditing Staff as  
9 needed. I will be sponsoring jurisdictional allocations of administrative and general expense  
10 (A&G Expense). I will address the test year and the update period for known and  
11 measurable changes the Staff plans to use in this case. Additionally, I will provide testimony  
12 concerning the asset impairment and subsequent write-down of the assets of the Aquila  
13 Networks – MPS Gas Division’s Eastern System in accordance with Statements of Financial  
14 Accounting Standards (SFAS) 144.

15 Q. Does Aquila have separate natural gas operations in the state of Missouri?

16 A. Yes. Aquila Networks – MPS has three separate natural gas operations in this  
17 state—the North and South Systems and the Eastern System. The Company also provides  
18 natural gas to customers of the former St. Joseph Light & Power operations as the Aquila  
19 Network L&P (Light & Power) System.

20 Q. Has Staff calculated separate revenue requirements for each of Aquila’s  
21 natural gas systems?

22 A. Yes. Staff calculated revenue requirements for each of MPS’ natural gas  
23 operations—the North and South Systems combined, the Eastern System and Light &  
24 Power’s Natural Gas System.

Direct Testimony of  
Phillip K. Williams

1 Q. What Accounting Adjustments will you be sponsoring?

2 A. I will be sponsoring adjustments to plant-in-service associated with the  
3 impairment of the assets of the Company's Eastern Gas System. I will list and explain those  
4 adjustments in the Asset Impairment/Write-Down section to this testimony relating to the  
5 Eastern System's assets.

6 Q. What Accounting Schedules are you sponsoring in Case No. GR-2004-0072?

7 A. I am sponsoring the following Accounting Schedules:

8 Accounting Schedule 1 Revenue Requirement

9 Accounting Schedule 9 Income Statement

10 Accounting Schedule 10 Adjustments to Income Statement

11 These schedules will apply to the Aquila Networks - MPS and Aquila Networks L&P  
12 natural gas operations, which will each have a separate Revenue Requirement run filed. In  
13 addition, the Aquila Networks - MPS Gas Division will be separated between the Northern  
14 and Southern Systems combined, and the Company's Eastern System. The Northern and  
15 Southern Systems will be filed as a separate revenue requirement and the Eastern System will  
16 be filed as a separate and distinct revenue requirement.

17 Q. Why will the Aquila Networks - MPS Gas Division be split out between the  
18 Northern and Southern System, and an Eastern Gas System?

19 A. In 1994, 1995 and 1997, the Company filed three separate certification  
20 applications with the Commission seeking permission to provide natural gas service to the  
21 towns of Rolla, Salem and Owensville and the surrounding areas. The certification cases for  
22 each of these communities were Case No. GA-94-325 for the City of Rolla, Missouri; Case  
23 No. GA-95-216 for the City of Salem, Missouri; and Case Nos. GA-97-132 and GA-97-133

1 which were combined for the City of Owensville, Missouri. The operation in these three  
2 communities and the surrounding areas comprise Aquila's Eastern System.

3 The Commission indicated in those orders that the Company would construct these  
4 natural gas systems at the shareholder's risk. It was the Company's intention to keep these  
5 systems separate from the other natural gas operations of Aquila. The Eastern System is not  
6 integrated with Aquila's other natural gas operations. It has separate tariffs and separate gas  
7 supply. It has a separate cost structure and its operations are isolated from the other natural  
8 gas systems. A separate revenue requirement was necessary to ensure that the eastern  
9 systems costs did not get integrated with those of the other natural gas operations.

10 In addition, on December 3, 2003, Aquila and Union Electric Company d/b/a  
11 AmerenUE filed a joint application with the Commission for AmerenUE to acquire the  
12 Eastern System from the Company. This application is presently pending as Case  
13 No. GM-2004-0244. In the event that the Eastern System is sold, a separate revenue  
14 requirement calculation was also necessary.

15 I will address the allocation of costs to the Eastern System and the impairment of the  
16 assets and the subsequent write-down of the investment later in this testimony.

17 **TEST YEAR**

18 Q. What test year is the Staff using in this case?

19 A. The test year authorized by the Commission in its October 9, 2003 Order was  
20 the 12-month period ending December 31, 2002, with an update for known and measurable  
21 period through September 30, 2003. Staff used this test year in the determination of the  
22 revenue requirement calculations that are being presented for both MPS and L&P gas  
23 operations. Revenue Requirement components that typically change from test year levels are



1 utility plant-in-service, accumulated depreciation, deferred taxes, gas prices, cash working  
2 capital, capital structure and cost of capital, customer growth revenues, payroll, depreciation  
3 expense, rate case expense, property insurance, income and property taxes, and allocation  
4 factors. Updates are known and measurable changes, which occur within a reasonable time  
5 after the close of the test year. The same test year and update period has been used for the  
6 gas case as was used in the electric and steam cases currently pending before this  
7 Commission. Those cases are designated as Case Nos. ER-2004-0034 and HR-2004-0024  
8 (consolidated). Staff filed its direct filing in these cases on December 9, 2003.

9 Q. Would you please describe the test year and how it is used?

10 A. The test year is a 12-month period, which is used as the basis for the audit of  
11 any rate filing or complaint case. This period serves as the starting point for review and  
12 analysis of the utility's operations to determine the reasonableness and appropriateness of the  
13 rate filing. The test year forms the basis from which any adjustments necessary to remove  
14 abnormalities that have occurred during the period and to reflect any increase or decrease to  
15 the accounts of the utility. Adjustments are made to the test year level of revenues, expenses  
16 and rate base to determine the proper level of investment on which the utility is allowed to  
17 earn a return. After the recommended rate of return is determined for the utility, a review of  
18 existing rates is made to determine if any additional revenues are necessary. If the utility's  
19 earnings are deficient, rates need to be increased. In some cases, existing rates generate  
20 earnings in excess of authorized levels, which may indicate the need for rate reductions. The  
21 test year is the time period that is used to evaluate and determine the proper relationship  
22 between revenue, expense and investment. This relationship is essential to determine the

1 appropriate level of earnings for the utility. In this case, the Staff recommended a test year of  
2 the 12-months ended December 31, 2002, updated through September 30, 2003.

3 The Commission described the importance of the test year in its October 9, 2003  
4 Order Concerning Test Year and True-up:

5 The test year is a central component in the ratemaking process. Rates  
6 are usually established based upon a historical test year which focuses  
7 on four factors: (1) the rate of return the utility has an opportunity to  
8 earn; (2) the rate base upon which a return may be earned; (3) the  
9 depreciation costs of plant and equipment; and (4) allowable operating  
10 expenses. From these four factors is calculated the 'revenue  
11 requirement,' which, in context of ratemaking, is the amount of  
12 revenue ratepayers must generate to pay the costs of producing the  
13 utility service they receive while yielding a reasonable rate of return to  
14 the utility's investors. A historical test year is used because the past  
15 expenses of a utility provide a basis for determining what rate is  
16 reasonable to be charged in the future.

17 Q. Why did the Staff recommend a test year of the 12 months ended  
18 December 31, 2002, updated through September 30, 2003?

19 A. Shortly after the Company filed its case on August 1, 2003, it approached  
20 Staff to discuss the test year Staff planned to recommend. Staff, Public Counsel, the other  
21 parties and the Company met to discuss the test year and the need for an update for known  
22 and measurable changes. The Company believed there were a number of major changes that  
23 would occur between the end of the Test Year and September 30, 2003, that should be taken  
24 into account in determining the revenue requirement in this case.

25 Staff believed the 2002 test year would allow the Company to supply data on a more  
26 timely basis and any material changes that occurred between the end of the test year and the  
27 update period could be alleviated by the taking the case out through the September 30, 2003,  
28 known and measurable period.

29 Q. Why is a test year update being utilized in this case?

1           A.     The use of a test year update allows test year data to remain current through  
2 the update period for changes in material items that are known and measurable. Such items  
3 could include plant additions and retirements, payroll increases and changes in employee  
4 levels, customer growth, changes in natural gas prices, etc. Test year amounts are adjusted to  
5 enable the parties to make rate recommendations on the basis of the most recent auditable  
6 information available.

7           Q.     Is a true-up proposed for this case?

8           A.     No. Aquila, did not request a true-up be used in this case. Staff did not  
9 believe that a true-up was necessary since the material changes that it was aware of would be  
10 considered through September 30, 2003. Therefore, Staff is not recommending a true-up in  
11 this case.

12           **ACCOUNTING SCHEDULES**

13           Q.     Are there separate Accounting Schedules for both the MPS and L&P divisions  
14 of Aquila?

15           A.     Yes. There are separate Revenue Requirement runs for the MPS (Northern  
16 and Southern System) and the L&P divisions. There is also a separate Revenue Requirement  
17 run for the MPS Gas Division's Eastern System. The Accounting Schedule numbers and  
18 formats will be the same for each revenue requirement run.

19           Q.     Please describe Accounting Schedule 1, Revenue Requirement.

20           A.     Accounting Schedule 1 is the Revenue Requirement Schedule, which contains  
21 the calculations of the Staff's gross revenue requirement. This Accounting Schedule  
22 contains information from the Rate Base, Income Statement and Income Tax Accounting  
23 Schedules to determine the actual revenue requirements that the Staff recommends. This

1 Accounting Schedule details the net original cost rate base to which the rate of return,  
2 supplied by Staff witness David Murray of the Commission's Financial Analysis  
3 Department, is applied to determine the required net operating income requirement before  
4 income taxes. This schedule compares the net operating income requirement with the net  
5 income available determined from Accounting Schedule 9, Income Statement, to determine  
6 the overall net revenue deficiency.

7 Q. Please describe Accounting Schedule 9, Income Statement.

8 A. Accounting Schedule 9, Income Statement, contains the Staff's adjusted  
9 Missouri jurisdictional revenues and expenses for the test year ended December 31, 2002,  
10 and updated through September 30, 2003.

11 Q. Please explain Accounting Schedule 10, Adjustments to Income Statement.

12 A. Accounting Schedule 10, Adjustments to Income Statement, contains a listing  
13 of the specific adjustments Staff has made to the unadjusted test year income statement to  
14 derive the Staff's adjusted net income. A brief explanation for each adjustment and the name  
15 of the Staff witness sponsoring the adjustment are listed on Accounting Schedule 10.

16 **JURISDICTIONAL ALLOCATION FACTORS**

17 Q. What jurisdictional allocation factors did the Staff use in this case?

18 A. The allocation factors are broken out between the following: 1) Aquila  
19 corporate administrative and general allocators developed by Staff Auditing witness  
20 Charles R. Hyneman; 2) the allocation between Aquila Networks - MPS electric and gas and  
21 Aquila Networks - L&P electric, gas and steam operations; and 3) the administrative and  
22 general expense allocations, which are separated into directly assignable costs and costs  
23 which should be allocated based upon a factor derived from a composite of all other

1 operating and maintenance expenses. Staff is in agreement with the Company in the  
2 allocation of common costs of the administrative and general expenses.

3 Staff calculated allocation factors utilizing the factors described above which are  
4 appropriate for each individual Federal Energy Regulatory Commission (FERC) account.  
5 The MPS gas expense accounts were then allocated between the North and South System and  
6 the Eastern System by Staff to arrive at a distribution of expenses between the Northern and  
7 Southern System customers and the Eastern System customers.

8 Q. Why is it necessary to allocate costs in this case?

9 A. Since Aquila has both Aquila Networks - MPS and Aquila Networks - L&P  
10 Divisions within the state of Missouri which provide natural gas, electric and steam service  
11 to the Missouri customers, an allocation process is needed to identify costs specific to the  
12 various Aquila utilities operating within Missouri, i.e. natural gas, electric and steam and to  
13 specific jurisdictional operations that are under the authority of either the Commission or  
14 FERC.

15 **ASSET IMPAIRMENT/WRITE-DOWN OF THE EASTERN SYSTEM**

16 Q. What is the Eastern System?

17 A. The Eastern System is the natural gas operations of Aquila serving the  
18 communities of Rolla, Salem and Owensville, Missouri. In 1994, 1995 and 1997 the  
19 Commission granted the authority to construct and operate natural gas service to these towns  
20 in Case Nos. GA-94-325, GA-95-216, GA-97-132 and GA-97-133. It is a separately  
21 maintained and operated system from the other natural gas operations of Aquila. Having a  
22 separate gas supply, the Eastern System has separate tariffs from the other natural gas  
23 operations of the Company.

1 Q. Did Staff have concerns about the economic feasibility of operating a natural  
2 gas system in each of these communities?

3 A Yes. In each of these cases, Staff filed testimony that the Company's  
4 projections and estimates of customer conversions to natural gas growth and usage were too  
5 optimistic, the costs estimates to build the system were too low and the expansion into these  
6 areas would not be economically justified. The Commission, in its Report And Orders in  
7 each case, granted the Company permission to provide service to these areas but stated that  
8 the Company must keep separate books and records concerning the costs associated with the  
9 building and operation of these systems. The Commission also indicated the construction of  
10 these natural gas systems would be at the shareholder's risk.

11 In the Commission's Report And Order in Case No. GA-94-325, item six of the Order  
12 it was stated:

13 That UtiliCorp Inc., d/b/a Missouri Public Service, will keep a separate  
14 and complete accounting of the Rolla service area and will provide  
15 that separate accounting to the Staff upon proper request in any future  
16 rate or complaint proceeding.

17 In the Report And Order in Case No. GA-95-216 the Commission ordered in item six:

18 That UtiliCorp United, Inc., by its operating division, Missouri Public  
19 Service, will keep a separate and complete accounting of the Salem  
20 service area and will provide that separate accounting to the Staff upon  
21 proper request in any future rate or complaint proceeding.

22 The Commission also stated in item five of the Report And Order:

23 That the Commission makes no finding as to the prudence or  
24 ratemaking treatment to be given any costs or expenses incurred as the  
25 result of the granting of this certificate, except those costs and  
26 expenses dealt with specifically in this Report and Order, and reserves  
27 the right to make any disposition of the remainder of those costs and  
28 expenses it deems reasonable, including charging those costs and  
29 expenses to the stockholders of UtiliCorp United, Inc., in any future  
30 ratemaking proceeding.

1 In the Report And Order in Case Nos. GA-97-132 and GA-97-133, the Commission  
2 ordered in item number 6:

3 That the Commission makes no finding as to the prudence or  
4 ratemaking treatment to be given any costs or expenses incurred as the  
5 result of the granting of this certificate, and reserves the right to make  
6 any disposition of the remainder of those costs and expenses it deems  
7 reasonable, including charging those costs and expenses to the  
8 stockholders of UtiliCorp United, Inc., d/b/a Missouri Public Service,  
9 in any future ratemaking proceeding.

10 [Note: UtiliCorp United, Inc. is the predecessor company to Aquila, Inc.]

11 Q. Has Staff computed separate revenue requirements in this case for the Eastern  
12 System?

13 A. Yes, as indicated earlier in this testimony. Because of the above Commission  
14 orders and the finding of facts in those orders, as well as the Company's write-down of the  
15 value of the Eastern System assets along with the requested sale of those assets, Staff has  
16 attempted to isolate the investment and costs associated with the eastern system. I will  
17 address the allocations of costs to the Eastern System and the impairment of the assets and  
18 the subsequent write-down of the investment later in this testimony.

19 Q. Why is Staff proposing adjustments to this case to write-down the value of the  
20 Company's Eastern System assets?

21 A. The Company, in its direct filing, proposed adjustments to write-down the  
22 value of the assets of the Eastern System in accordance with SFAS 144.

23 Q. What are the requirements of SFAS 144?

24 A. According to SFAS 144, which discusses the Accounting for the Impairment  
25 or Disposal of Long-Lived Assets, the requirements that apply regarding the methodology for  
26 determining if an asset is impaired are as follows:

1                   1)     Impairment, paragraph 7.

2                   For purposes of this Statement, impairment is the condition that exists  
3                   when the carrying amount of a long-lived asset (asset group) exceed its  
4                   fair value. An Impairment loss shall be recognized only if the carrying  
5                   amount of a long-lived asset (asset group) is not recoverable and  
6                   exceeds fair value. The Carrying amount of a long-lived asset (asset  
7                   group) is not recoverable if it exceeds the sum of the undiscounted  
8                   cash flows expected to result from the use and eventual disposition of  
9                   the asset (asset group). That assessment shall be based on the carrying  
10                  amount of the asset (asset group) at the date it is tested for  
11                  recoverability, whether in use (paragraph 19) or under development  
12                  (paragraph 20. An impairment loss shall be measured as the amount  
13                  by which the carrying amount of a long lived asset (asset group)  
14                  exceeds its fair value.

15                  2)     Test value, paragraph 16.

16                  Estimates of future cash flows used to test the recoverability of a long-  
17                  lived asset (asset group) shall include only the future cash flows (cash  
18                  inflows less associated cash outflows) that are directly associated with  
19                  and that are expected to arise as a direct result of the use and eventual  
20                  disposition of the asset (asset group). Those estimates shall exclude  
21                  interest charges that will be recognized as an expense when incurred.

22                  3)     Assumptions, paragraph 17.

23                  “Estimates of future cash flows used to test the recoverability of a  
24                  long-lived asset (asset group) shall incorporate the entity’s own  
25                  assumptions about it use of the asset (asset group) and shall consider  
26                  all available evidence. The assumptions used in developing those  
27                  estimates shall be reasonable in relation to the assumptions used in  
28                  developing other information used by the entity for comparable  
29                  periods, such as internal budgets and projections, accruals related to  
30                  incentive compensation plans, or information communicated to others.  
31                  However, if alternative courses of action to recover the carrying  
32                  amount of a long-lived asset (asset group) are under consideration or if  
33                  a range is estimated for the amount of possible outcomes shall be  
34                  considered. A probability-weighted approach may be useful in  
35                  considering the likelihood of those possible outcomes.”

36                  4)     Fair Value, paragraph 22.

37                  The fair value of an asset (liability) is the amount at which that asset  
38                  (liability) could be bought (incurred) or sold (settled) in a current  
39                  transaction between willing parties, that is, other than in a forced or  
40                  liquidation sale. Quoted market prices in active markets are the best



1 evidence of fair value and shall be used as the basis for the  
2 measurement, if available. However, in many instances, quoted  
3 market prices in active markets will not be available for the long-lived  
4 assets (asset groups) covered by this Statement. In those instances, the  
5 estimate of fair value shall be based on the best information available,  
6 including prices for similar assets (groups) and the results of using  
7 other valuation techniques.

8 Q. Did Staff review the data and analysis used by the Company in determining  
9 that impairment existed to the Eastern System assets?

10 A. Yes. Staff reviewed the journal entries made by the Company to the corporate  
11 books and records and the subsequent reversal of those journal entries and the Company's  
12 adjustments to the divisional books and records made in this rate proceeding. Staff further  
13 reviewed the calculations used by the Company to determine the amount of the asset  
14 impairment and found no discrepancies in the calculations or in the assumptions used in  
15 calculating the amount of the impairment.

16 The Company's plant-in-service and accumulated depreciation reserve balances at  
17 September 30, 2003, used by Staff have already taken into account the Company's write-  
18 down of the Eastern System assets. This was accomplished by increasing the accumulated  
19 depreciation reserve by approximately \$8,980,000. This treatment allows the Company to  
20 write-down the asset to its estimated fair value without increasing the revenue requirement.  
21 Should the Company have chosen to write-down the value of the asset in the same manner as  
22 the retirement of plant, it would have increased the net rate base and subsequently the  
23 revenue requirement. The plant-in-service and the accumulated depreciation reserve both  
24 would have been adjusted for the full amount of the write-down and the subsequent effect  
25 would have been a net increase to the rate base of the amount of difference between the  
26 write-down and the actual accumulated depreciation reserve balance at the date of the write-  
27 down.

1 Q. How did Staff attempt to isolate and portray the effects of the Eastern  
2 System's revenue requirement and the subsequent impairment of the Eastern System's  
3 assets?

4 A. As stated previously in this testimony, Staff has separated the Eastern System  
5 revenue requirement from the rest of the Aquila Networks – MPS Gas Division revenue  
6 requirement. Through a series of data requests, Staff requested that the Company isolate the  
7 costs associated with the eastern system in accordance with the Commission Orders that  
8 authorized the Company to provide natural gas service to the eastern system communities.

9 Staff made the following adjustments to the plant-in-service and accumulated  
10 depreciation reserve for the Northern and Southern System revenue requirement run to  
11 remove the plant-in-service and accumulated depreciation reserve associated with the eastern  
12 system assets.

13 The following plant adjustments, P-9.1, P-10.1, P-11.1, P-13.1, P-14.1, P-15.1,  
14 P-16.1, P-17.1, P-18.1, P-19.1, P-22.1, P-23.1, P-24.1, P-29.1, P-30.1, P-32.1, P-33.1, P-34.1,  
15 P-35.1, P-36.1, P-37.1, P-38.1, P-39.1, P-40.1, P-41.1, P-42.1, P-43.1, P-44.1, P-45.1, P-46.1,  
16 P-47.1, P-48.1, P-49.1, P-50.1, P-51.1, P-52.1, P-53.1, P-54.1, P-55.1, P-56.1, P-57.1, P-58.1,  
17 P-59.1, P-60.1, P-61.1, P-62.1 and P-63.1 were made to eliminate the Eastern System assets  
18 from the rest of the Aquila Networks-MPS divisional natural gas plant-in-service as of  
19 September 30, 2003.

20 The following reserve adjustments, R-6.1, R-7.1, R-8.1, R-9.1, R-10.1, R-11.1,  
21 R-12.1, R-13.1, R-14.1, R-15.1, R-16.1, R-17.1, R-19.1, R-20.1, R-21.1, R-27.1, R-28.1,  
22 R-30.1, R-31.1, R-32.1, R-33.1, R-34.1, R-35.1, R-36.1, R-38.1, R-39.1, R-40.1, R-41.1,  
23 R-42.1, R-43.1, R-44.1, R-45.1, R-46.1, R-47.1, R-48.1, R-49.1, R-50.1, R-51.1, R-52.1,

Direct Testimony of  
Phillip K. Williams

1 R-53.1, R-56.1, R-57.1, R-58.1, R-59.1 and R-60.1 were made to eliminate the Eastern  
2 System assets from the rest of the Aquila Networks-MPS divisional natural gas accumulated  
3 depreciation reserve as of September 30, 2003.

4 The revenues from the eastern system were removed making income statement  
5 adjustments S-1.1, S-6.1 and S-82.1. The expenses were allocated between the Northern and  
6 Southern Gas System and the Eastern Gas System on the income statement.

7 Q. Did Staff make corresponding adjustments for the Eastern Gas System?

8 A. Yes. The amounts of plant in service and reserve removed from the Northern  
9 and Southern systems were included in the Eastern System's revenue requirement  
10 calculation. Revenues and allocated share of expenses were also included in the revenue  
11 requirement calculation. This separate revenue requirement calculation was necessary  
12 because the Eastern System of the Company is geographically isolated from the rest of the  
13 Company's natural gas systems and is not connected in any way to the rest of the system  
14 except through management functions.

15 Q. Has the Staff made an analysis to determine the effects of the proposed sale of  
16 the Eastern System to AmerenUE?

17 A. This sale is outside the period of the known and measurable and, as such,  
18 should not be included in the analysis of the current revenue requirement.

19 Q. Mr. Williams, does this conclude your direct testimony?

20 A. Yes, it does.

**CASE PROCEEDING PARTICIPATION**

**PHILLIP K. WILLIAMS**

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
	Advertising, Dues & Donations, Plant, Depreciation Reserve, Property Taxes	ER8142		Kansas City Power & Light Company
	Material and Supplies, Cash Working Capital	GR81155		The Gas Service Company
	Cash Working Capital	TR81302		United Telephone Company
	Payroll, O&M Expenses	GR81332		Rich Hill-Hume Gas Company
	Cash Working Capital	ER8239		Missouri Public Service Company
	Cash Working Capital	WR8250		Missouri Public Service Company
	Cash Working Capital	GR82151		The Gas Service Company
		GR82194		Missouri Public Service
	Revenues	WR82279		Missouri Water Company-Lexington Division
	Fuel Expense	ER8340		Missouri Public Service Company
	Cash Working Capital	GR83225		The Gas Service Company
	Revenues	GR8424		Rich Hill-Hume Gas Company
	Unit 3/Extra Work, Unit 3/Back charges; Phase IV	ER85128		Kansas City Power & Light Company
	Unit 3/Extra Work, Unit 3/Back charges; Phase IV	ER85185		Kansas City Power & Light Company
	Payroll, Payroll Taxes, Pensions	GR8676		KPL Gas Service Company
	Payroll, Payroll Taxes	TC8757		General Telephone Company of the Midwest

Date Filed	Issue	Case Number	Exhibit	Company Name
	Pensions	GR88194		Missouri Public Service Company
	Revenues, Pumping Power Expense, Chemical Expense, Vehicle Lease Expense, Interest Expense on Customer Deposits, Bad Debt Expense, Materials & Supplies, Prepayments, Customer Advances, Contributions in Aid of Construction	WR88255	Direct	U.S. Water/Lexington, Mo., Inc.
	Cash Working Capital	GR9050		KPL Gas Service
		ER90101		UtiliCorp United, Inc., Missouri Public Service
9/6/1991	Deferred Income Taxes	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Liability Insurance Expense	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Commission Assessment Expense	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Income Taxes	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Injuries and Damages Accrual	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	WOMAC Employee Expense	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Exempt Employee Compensation Study Expense	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Rate Case Expense	GR91291	Direct	Kansas Power and Light Company Gas Service Division
9/6/1991	Employee Relocation Expense	GR91291	Direct	Kansas Power and Light Company Gas Service Division

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
	Revenue Requirement, Project Feasibility	GA92269	Direct	Missouri Public Service
	Payroll, Employee Benefits, Payroll Taxes, Administrative and General Expense, Donations, Board Fees, Outside Services, Rate Case Expense	WR9285	Direct	Raytown Water Company
	Payroll, Salary Increases	WR9285	Surrebuttal	Raytown Water Company
		GR93240		Western Resources, Inc.
1/22/1993	Ralph Green No. 3 Lease Expense	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Injuries and Damages Expense	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Property Tax Expense	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Interest Expense on Customer Deposits	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Customer Deposits	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Customer Advances	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Prepayments	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Materials and Supplies	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Depreciation Expense	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Plant in Service	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
1/22/1993	Amortization Expense	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Rate Base	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
1/22/1993	Depreciation Reserve	ER9337	Direct	UtiliCorp United Inc. d/b/a MO Public Service
5/28/1993	Plant in Service	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Accounting Authority Order	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Corporate Overheads	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Injuries and Damages Expense	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Property Tax Expense	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Interest Expense on Customer Deposits	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Customer Deposits	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Customer Advances	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
5/28/1993	Prepayments	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Materials & Supplies	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Amortization Expense	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Depreciation Reserve	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Rate Base	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
5/28/1993	Depreciation Expense	GR93172	Direct	Missouri Public Service a Division of UtiliCorp United, Inc.
	Payroll, Payroll Taxes, Insurance, Employee Benefits, Materials and Supplies, Prepayments, Customer Deposits, PSC Assessment, Maintenance Expense, Admin and General Expenses, Donations, Board Fees	WR94211	Direct	Raytown Water Company
		GR96285		Missouri Gas Energy
3/28/1997	Plant	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Prepayments	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Amortization of Authority Orders	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service



<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
3/28/1997	Amortization of Authority Orders	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Sale of Accounts Receivable	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Sale of Accounts Receivable	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Property Taxes	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Property Taxes	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Customer Advances	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Customer Advances	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Customer Deposits	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Customer Deposits	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Prepayments	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Materials and Supplies	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Depreciation Reserve	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Materials and Supplies	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service

Date Filed	Issue	Case Number	Exhibit	Company Name
3/28/1997	Depreciation Expense	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Depreciation Reserve	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Plant	EC97362	Direct	UtiliCorp United Inc. d/b/a MO Public Service
3/28/1997	Depreciation Expense	EO97144	Direct	UtiliCorp United Inc. d/b/a MO Public Service
9/16/1997	Plant	ER97394	Direct	MO Public Service, A Division of Utilicorp United Inc.
9/16/1997	Property Taxes	ER97394	Direct	MO Public Service, A Division of UtiliCorp United Inc.
9/16/1997	Depreciation Reserve	ER97394	Direct	MO Public Service, A Division of UtiliCorp United Inc.
9/16/1997	Depreciation Expense	ER97394	Direct	MO Public Service, A Division of UtiliCorp United Inc.
9/16/1997	Accounting Authority Order Amortization	ER97394	Direct	MO Public Service, A Division of UtiliCorp United Inc.
9/16/1997	Accounts Receivable Sales	ER97394	Direct	MO Public Service, A Division of UtiliCorp United Inc.

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
9/30/1997	Gain on Sale of Assets	GM97435	Rebuttal	Missouri Public Service, A Division of UtiliCorp United Inc.
11/21/1997	Property Taxes	ER97394	Surrebuttal	UtiliCorp United Inc. d/b/a MO Public Service
		EC98126		UtiliCorp United, Inc., Missouri Public Service
5/15/1998	Public Affairs and Community Relations	GR98140	Surrebuttal	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	Staffs' Accounting Schedules	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	True-Up Methodology	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	Payroll	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	Payroll Taxes	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	Payroll Expense Ratio	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	AMR Employee Savings	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
1/4/1999	Gross Down Factor	GR98140	Rehearing Rebuttal	Missouri Gas Energy, A Division of Southern Union Company

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
1/4/1999	Gross Up	GR98140	Rehearing Rebuttal	Missouri Gas Energy, A Division of Southern Union Company
4/26/1999	Rate Disparity	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
4/26/1999	Advertising Savings	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
4/26/1999	Insurance Savings	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
4/26/1999	Vehicle Savings	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
4/26/1999	Facility Savings	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
4/26/1999	Administrative and General Savings	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
5/2/2000	Historical Rate Increases/Reductions	EM2000292	Rebuttal	UtiliCorp United Inc. / St. Joseph Light and Power
5/2/2000	Cost per kWh Comparison	EM2000292	Rebuttal	UtiliCorp United Inc. / St. Joseph Light and Power
6/21/2000	Historical Rate Increases/Reductions	EM2000369	Rebuttal	UtiliCorp United Inc. / Empire District Electric Company
6/21/2000	Cost Per kWh Comparisons	EM2000369	Rebuttal	UtiliCorp United Inc. / Empire District Electric Company

Date Filed	Issue	Case Number	Exhibit	Company Name
11/30/2000	Revenue Requirements	TT2001116	Rebuttal	Iamo Telephone Company
4/3/2001	Postage Expense	ER2001299	Direct	The Empire District Electric Company
4/3/2001	Test Year/True Up	ER2001299	Direct	The Empire District Electric Company
4/3/2001	Plant Maintenance Expense	ER2001299	Direct	The Empire District Electric Company
4/3/2001	Bad Debt	ER2001299	Direct	The Empire District Electric Company
4/3/2001	Banking Fees	ER2001299	Direct	The Empire District Electric Company
4/3/2001	State Line Plant Maintenance Expense	ER2001299	Direct	The Empire District Electric Company
4/3/2001	Interest on Customer Deposits	ER2001299	Direct	The Empire District Electric Company
4/3/2001	Injuries and Damages	ER2001299	Direct	The Empire District Electric Company
8/7/2001	Maintenance Expense	ER2001299	True-up Direct	The Empire District Electric Company
12/6/2001	AFUDC	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Test Year	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Sale of Accounting Receivable	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Plant	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	True-Up	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Jurisdictional Allocations	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
12/6/2001	Cost per Kwh Comparison	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Historical Rate Increases/Decreases	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Cash Working Capital	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Depreciation Expense/Depreciation Reserve	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Accounting Authority Order	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Pensions and OPEBS	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Accounting Authority Order	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Test Year	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	True-Up Jurisdictional Allocations	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Historical Rate Increases/Decreases	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Depreciation Expense/Depreciation Reserve	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Cost per Kwh Comparison	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Revenues	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Company Name</b>
12/6/2001	Uncollectible Expense	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	AFUDC and Sale of Accounts Receivable	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Cash Working Capital Plant	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Cost Per kWh Comparison	ER2001672	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Cost Per kWh Comparison	EC2002265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public
8/16/2002	Test Year	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Jurisdictional Allocators	ER2002424	Direct	The Empire District Electric Company
8/16/2002	State Line Maintenance Contract	ER2002424	Direct	The Empire District Electric Company
8/16/2002	State Line 1 and Energy Center 1 & 2 Maintenance Contract	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Iatan Maintenance Expense	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Asbury Maintenance Expense	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Miscellaneous Expenses & Banking Fees	ER2002424	Direct	The Empire District Electric Company
9/24/2002	Security Rider	ER2002424	Rebuttal	The Empire District Electric Company
12/09/2003	Test Year; Jurisdictional Allocations; Revenue Requirement; Rate History	ER20040034 and HR20040024	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P