

Exhibit No.:

*Issues: Economic & Legal Rationale
for Regulation; Historical
Economic Conditions;
Economic Projections; Business
Operations of Aquila, Inc.; Capital
Structure & Embedded Costs;
Cost of Equity; DCF Model; and
Rate of Return for MPS and L&P*

Witness: David Murray

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

*Case Nos.: ER-2004-0034 and
HR-2004-0024
(Consolidated)*

Date Testimony Prepared: December 9, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID MURRAY

AQUILA, INC.

**d/b/a AQUILA NETWORKS-MPS-ELECTRIC AND
AQUILA NETWORKS-L&P-ELECTRIC AND STEAM**

**CASE NOS. ER-2004-0034 and HR-2004-0024
(Consolidated)**

*Jefferson City, Missouri
December 2003*

Direct Testimony of
David Murray

1 capital ratios. The resulting capital structure consists of 35.31 percent common stock equity,
2 .38 percent short-term debt and 64.31 percent long-term debt.

3 The amount of long-term debt outstanding on December 31, 2002 includes current
4 maturities due within one year. The amount of long-term debt in the capital structure is the
5 amount of long-term debt indicated on the December 31, 2002 Balance Sheet provided by
6 Aquila in response to Staff Data Request MPSC-222.

7 As of December 31, 2002, Aquila had \$300,963,000 of short-term debt outstanding
8 with \$283,431,000 of Construction Work In Progress (CWIP) outstanding. Therefore, I
9 included a short-term debt balance of \$17,532,000 in the capital structure, which is the
10 difference between the amount of short-term debt outstanding and the CWIP outstanding.
11 The difference between actual short-term debt outstanding and CWIP was used for the short-
12 term debt balance because it is assumed that CWIP will eventually be funded by long-term
13 debt.

14 Q. Why did you use Aquila's capital structure as of the test year, December 31,
15 2002?

16 A. MPS and L&P are divisions of Aquila. Because the debt and equity are
17 generated from the parent company, Aquila, MPS and L&P rely on Aquila to finance their
18 investment in MPS and L&P assets. Because MPS and L&P do not issue their own debt or
19 equity, Aquila's actual capital structure as of December 31, 2002 was used for MPS and
20 L&P.

21 In addition, Aquila's consolidated capital structure as of the test year is not
22 extraordinary for a comparable electric utility. According to Schedule 20, Aquila's year-end