

Exhibit No.:
Issues: Revenue Annualization
Uncollectibles/Bad Debit
Income Tax Expense
Witness: V. William Harris
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

DIRECT TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

**AQUILA, INC.
d/b/a AQUILA NETWORKS-MPS
and AQUILA NETWORKS – L&P**

CASE NO. GR-2004-0072

*Jefferson City, Missouri
January 2004*

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 V. WILLIAM HARRIS

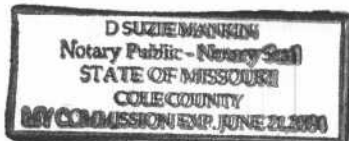
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


V. William Harris, 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 18 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.



V. William Harris

Subscribed and sworn to before me this 5th day of January 2004.





Notary

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1 **DIRECT TESTIMONY**

2 **OF**

3 **V. WILLIAM HARRIS, CPA, CIA**

4 **AQUILA, INC.**

5 **d/b/a AQUILA NETWORKS-MPS**

6 **and AQUILA NETWORKS – L&P**

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

8 Q. Please state your name and business address.

9 A. V. William Harris, Noland Plaza Office Building, Suite 110, 3675 Noland
10 Road, Independence, Missouri 64055.

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

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

14 Q. Please describe your educational background.

15 A. I graduated from Missouri Western State College at St. Joseph, Missouri in
16 1990, with a Bachelor of Science degree in Business Administration with a major in
17 Accounting. I successfully completed the Uniform Certified Public Accountant (CPA)
18 examination in 1991 and subsequently received the CPA certificate. I am currently licensed
19 as a CPA in the state of Missouri. I also successfully completed the Uniform Certified
20 Internal Auditor (CIA) examination in 1995 and am currently certified as a CIA by the
21 Institute of Internal Auditors in Altamonte Springs, Florida.

22 Q. Please describe your employment history.

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1 A. From 1991 until I assumed my current position as a Regulatory Auditor with
2 the Commission in 1994, I was employed as a Regulatory Auditor with the Federal Energy
3 Regulatory Commission in Washington, DC. Prior to that, I was an Internal Auditor and
4 Training Supervisor with Volume Shoe Corporation (d/b/a Payless ShoeSource).

5 Q. What are your responsibilities with the Commission?

6 A. I am responsible for directing or assisting in the audits and examinations of the
7 books and records of regulated utility companies operating within the state of Missouri.

8 Q. Have you previously filed testimony before this Commission?

9 A. Yes. I have attached a list of the cases in which I have filed testimony before
10 this Commission as Schedule 1 of my direct testimony.

11 Q. With reference to Case No. GR-2004-0072, have you examined and studied the
12 books and records of Aquila, Inc. (Aquila or Company), formerly UtiliCorp United, Inc., and
13 its Missouri operating divisions – Aquila Networks-MPS (MPS) and Aquila Networks-L&P
14 (L&P)?

15 A. Yes, with the assistance of other members of the Commission Staff (Staff).

16 Q. What is the purpose of your direct testimony in this proceeding?

17 A. The purpose of my direct testimony in this proceeding is to present the Staff's
18 recommendations concerning revenue annualization, uncollectibles (bad debt expense) and
19 income tax expense.

20 Q. What knowledge, skill, experience, training or education do you have in these
21 matters?

22 A. I have acquired general knowledge of these topics through my experience and
23 analyses in prior rate, complaint and merger cases before this Commission. I also acquired

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1 knowledge of these topics through the review of the Staff's workpapers and testimony in prior
2 rate, complaint and merger cases involving Aquila, MPS and L&P. I have reviewed prior
3 Commission decisions regarding these areas. I also reviewed the Company's testimony,
4 workpapers and responses to the Staff's data requests addressing these topics. I earned a
5 Bachelor of Science degree in Business Administration, with an emphasis on accounting
6 (coursework included auditing and advanced auditing classes). I successfully completed the
7 Certified Public Accountants Exam (which included sections on accounting practice,
8 accounting theory, and auditing) and the Certified Internal Auditors Exam. Finally, I am
9 currently licensed in the State of Missouri to practice these professions.

10 Q. Are you sponsoring any Accounting Schedules in this proceeding?

11 A. Yes. I am sponsoring Accounting Schedule 11 – Income Tax.

12 Q. What adjustments are you sponsoring in Case No. GR-2004-0072?

13 A. In Case No. GR-2004-0072, I am sponsoring the following Income Statement
14 adjustments to the Staff's Accounting Schedules for the MPS North and South Systems:

15	Revenues - Residential Sales	S-1.2 through S-1.4
16	Revenues – Commercial/Industrial Sales	S-2.1 through S-2.3 and S-2.6
17	Natural Gas Transmission Line Purchases	S-8.1
18	Natural Gas City Gate Purchases	S-9.1
19	Credit For Other Gas Purchases	S-10.1
20	Purchase Gas Cost Adjustments	S-11.1
21	Natural Gas Withdrawn From Storage	S-12.1
22	Credit For Natural Gas Used For Other Utility Operations	S-13.2
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1	Current Income Taxes	S-78.1
2	Deferred Income Taxes	S-79.1
3	Amortization of Excess Deferred Income Taxes	S-80.1
4	Amortization of Investment Tax Credits	S-81.1

5 I am also sponsoring the following Income Statement adjustments to the Staff's

6 Accounting Schedules for the MPS East System:

7	Revenues - Residential Sales	S-1.2 through S-1.4
8	Revenues – Commercial/Industrial Sales	S-2.1 through S-2.3
9	Uncollectibles / Bad Debt Expense	S-48.2
10	Current Income Taxes	S-78.1
11	Deferred Income Taxes	S-79.1
12	Amortization of Excess Deferred Income Taxes	S-80.1
13	Amortization of Investment Tax Credits	S-81.1

14 Finally, I am sponsoring the following Income Statement adjustments to the Staff's

15 Accounting Schedules for the L&P Division:

16	Revenues - Residential Sales	S-1.1 through S-1.3
17	Revenues – Commercial/Industrial Sales	S-2.1 through S-2.3 and S-2.7
18	Revenues – Gas Transportation	S-5.1
19	Natural Gas Transmission Line Purchases	S-8.1
20	Natural Gas City Gate Purchases	S-9.1
21	Credit For Natural Gas Delivered To Storage	S-10.1
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1	Credit For Natural Gas Used For Other Utility Operations	S-13.2
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5	Amortization of Excess Deferred Income Taxes	S-78.1
6	Amortization of Investment Tax Credits	S-79.1

7 **REVENUE ANNUALIZATION**

8 Q. Please provide a general discussion of revenues.

9 A. A utility's test year revenues, like its expenses, must be annualized and
10 normalized in order to develop a cost of service that is representative of the Company's
11 operations. Since MPS and L&P are separate divisions of Aquila, with separate tariffs, the
12 revenues of each division must be reviewed separately. For ratemaking purposes, adjustments
13 to annualize and normalize revenues must be done individually for each division.
14 Additionally, since MPS's Eastern System is proposed to be sold to Union Electric,
15 d/b/a AmerenUE, it must also be reviewed separately from the MPS's Northern and Southern
16 Systems.

17 Q. What are annualization adjustments?

18 A. Annualization adjustments are made to reflect a full 12-month period of
19 revenues and expenses in order to determine the proper revenue requirement. Examples of
20 this type of adjustment would include additions and disconnections of service during the test
21 year and update period. For example, new customers taking service from the Company have
22 a partial year of usage and revenues. These new customers must have their usage, reflected in
23 the case, annualized or revenues would be understated, resulting in an overstatement of the

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1 revenue requirement. Conversely, customers who disconnect or terminate service must be
2 removed (annualized) or revenues would be overstated, resulting in an understatement of the
3 revenue requirement.

4 Q. What are normalization adjustments?

5 A. Normalization adjustments are made to ensure that the revenue requirement
6 properly reflects “normal” levels of revenues and expenses. These adjustments are made to
7 reflect a utility’s on-going operations. An example of a normalization adjustment would be
8 one made to reflect “normal” weather for those classes of customers whose natural gas usage
9 is sensitive to seasonal weather variations.

10 Q. What classes of customers does Aquila have?

11 A. The MPS and L&P natural gas divisions of Aquila have sales and
12 transportation customer classes. The sales classes consist of Residential, General Service -
13 Commercial and Industrial, and Large Volume – Commercial and Industrial customers. The
14 transportation classes consist of Small Volume, Large Volume and Special Contract
15 customers.

16 Q. What is the basis for pricing the revenue adjustments?

17 A. All revenue adjustments in the Staff’s cost of service were priced on the
18 margin (the total rate excluding gas cost) included in the Company’s tariffs.

19 Q. Please describe and discuss the types of adjustments the Staff developed to
20 determine annualized revenues.

21 A. In general, the Staff’s annualized revenues reflect the effects of the following
22 conditions:

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- 1 1. Normalized Weather
- 2 2. Customers switching customer classes (rate switching)
- 3 3. Large Customer leaving the system during the test year
- 4 4. Customer growth or loss

5 **Normalized Weather**

6 Q. Why is it appropriate to adjust revenues for normalized weather?

7 A. Temperature levels experienced during any twelve-month period could have a
8 significant impact on the Company's revenues. If the overall temperature was very cold
9 during the period, the Company's revenues would be overstated in relation to normal weather.
10 Conversely, if the overall temperature was warm during the period, the Company's revenues
11 would be understated in relation to normal weather. Therefore, the Staff normalized revenues
12 for weather to eliminate the effects of above or below normal temperatures during the test
13 year.

14 Q. What methodology did the Staff use to normalize for weather?

15 A. The methodology and weather station data used by the Staff to develop actual
16 and normal weather is discussed in the direct testimony of Staff witness Dennis Patterson of
17 the Commission's Energy Department. This data was used to develop weather normalized
18 sales and usage per customer, as discussed in the direct testimony of Staff witness James A.
19 Gray of the Commission's Energy Department. Staff witness Gray was responsible for
20 weather normalized sales and usage per customer for Residential and General Service -
21 Commercial sales customer classes. The results of Mr. Gray's weather normalized sales
22 volumes were provided to Staff witness Dr. Henry E. Warren of the Commission's Energy

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1 Department who allocated the weather normalized sales to the appropriate General Service –
2 Commercial rate blocks.

3 Q. Please describe the Staff's adjustments relating to weather normalization for
4 the Residential and General Service - Commercial sales customers.

5 A. Staff witness Gray developed the monthly weather normalized usage per
6 customer for the weather sensitive customer classes during the Staff's test year.

7 Mr. Gray adjusted the actual monthly usage from the test year to reflect normalized
8 weather. Dr. Warren distributed test year usage and normalized usage by rate blocks. The
9 totals by rate block were then priced on the margin to develop the Staff's weather normalized
10 adjustments for Residential customers and General Service - Commercial customers.

11 Q. Please describe the Staff's adjustments relating to weather normalization for
12 General Service – Industrial, Large Volume – Commercial and Industrial, and Transportation
13 customer classes.

14 A. Weather normalization of revenues for customers in the General Service –
15 Industrial, Large Volume – Commercial and Industrial, and Transportation customer classes is
16 discussed in the direct testimony of Staff witness Anne Ross of the Commission's Energy
17 Department.

18 **Customers Switching Customer Classes and Large Customer Leaving the System**

19 Q. Please describe the effects of customers switching between customer classes
20 (rate switching).

21 A. Customers switching customer classes or rate switching can occur for several
22 reasons. The nature of a customer's operations may have changed and now another customer
23 class is more appropriate. The customer may find it more economical to switch to another

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1 customer class. Finally, the customer may decide to procure its own gas and thus, a rate
2 switch (from sales to transportation) would be necessary.

3 Q. Did any large customers leave the system during the test year?

4 A. Yes, one large transportation customer left the system during the test year.
5 Staff witness Ross addresses the specific conditions and revenue effects of the rate-switching
6 customers and the large customer leaving the system in her direct testimony.

7 **Customer Growth or Loss**

8 Q. Why is it appropriate to adjust revenues for customer growth or loss?

9 A. This adjustment is appropriate in order to reflect the ongoing level of revenues
10 based on an analysis of customer counts through the end of the Staff's test year ending
11 December 31, 2002, and update period ending September 30, 2003.

12 Q. What customer classes did you adjust for customer growth/loss?

13 A. I adjusted Residential and General Service - Commercial sales classes for
14 customer growth/loss. Staff witness Ross reviewed (and adjusted, if necessary) all aspects of
15 the General Service – Industrial sales, Large Volume - Commercial and Industrial sales, and
16 Transportation customer classes. Please refer to her direct testimony in this proceeding.

17 Q. Please explain your customer growth/loss adjustments for the Residential and
18 General Service - Commercial sales customer classes.

19 A. The customer growth/loss adjustments contain two components. The first
20 component annualizes the customer charge based on the annualized level of customers. The
21 second component relates to pricing of normalized usage per customer for the annualized
22 level of customers.

23 Q. Please explain how the Staff determined the annualized level of customers.

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1 A. The Staff analyzed the level of customers, by class, for the period of January
2 1998 through September 2003. This analysis revealed that the Residential and General
3 Service - Commercial classes exhibited marked patterns of seasonality. Seasonality refers to
4 the situation where customer levels tend to decrease in the late winter months (March-April)
5 when demand for gas space heating declines and continues to decline through many of the
6 summer months. Customer levels then begin to increase in anticipation of the beginning of
7 the gas heating season and continue to increase as the need for space heating increases.

8 A monthly, ongoing level of customers was determined by dividing the September 30,
9 2003, level of customers by the five-year average percentage of September 30 customers to
10 the succeeding year ending August 31st average customer levels. The monthly level of
11 customers were then distributed over twelve months in order to develop the annualized level
12 of customers. This methodology enables the Staff to annualize customer growth and losses
13 for these customer classes while giving consideration for the fluctuation of customer levels
14 caused by seasonality. Through the Staff's analysis of these customer classes, it was observed
15 that seasonality of customers occurred annually and with a high degree of certainty. The Staff
16 analyzed these customers for seasonality over several years.

17 Attached as Schedule 2 to this direct testimony are graphs that track the historical
18 customer levels for each of the Residential and General Service - Commercial customer
19 classes. These graphs provide support for the Staff's methods used to annualize customer
20 levels.

21 Q. How were customer charges annualized?

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1 A. To develop the customer charge portion of the customer growth adjustment,
2 the Staff multiplied total annualized customer levels by the appropriate monthly customer
3 charge to derive annualized customer charges by customer class.

4 Q. How were the annualized levels of usage and commodity revenues developed?

5 A. Total annualized customers were multiplied by normalized usage per customer,
6 by month, as supplied by Staff witness Gray. This resulted in an overall normalized usage.
7 The Staff then distributed this overall normalized usage to the appropriate usage rate blocks
8 based on test year normalized usage and then priced these blocks using the appropriate current
9 tariffed rates.

10 Finally, all annualized customer charge revenues and annualized commodity revenues
11 were summed by customer class and this amount was subtracted from the Company's per
12 book revenues already adjusted for Staff's weather adjustment.

13 Q. Please explain "appropriate usage rate blocks."

14 A. The tariffs for MPS General Service – Commercial customer class has rate
15 blocks based on usage levels. The tariffs for L&P customer classes and the MPS Residential
16 class do not contain provisions for block usage.

17 Q. Please explain the adjustments to remove the cost of natural gas from revenues
18 and expenses.

19 A. The total test year cost of natural gas was removed from the various revenue
20 classes and expense accounts based on actual test year activity. By eliminating test year gas
21 costs from revenue and expense, the Staff has put its direct filing on a margin basis.

22 **UNCOLLECTIBLES (BAD DEBT EXPENSE)**

23 Q. Please explain the Staff's adjustment to bad debt expense.

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1 A. The Staff reviewed the historical uncollectibles and bad debt
2 write-offs for the MPS and L&P division. During the review, the Staff discovered that during
3 2001 timeframe the Company began tracking uncollectibles on a gas and electric specific
4 basis. Prior to this time, the uncollectibles were combined for both services and allocated
5 between gas and electric. As a result of this change, the amount of uncollectibles for the gas
6 operations in the division increased substantially and resulted in a large percentage of
7 write-offs to revenues (2.0 – 2.2% MPS). The Staff will submit data requests to address this
8 problem and is still awaiting a response to Staff Data Request No. 136 to update the
9 uncollectible information through September 30, 2003.

10 Q. How did you calculate the normal level of bad debt expense?

11 A. The Staff calculated a normal level of bad debt expense by multiplying each
12 division's annualized revenue by its average write-off ratio for the year 2000. The MPS level
13 was the split between the North/South and East Systems using an allocation factors
14 (89.375% - North/South and 10.625% - East).

15 **INCOME TAX EXPENSE**

16 Q. Please explain each component of the Company's total income tax liability.

17 A. There are four components to the total income tax liability for a utility. These
18 are: 1) current income tax, 2) deferred income tax, 3) the amortization of excess deferred
19 income tax, and 4) the amortization of deferred investment tax credit (ITC).

20 **Current Income Tax**

21 Q. Please describe the current income tax component.

22 A. Staff calculated the current income tax component shown on Accounting
23 Schedule 11 by taking the Net Operating Income Before Taxes (NOIBT) amount from

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1 Accounting Schedule 9, Income Statement, and adjusting it by timing difference additions and
2 subtractions from NOIBT that appear on Accounting Schedule 11 to determine the net taxable
3 income in this case. Staff then multiplied this result by the appropriate federal and state
4 income tax rates to arrive at the current income tax for this case. This calculation is based
5 upon the fact that federal income taxes are fifty percent (50%) deductible for state income tax
6 purposes and that state income taxes are fully deductible for federal income tax purposes.
7 The calculation in this case is based on the use of a 35% federal income tax rate and a 6.25%
8 state income tax rate. This results in an effective overall tax rate of 38.39%.
9 Adjustments S-76.1 (L&P) and S-78.1 (MPS) reflect the difference between the Staff's
10 calculation and the Company's test year level of current income taxes.

11 Q. Please explain the additions used to arrive at net taxable income in this case.

12 A. Annualized book depreciation and book depreciation charged to clearing and
13 operations accounts are added back to net income before taxes because the deduction for tax
14 depreciation in determining current income tax is different than book depreciation. Adding
15 back these book depreciation amounts is necessary to avoid deducting depreciation amounts
16 twice in the income tax calculation. The last item added back to NOIBT is the specific IRS
17 non-deductible meal expense.

18 Q. Please list the deductions used to arrive at net taxable income.

19 A. The deductions are: 1) interest expense, 2) straight line tax depreciation, and
20 3) excess tax depreciation.

21 Q. Please explain the deduction for interest expense and how it was calculated.

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1 A. Interest expense is calculated by multiplying the jurisdictional rate base by the
2 Staff's calculated weighted cost of debt (4.92%), which is sponsored by Staff witness
3 David Murray of the Commission's Financial Analysis Department.

4 This methodology assures that the amount of interest expense used in the calculation
5 of income tax expense, for ratemaking purposes, equals the interest expense the ratepayer is
6 required to provide the Company in rates. Since the revenue requirement recommended by
7 the Staff is based on a rate of return computation, the interest synchronization method allows
8 an interest deduction consistent with the rate of return computation that is applied to rate base.

9 Q. Are you aware of any other rate cases where this type of methodology was
10 proposed?

11 A. Yes. This methodology was first utilized by the Staff and adopted by the
12 Commission in Kansas City Power and Light Company's 1980 electric rate case, Case
13 No. ER-80-48, and has been used consistently by Staff and adopted by the Commission since
14 that case.

15 Q. Please identify the source of the amounts of the deductions for straight-line tax
16 depreciation and excess tax depreciation.

17 A. Straight-line tax depreciation was calculated by Staff witness Steve M. Traxler.
18 Please refer to his direct testimony.

19 The excess tax depreciation amount was determined by subtracting the jurisdictional
20 amount for straight-line tax depreciation from tax depreciation. The amount of excess tax
21 depreciation relates to IRS normalization restrictions that do not allow the additional
22 deduction for accelerated tax depreciation to be flowed through in setting rates. Utility
23 customers must wait for the deduction of accelerated depreciation over the life of the asset,

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1 consistent with the book depreciation deduction (normalization treatment). Utility companies
2 like Aquila benefit from this restriction because the associated deferred taxes provide
3 enhanced cash flow to their operations. The deferred tax treatment for excess tax depreciation
4 is necessary so the IRS code restriction is not violated. If the restriction was not adhered to,
5 Aquila would lose the deduction relating to accelerated depreciation and the customers would
6 lose the benefit of the accumulated deferred taxes that are an offset to rate base. To ensure
7 that the accelerated depreciation is not “lost” as a tax deduction, deferred taxes are provided
8 (calculated) which increases the income tax expense amount customers have to pay in their
9 utility rates. The deferred taxes are accumulated and “flowed” back to customers over the life
10 of the assets generating those deferrals.

11 **Deferred Income Tax**

12 Q. Please describe the deferred income tax component.

13 A. The deferred income tax component represents the normalization treatment for
14 specific tax timing differences used in calculating the Company’s current income tax expense.
15 With regard to the timing difference for accelerated tax depreciation, the provision in the
16 Internal Revenue Code (Code) requires normalization treatment for a regulated utility. The
17 deferred income tax amount is calculated by multiplying those tax timing differences that the
18 Staff has normalized by the overall effective tax rate of 38.39%, previously discussed.
19 A description of tax timing differences, including ones proposed to be normalized, will be
20 given later in my testimony.

21 Q. Please explain the tax concept of “normalization.”

22 A. Under the Code, the Company can take deductions for tax purposes for certain
23 items at times other than when the items are expensed for book purposes. Items for which

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1 this tax treatment applies are called “tax-timing” differences. Normalization treatment
2 eliminates these differences for ratemaking purposes so that income tax expense is based
3 solely on the pre-tax operating income impact of these timing differences. The timing
4 difference for Tax Depreciation has been reflected in the current and deferred income tax
5 calculations.

6 Q. What is “flow-through” treatment of tax timing differences?

7 A. Reflecting the tax impact of tax timing differences consistent with the period
8 used in calculating current income tax expense is commonly referred to as the “flow-through”
9 method. Under flow-through methodology, customers receive the deduction in their rates the
10 same time that the Company is permitted to take such deduction for tax purposes.
11 Conversely, reflecting the tax deduction for tax timing differences consistent with the period
12 used for recognizing the cost as an expense (or revenue) for financial reporting purposes is
13 referred to as the “normalization” method. Under the normalization method, customers must
14 wait for the deductions to be reflected in their rates even though the Company has received
15 the deduction for tax purposes.

16 Q. Please describe Adjustments S-77.1 (L&P) and S-79.1 (MPS).

17 A. These adjustments represent the amount needed to adjust total test year booked
18 deferred income taxes to reflect deferred income tax based upon the timing differences that
19 are being normalized for ratemaking purposes.

20 Q. Are there any specific items that you are sponsoring on Accounting
21 Schedule 2, Rate Base?

22 A. Yes, I am sponsoring the line item, deferred income taxes, that appears on
23 Accounting Schedule 2, Rate Base, as a subtraction from net plant.

1 Q. Please explain the subtraction of deferred income tax from net plant.

2 A. The balance of deferred income taxes included on Accounting Schedule 2 is
3 composed of the accumulated deferred income tax balances as of September 30, 2003.

4 The accumulated deferred tax balances represent a source of cash provided to the
5 utility by ratepayers. Using the accumulated balance of deferred income tax as an offset to
6 rate base allows ratepayers the same rate of return on these funds as the Company earns on its
7 plant investment.

8 **Amortization of Excess Deferred Income Tax**

9 Q. Please describe the amortization of excess deferred income tax.

10 A. The federal tax rate for corporations was reduced by the 1986 Tax Reform Act.
11 Deferred income taxes recognized prior to the effective date of this legislation were deferred
12 and collected in rates based upon a federal tax rate that is no longer valid as a result in the
13 reduction in the corporate tax rate.

14 The Staff's adjustment to deferred tax expense to reflect the amortization of excess
15 deferred income tax flows the excess taxes back to ratepayers over the life of the assets that
16 generated the deferred tax.

17 **Amortization of Deferred Investment Tax Credit (ITC)**

18 Q. Please describe the amortization of deferred investment tax credit (ITC).

19 A. The amortization of deferred ITC represents the recovery by the ratepayer of a
20 portion of previously deferred ITC. Prior to the Tax Reform Act of 1986, the Company was
21 allowed a credit against current income tax related to investment in new plant facilities. For
22 ratemaking purposes, these investment tax credits are reflected in rates (amortized) over the
23 life of the plant that generated the investment tax credits. The amount is based on the level of

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1 deferred ITC amortization reflected on the Company's books for the test year ended
2 December 31, 2002.

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

V. William Harris

Schedule of Testimony Filings

<u>CASE NO.</u>	<u>TYPE</u>	<u>COMPANY</u>
ER-95-279	Direct	Empire District Electric Company
GR-96-285	Direct, Rebuttal, Surrebuttal	Missouri Gas Energy (Southern Union Co.)
GR-97-272	Direct	Associated Natural Gas Company
EC-98-573	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
HR-99-245	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
GR-99-246	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
ER-99-247	Direct, Rebuttal, Surrebuttal	St. Joseph Light and Power Company
EM-2000-292	Rebuttal	UtiliCorp United Inc., St. Joseph Light & Power
EM-2000-36	Rebuttal	UtiliCorp United Inc., Empire District Electric
EO-2000-845	Rebuttal	St. Joseph Light and Power Company
TT-2001-115	Rebuttal	Green Hills Telephone Corporation
TC-2001-401	Direct	Green Hills Telephone Corporation
ER-2001-299	Direct, Rebuttal, Surrebuttal	Empire District Electric Company
ER-2001-672	Direct, Rebuttal, Surrebuttal	UtiliCorp United Inc., dba Missouri Public Service
ER-2002-424	Direct	Empire District Electric Company

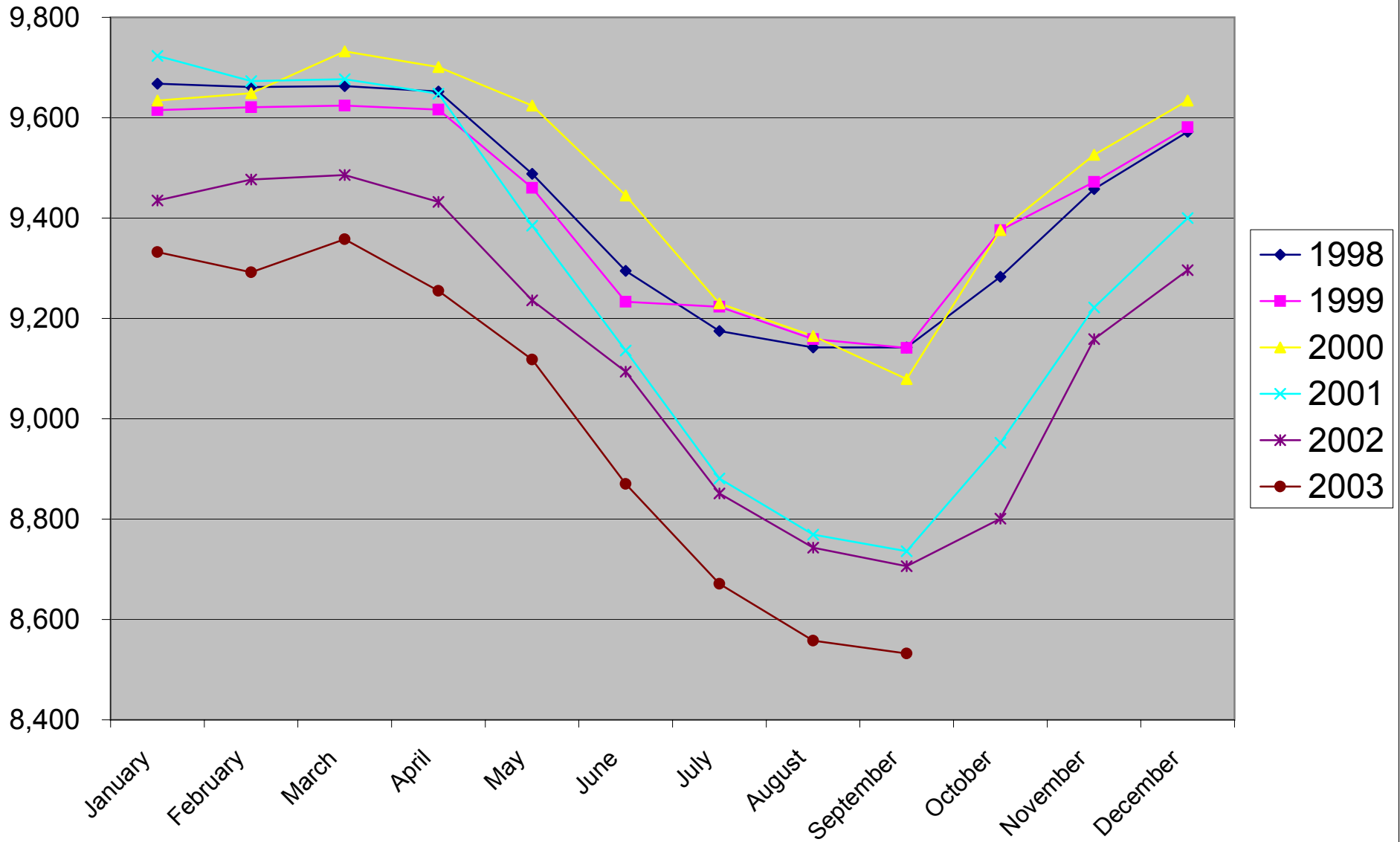
ER-2004-0034 &
HR-2004-0024
(Consolidated)

Direct

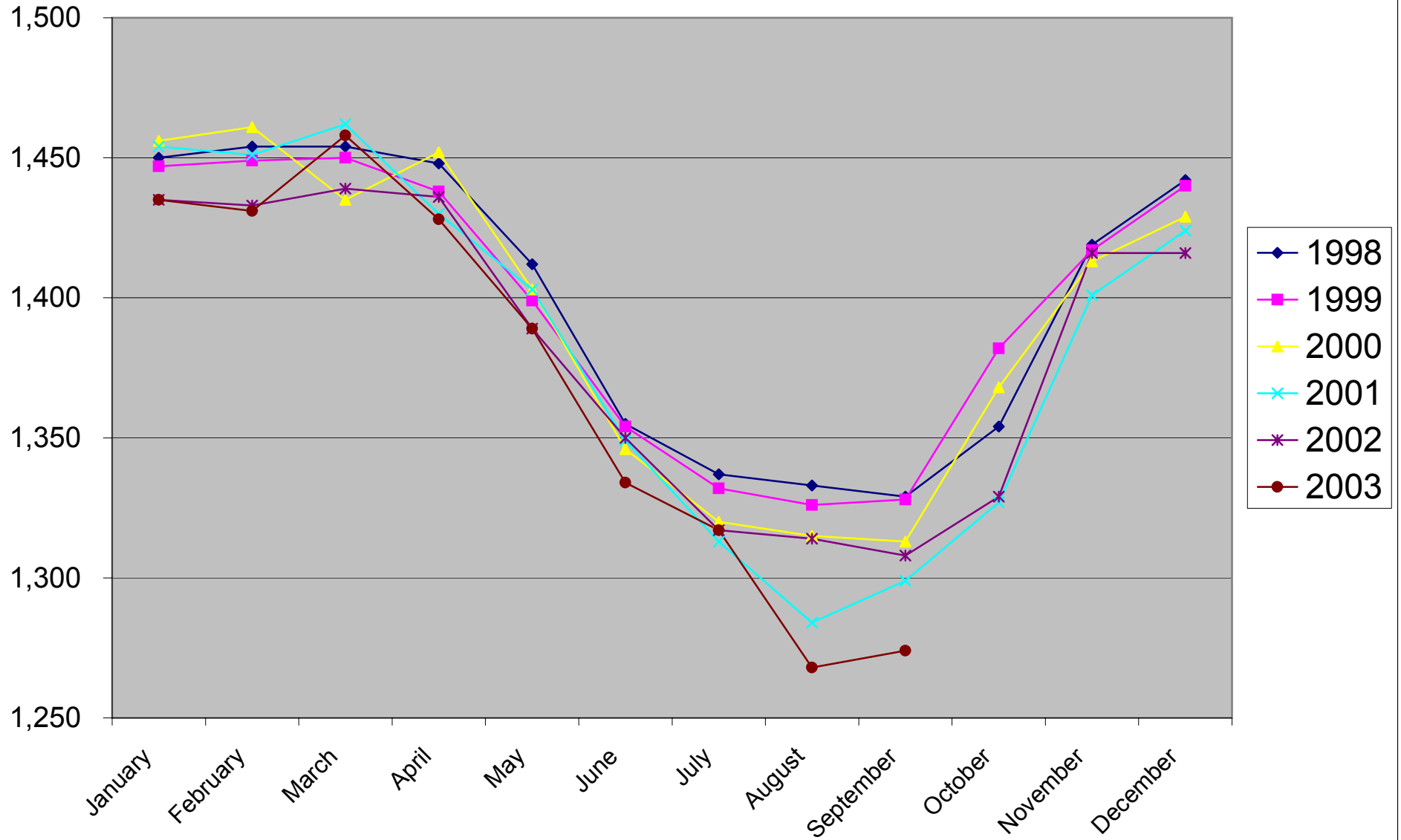
Direct Aquila, Inc. d/b/a Aquila
Networks- MPS (Electric), Aquila
Networks-L&P Electric & Steam)

Case Nos. GR-96-285, EM-2000-292, EM-2000-369, EO-2000-845 and ER-2001-299 were litigated. All others were stipulated.

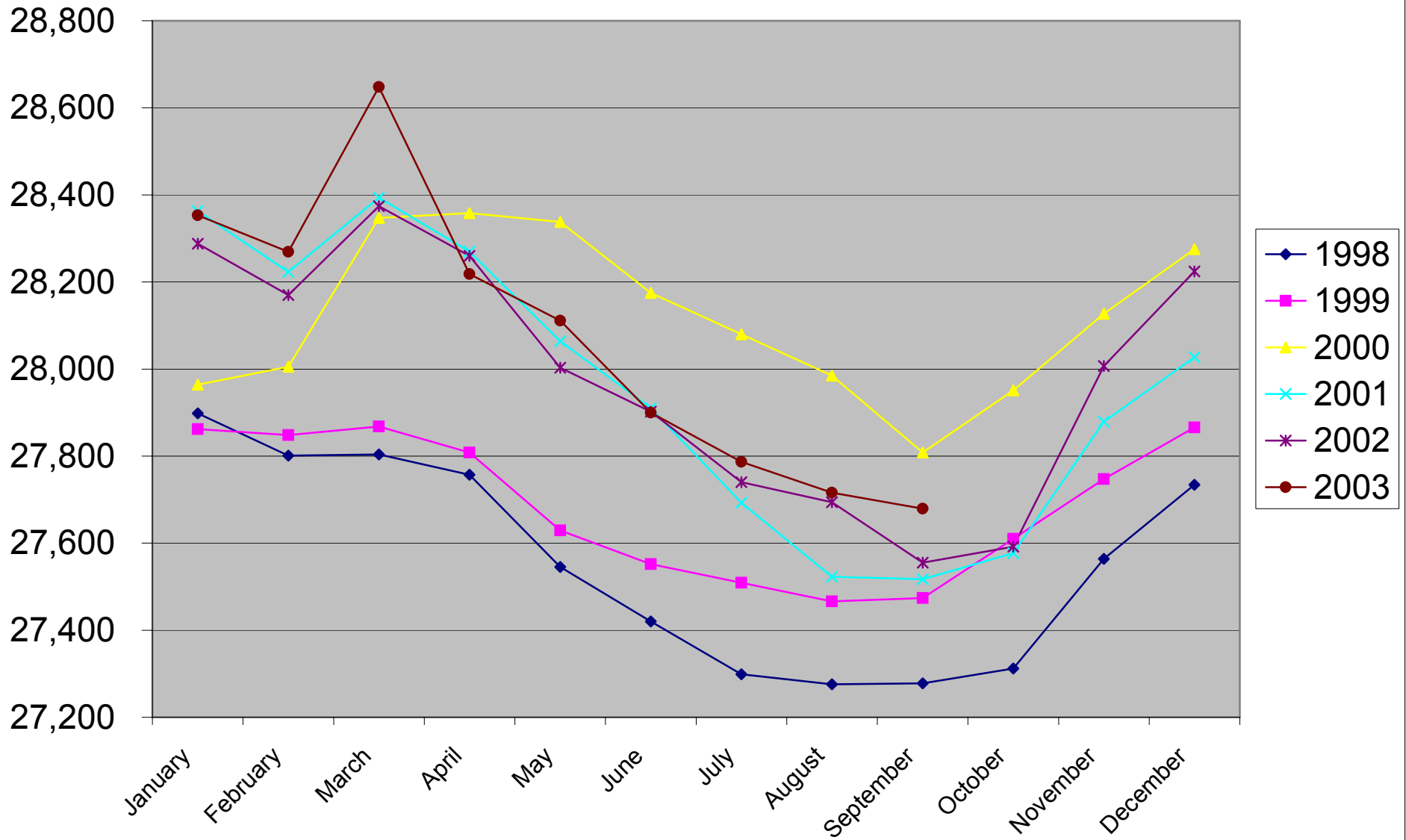
North Residential



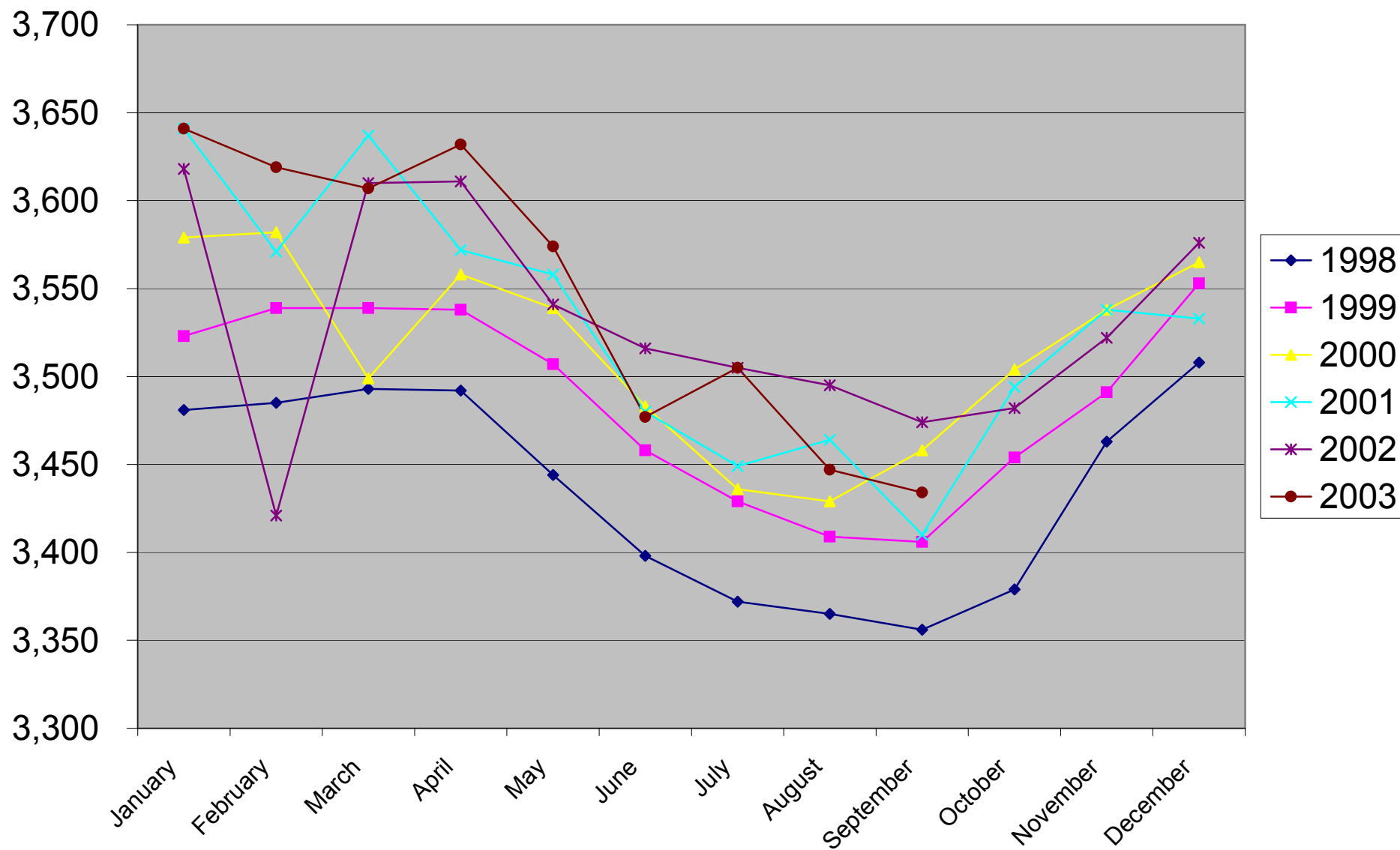
Northern Commercial



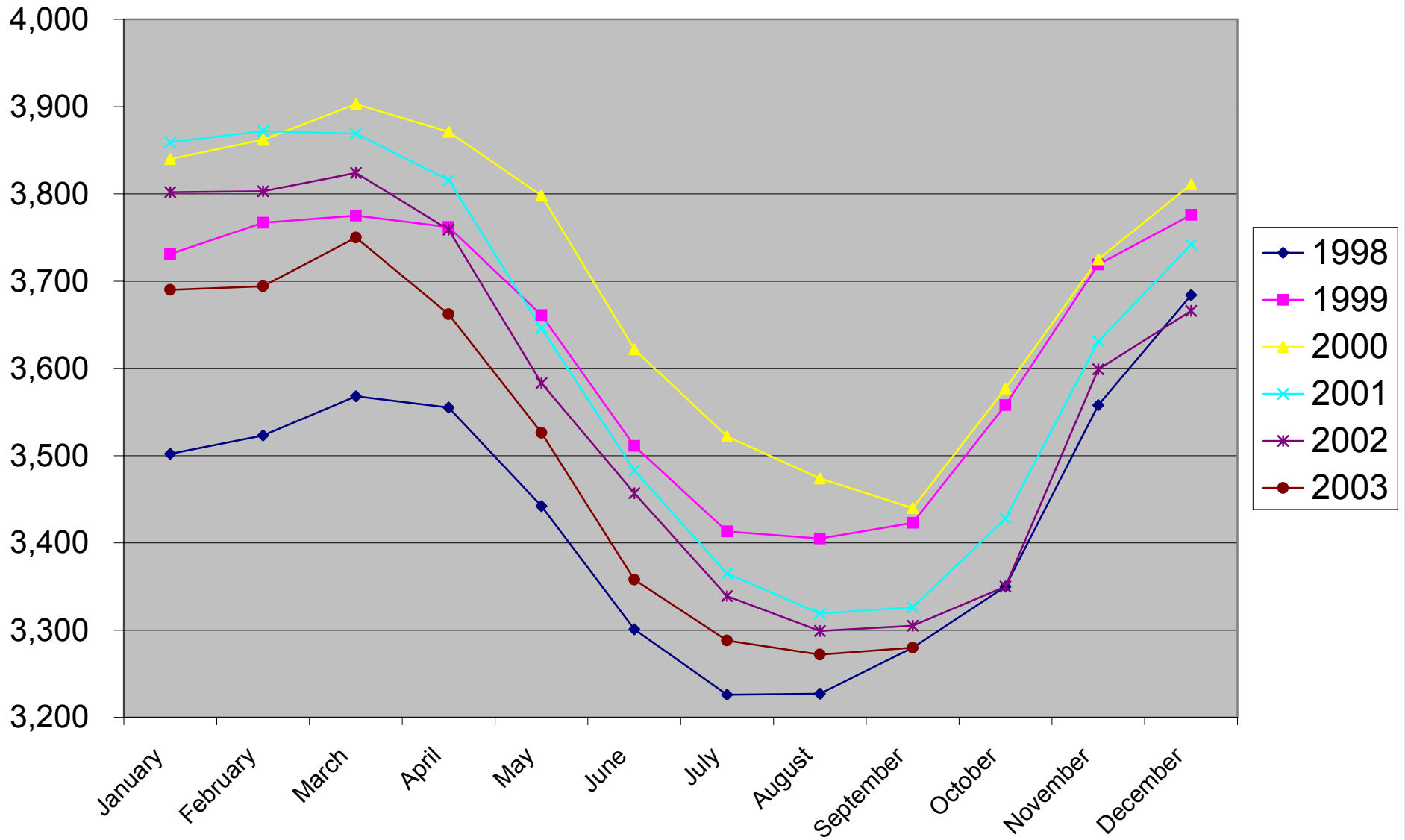
South Residential



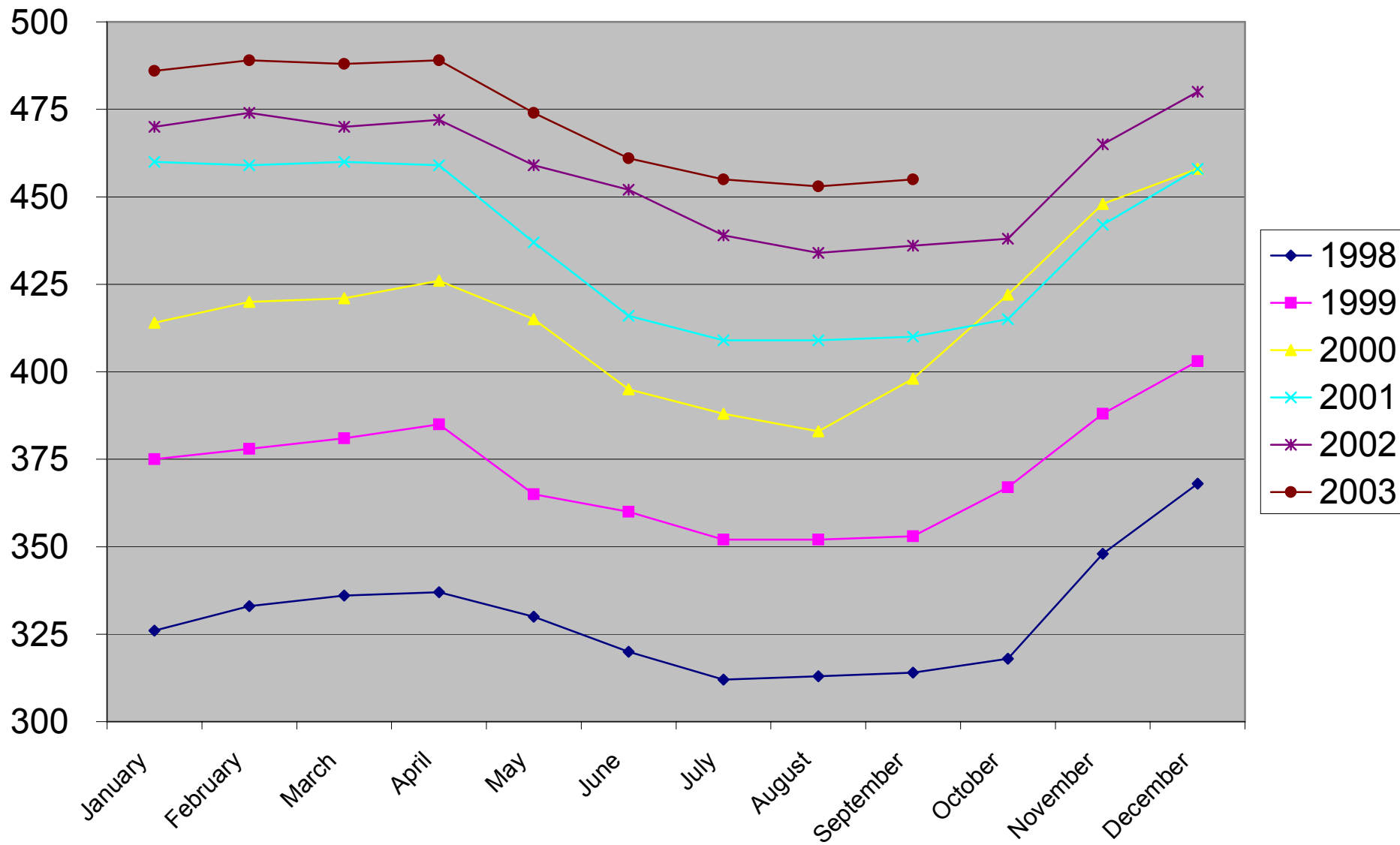
Southern Commercial



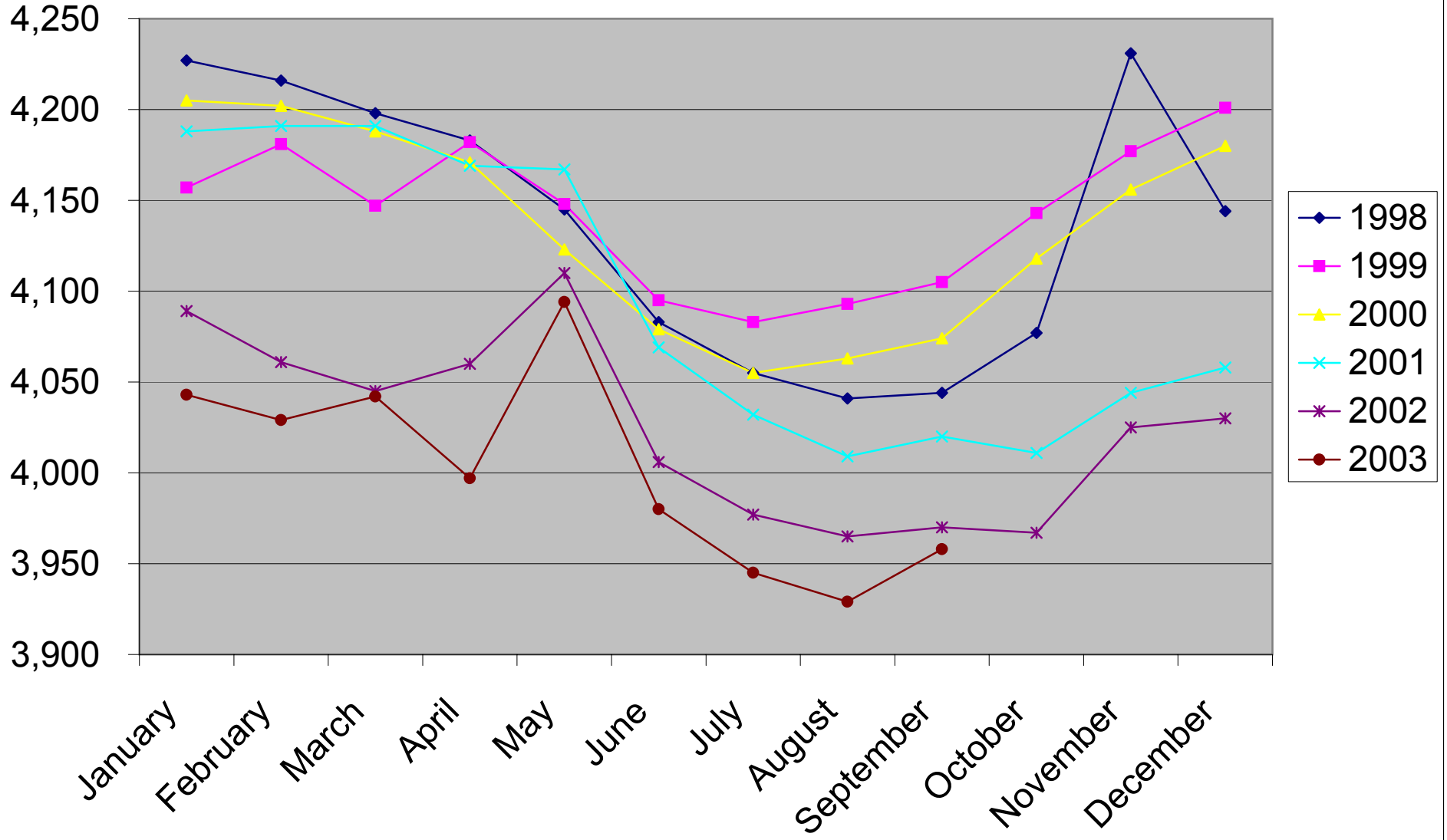
Eastern Residential



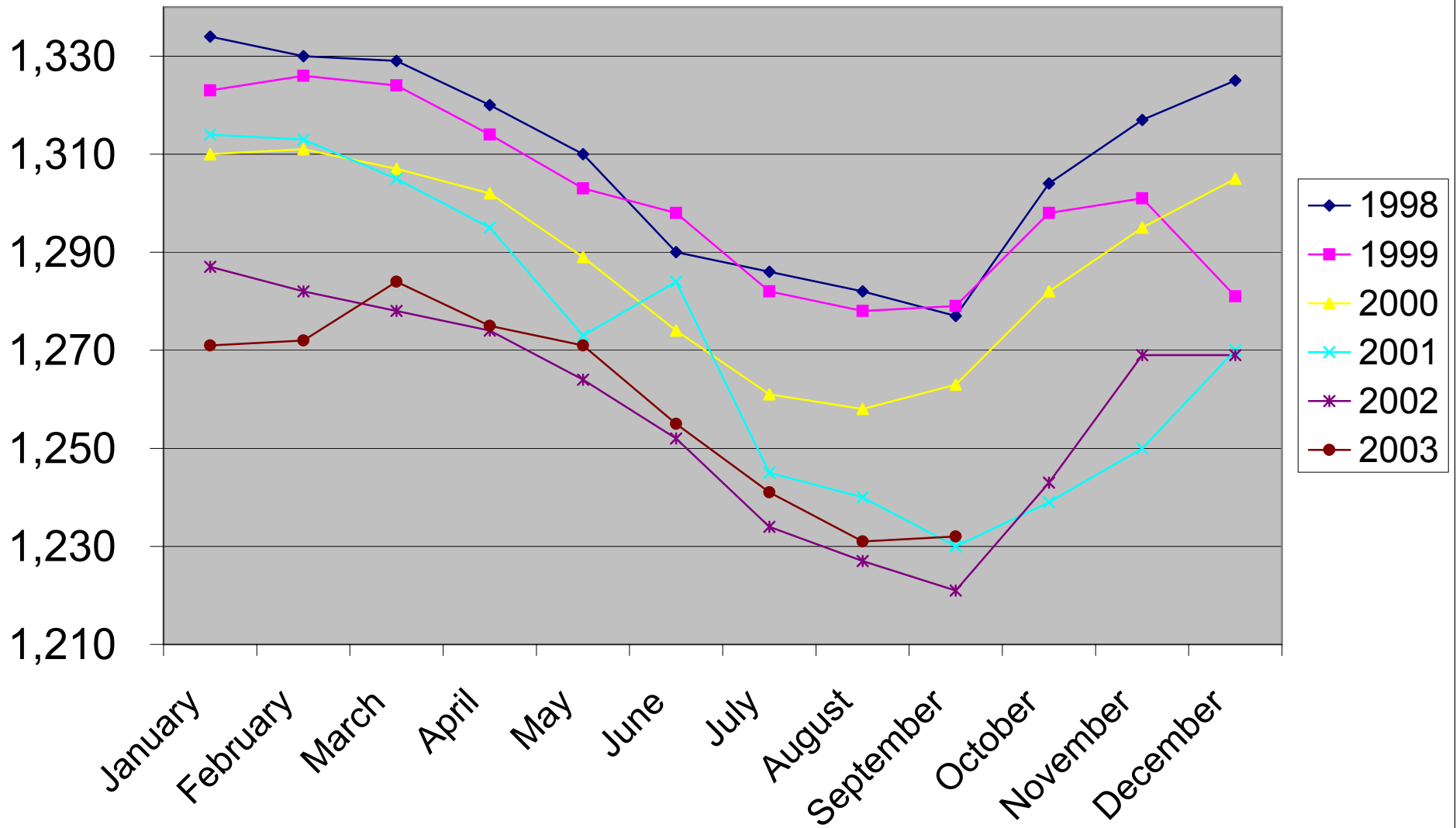
Eastern Commercial



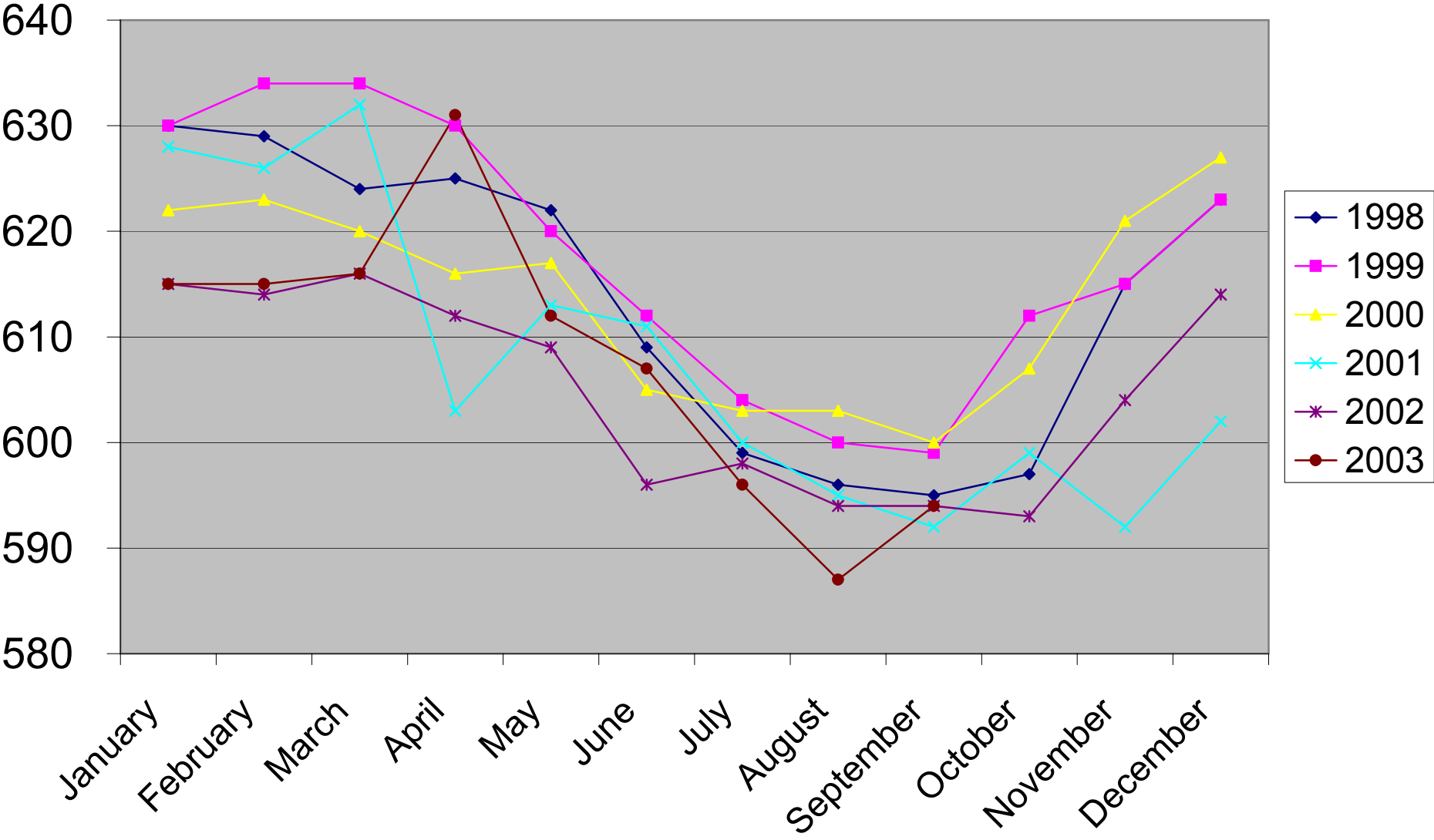
L&P Residential (4)



L&P Residential (5)



L&P Commercial (54)



L&P Commercial (55)

