Exhibit No.:
Issues: Fuel, Allocation Factors, Injuries and Damages Expense, Dues & Donations Expense, Advertising Expense, Income Tax Expense, Accumulated Deferred Income Taxes Offset, And Cash Working Capital
Witness: Ronald A. Klote
Sponsoring Party: Aquila Networks-L&P
Case No.: HR-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Ronald A. Klote

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF RONALD A. KLOTE
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-L&P
CASE NO. HR-_____

Q. Please state your name and business address.

A. My name is Ronald A. Klote and my business address is 10700 East 350 Highway, Kansas City, Missouri.

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

A. I am employed by Aquila, Inc. ("Aquila" or "Company"), as Director of Regulatory Accounting Services.

Q. Please describe your educational background and experience.

A. In 1992, I received a Bachelor of Science Degree in Accountancy from the University of Missouri-Columbia. I am a Certified Public Accountant holding a certificate in the State of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of increasing responsibilities in the auditing division. I conducted and led various auditing engagements of company financial statements. In 1995, I joined Water District No. 1 of Johnson County as a Senior Accountant. This position involved extensive operational and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as a Senior Consultant. This position involved special accounting and auditing projects in the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila holding various positions within the Regulatory department.

Q. Have you previously testified before any regulatory bodies?

A. Yes. I have testified before the California Public Utilities Commission, the Public Utilities Commission of Colorado and the Missouri Public Service Commission.

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

A. The purpose of my testimony is to describe certain accounting adjustments made to Aquila Networks – L&P ("L&P") steam rate case filing.

Q. Please identify the schedules and any adjustments that you are sponsoring.

A. I am sponsoring the following cost of service (operational) adjustments and allocation issues:

- FPP – 10 Fuel Expense
- CS – 20 ESF/IBU Corporate Allocations
- Utility Allocation Factors
- CS – 30 Injuries and Damages Expense
- CS – 60 Dues & Donations Expense
- CS – 65 Advertising Expense
- TAX – 1 Current & Deferred Income Tax Expense

In addition, I am sponsoring the following rate base adjustments:

- RBO – 30 Accumulated Deferred Income Taxes
- WC – 50 Cash Working Capital

FUEL EXPENSE

Q. Please explain the purpose of the cost of service Adjustment No. FPP-10 Fuel Expense for L&P's steam operations.

A. Adjustment No. FPP-10 annualizes the fuel requirements to produce the forecasted new steam load necessary to serve L&P's existing steam customer base, as well as, the addition of two significant new steam loads. Albaugh, an existing steam custom, is increasing their consumption by over 500%, and Triumph, a new steam customer, is projected to become the second largest steam consumer on the L&P system. The fuel required for these two significant additions is annualized and combined with the fuel needs for the existing steam loads. The adjustment includes the new steam loads in the annualization to more accurately reflect the on-going level of steam sales expected by L&P in this case.

Q. Please explain how Adjustment No. FPP-10 was calculated for L&P's steam operations.

A. The forecast fuel and auxiliary power requirements for the existing steam load and the two additional steam loads were provided by the fuel and purchase power dispatch model. The annualized total fuel and auxiliary power cost for L&P's steam operation was compared to the actual energy and auxiliary power expenses for test year ended December 31, 2004.

Q. What is the amount of Adjustment No. FPP-10 Fuel Expense?

A. The adjustment amount is provided in the testimony of Company witness Susan Braun, specifically Schedule SKB-4.

ESF / IBU CORPORATE ALLOCATIONS (CS-20)

Q. What does ESF and IBU acronyms above represent?

A. ESF respresents "Enterprise Support Functions" i.e., corporate functions. IBU represents "Intra-Business Unit" i.e. operations support departments. These represent the two groups that are maintained by Aquila for system cost allocations.

Q. Please explain Adjustment No. CS-20, ESF / IBU Corporate Allocations adjustment.

A. Adjustment No. CS-20, ESF / IBU Corporate Allocations adjustment consists of test year "residual" ESF and IBU allocation pool dollars being reallocated to the L&P business unit based on recomputed ESF / IBU allocation factors. The recomputed ESF / IBU corporate allocation factors used for this rate case proceeding consist of the following two components:

- ESF / IBU allocation factors effective December 31, 2004.
- ESF / IBU allocation factors impacted by the addition of the South Harper peaking plant cost to the MPS business unit.

Q. Please provide some background on how corporate costs are assigned or allocated to business units.

A. Aquila assigns or allocates costs to its various business units using one of three methods identified below:

- Direct Assignment of Costs: These consist of costs that are directly assignable or associated with a specific business unit. This type of cost is specifically charged to a department residing under a specific jurisdiction.
- Allocation of Costs Based on a Specific Cost Driver: This type of allocation includes allocating net costs remaining after direct assignment contained in the corporate allocation pool and attributing them to specific business units based

upon a specific cost driver. This includes developing an allocation factor that has a direct cause and effect relationship with the types of costs being allocated. An example of this would include allocating payroll costs based on the number of paychecks issued or employee headcount contained in certain departments.

- Allocation of Costs Based on a "General" Allocator: Costs located in departments that are general in nature and benefit the organization as a whole are allocated using the "3-Factor Massachusetts formula". The Massachusetts formula consists of the arithmetic average of payroll charged to expense, gross margin and net plant.

Q. What cost allocation methodology above does Adjustment No. CS-20 reallocate "residual" test year allocation pool costs?

A. Adjustment No. CS-20 relates to both allocation pools associated with specific cost drivers and allocation pools that are generally allocated. In essence, any cost allocated in any given month by a factor different than the allocation factor in effect at December 31, 2004 would be adjusted in Adjustment No. CS-20. In addition, any cost allocated by an allocation factor based on a plant component, including the general allocator, was re-computed and applied to "residual" test year allocation pool costs to include the impact of the South Harper peaking plant.

Q. What percentage of total allocation pool costs are allocated using a specific cost driver versus a general allocation methodology?

A. For the year ended December 31, 2004, approximately 71% of the total allocation pool dollars are allocated via a specific cost driver while the remaining 29% are generally allocated using the Massachusetts Formula.

Q. How often does Aquila make changes to its allocations cost drivers?

A. Aquila continually reviews the allocation process in order to ensure that costs are properly assigned to the various Business Units so that their financial performance can be properly measured. The statistics associated with the allocations cost drivers are updated annually at mid-year based upon the actual historical experience of the prior year. This ensures that the most accurate cost causative driver is in place with the most recent statistical data. For most centralized corporate departments, there exists a specific cost driver that results in the most accurate causative relationship to the Business Unit being serviced. Adjustment No. CS-20 includes the most current cost drivers and statistics available at the time this case was prepared adjusted for the addition of the South Harper peaking plant.

Q. Where can an explanation of Aquila's cost allocation driver's be found?

A. Aquila's 2004 Corporate Cost Allocation Manual is included with Aquila's March 2005 Annual Affiliate Filing to the Commission.

Q. As previously mentioned, please explain what is meant by reallocating net "residual" allocation pool dollars?

A. The term "residual" refers to the net remaining allocation pool dollars that have not been included in other rate case adjustment areas in this application. The following is a listing of the types of costs that have been removed from the allocation pool since they have

been rate case adjusted individually and thus, not included in Adjustment No. CS-20. Each Aquila witness performed adjustments on allocated dollars following the same methodology as outlined in my testimony and as utilized in Adjustment No. CS-20. Types of costs excluded from the allocation pool include:

1) Payroll (CS-5), Incentives (CS-6), Employee Pensions and Benefits (CS-11), Payroll Taxes (CS-85), – Aquila witness Amy Murray.

2) Injuries and Damages (CS-30), Dues and Donations (CS-60), Advertising (CS-65) – Aquila witness Ron Klote

3) Depreciation Expense (CS-95) – Aquila witness Susan Braun.

Q. Besides adjusting the ESF and IBU total allocation pool for individual rate case adjustments, have you made other adjustments to the allocation pool dollars that were allocated to L&P during the test year?

A. Yes. Certain costs are retained in corporate business units and are not allocated out to Network business units. As such, they are not included as part of the total allocation pool. In addition, a review was performed of several ESF and IBU departments that did allocate costs to L&P during the test year and transactions were removed that should not be passed along to the ratepayer. These amounts have been removed from the "residual" allocation pool.

Q. Please describe how the addition of the South Harper peaking facility impacted allocation factors based on plant drivers.

A. Aquila is currently constructing the South Harper peaking facility near Peculiar, MO, that is scheduled to go on line later this year. The construction costs have been added to the

MPS generation gross plant and net plant cost driver statistics. Since the addition of the South Harper plant is expected to be considered in Aquila's electric rate case filing for MPS and L&P, it is appropriate to add the plant costs to all appropriate plant cost driver statistics.

Q. What was the amount of the L&P Adjustment No. 20, ESF / IBU Corporate Allocations adjustment for this rate case proceeding?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-4 for the L&P corporate allocations adjustment amount.

UTILITY ALLOCATION FACTORS

Q. Have additional allocation factors been developed for L&P for this rate case?

A. Yes. L&P is a combination electric, gas and steam utility. Utility allocation factors have been developed for the FERC account 900 series based on test year detail (after the electric / steam allocation process described later in my testimony). These allocation factors were used to allocate certain rate case adjustments impacting the income statement. In addition, an L&P general allocator has been developed which is based on plant balances between electric, gas and steam utilities. Certain rate case adjustments have used the general plant allocator to distribute costs between the electric, gas and steam utilities.

Q. Is there an additional electric / steam allocation for the L&P industrial steam operations?

A. Yes.

Q. Why is an additional allocation for L&P steam operations used?

A. Two separate products are produced at the L&P Lake Road Station: electricity for Aquila Networks' electric power grid, and process steam (referred to as "Industrial Steam")

delivered to several industrial customers located near the Lake Road Station. The two business operations are referred to as the electric and steam jurisdictions.

Q. Please explain how the steam allocation factors that Aquila uses to allocate the L&P steam operations are developed.

A. The steam allocation factors are developed using an analysis of Lake Road plant equipment used to produce the steam product, Lake Road plant payroll charged to O&M, and the total Lake Road plant coal burn (the ratio of three years of steam coal fuel to three years of Lake Road coal fuel) factors. With the development of the steam allocation factors, the following types of costs are distributed between the electric and steam products:

- Plant
- Operations and Maintenance Expenses
- Administrative and General Expenses

Q. Are these steam allocation factors applied to electric costs on a regular monthly basis?

A. No. In the last rate case (Case Nos. ER-2004-0034 and HR-2004-0024 (Consolidated)) it was stipulated that "expenses for L&P steam operations will be allocated for ratemaking, but Aquila should be granted a waiver from the Commission's requirement expressed in a prior order that such expenses be booked monthly within Aquila's accounting system." As such, electric and steam operations are consolidated in the Peoplesoft financial accounting system (except for direct assignments) and allocated for ratemaking purposes.

Q. Please identify the utility allocation factors developed for L&P rate case adjustments.

A. Please see Schedule RAK-1 attached to my testimony.

INJURIES & DAMAGES EXPENSE (CS-30)

Q. Please explain the costs included as injuries and damages in Adjustment No. CS-30.

A. The injuries and damages ("I&D") liability reserve FERC account 228.2 consists of four major areas:

- General Liability
- Worker's Compensation
- Property Damage
- Auto Liability.

The liability reserve houses all accrued claims expensed in FERC account 925, I&D expense. The liability reserve is relieved when payment of I&D claims under the four categories listed above takes place.

Q. Please explain how Adjustment No. CS-30, I&D expense, was calculated for L&P's operations for purposes of this rate proceeding.

A. First, a three-year payout history was obtained from FERC account 228.2 that shows the payout history for I&D. From this payout history, a three-year average was calculated on actual electric/steam claims paid for the 12 months ended December 31, 2002, 2003 and 2004.

Q. What additional step was required in the calculation of the three-year average of claims paid?

A. A manual allocation was necessary to assign a percentage of L&P's claims between electric/steam and gas that were paid during 2002. This was the result of claims that were recorded without a product (i.e. electric, gas, or common) during 2002.

Q. What was the basis of the allocation percentage used to allocate claims recorded with no product?

A. Due to the nature of the claims, the allocation percentage was based on the percentage of electric employees compared to total employees (electric/steam and gas) during 2002, resulting in an electric allocation percentage of 94.35%. The 94.35% was then applied to the total claims recorded without a product during the 12 months ended December 31, 2002 to determine L&P's electric/steam portion of paid claims to include in the calculation of the three-year average claim payout.

Q. Were there any adjustments made to actual electric paid claims for the test year ended December 31, 2004 that has been included in the three-year average calculation?

A. Yes. A journal entry was made in March 2005 to record insurance claims paid from May 2004 through February 2005 that had not been correctly recorded at the business unit level on a monthly basis. Therefore, an adjustment was made to FERC account 228.2 to include claims pertaining to the 2004 test year.

Q. Please continue.

A. After calculating L&P's three-year average electric/steam claim payout, an electric/steam A&G allocation percentage was applied to the three-year average to determine L&P's annualized level of I&D expense for both the electric and steam operations.

Q. Please continue explaining how the I&D expense adjustment was completed.

A. The annualized level of I&D expense for L&P's steam operations was then compared to the steam claim accruals recorded in FERC account 925000 during the test year ended December 31, 2004.

Q. What was the amount of the L&P Adjustment No. 30, I&D expense for this rate case proceeding?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-4 for the L&P steam I&D adjustment amount.

DUES & DONATIONS EXPENSE (CS-60)

Q. Please explain Adjustment No. CS-60, Dues and Donations.

A. This adjustment eliminates all dues and donations charged above-the-line to L&P's electric / steam operations except Edison Electric Institute ("EEI") and Electric Power Research Institute ("EPRI") dues. The expenses relating to EEI and EPRI have been included in L&P's cost of service because they provide a benefit to ratepayers.

Q. What benefit does EEI provide to ratepayers?

A. EEI fosters the exchange of information on topics such as utility operations and environmental legislation. Member utilities and other interested parties rely upon EEI for authoritative analysis and critical industry data. EEI also conducts forums for member company representatives to discuss issues and strategies to advance the industry and to ensure a competitive position in a changing marketplace.

Q. Have any lobbying costs associated with EEI been eliminated from this adjustment?

A. Yes. Percentages associated with lobbying activity compared to all other EEI activity were obtained from EEI and used to calculate the disallowance of lobbying expenditures for the test year ended December 31, 2004. The percentages are based on EEI's actual lobbying expenditures for calendar year 2003 which were identified as lobbying and political expenditures under the Lobbying Disclosure Act of 1995.

Q. What benefit does EPRI provide to ratepayers?

A. The EPRI was established in 1973 as an independent, non-profit center for electricity and environmental research. EPRI's collaborative science and technology portfolio now spans every aspect of power generation, delivery and end-use, drawing upon a world-class network of scientific, engineering and technical talent. Through the power of collaboration, EPRI is able to leverage the collective resources of its clients to address the industry's toughest and most critical challenges related to generation, delivery and end-use, with a special focus on safe, reliable, cost-effective electricity and environmental stewardship.

Q. What specific EPRI programs has Aquila found to be a direct benefit to the Company and ratepayers?

A. A few examples include fluid spill containment systems, pollution control device development, regulatory comments and potential future development in environmental regulations.

Q. What was the amount of the L&P Adjustment No. 60, Dues and Donations expense for this rate case?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-4 for the L&P Dues and Donations expense adjustment amount.

ADVERTISING EXPENSE (CS-65)

Q. Please explain Adjustment No. CS-65, Advertising.

A. This adjustment eliminates all advertising expenses recorded to above-the-line accounts for the test year ending December 31, 2004 except those expenses for informational and safety advertisements that directly benefit L&P electric / steam customers.

Q. What do the informational and safety advertisements consist of?

A. The informational and safety advertising expenses remaining in operating expenses relate to news releases, customer bill inserts, newspaper advertisements, and newsletters. News releases, customer bill inserts and newspaper advertisements regarding safety and Company information were distributed twice during the test year.

Q. Why are a portion of these advertisement costs allocated to steam operations?

A. Advertising costs recorded in certain A&G FERC expense accounts are allocated to Steam operations based on the utility allocation methodology described earlier in my testimony.

Q. What was the amount of the L&P Adjustment No. 65, Advertising expense for this rate case?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-4 for the L&P advertising expense adjustment amount.

CURRENT & DEFERRED INCOME TAX EXPENSE (TAX – 1)

Q. Please explain the current income tax expense adjustments calculated in Schedule 8 of MPS and L&P's revenue requirement models.

A. Certain adjustments are made to net income to compute the current provision for income tax expense. These adjustments begin by taking adjusted net income and applying various adjustments which either add to and subtract from net income to obtain net

taxable income for ratemaking. The adjustments are the result of various book versus tax timing differences and their implementation under separate tax methods: flow-through versus normalization. The resulting net taxable income for ratemaking is then multiplied by the appropriate federal and state tax rates to obtain the current provision for income taxes. A federal tax rate of 35% and a state income tax rate of 6.25% were used in this calculation resulting in an overall effective tax rate of 38.3886%. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment.

Q. Please describe the adjustments to net income before taxes.

A. The following are adjustments made to net income before taxes:

- Book depreciation (including transportation depreciation) expense is added to net income. This amount is added back to net income to avoid deducting depreciation amounts twice for income tax purposes. Tax straight-line depreciation replaces book depreciation as a deduction from income for the income tax calculation.
- Schedule M meals and entertainment as estimated for the 2004 test year have been added back to income. This amount has historically been included as an add back in determining the current income tax provision.
- Interest expense is subtracted from net income before taxes. It is calculated by multiplying net rate base by the weighted average cost of debt proposed in this proceeding. This interest sychronization technique ensures the interest deduction in the income tax expense calculation equals the interest expense provided in rates.

- Tax depreciation is subtracted from net income. It is divided into two components: (1) Tax straight-line depreciation and (2) Tax depreciation in excess of tax straight-line depreciation. Tax straight-line depreciation represents book depreciation expense restated to reflect the tax basis of plant in service. No deferred taxes are provided for tax straight-line depreciation, thus it can be considered a flow through item. Tax depreciation in excess of tax straight-line depreciation is simply the difference between the tax straight-line depreciation calculation and the total tax depreciation deduction.

Q. Please explain how the tax straight-line depreciation amount was computed in this rate case filing for L&P steam operations.

A. As stated in Appendix E of the Unanimous Stipulation and Agreement in Case No. ER-2004-0034 and Case No. HR-2004-0024 (consolidated), Aquila agreed to completing a formal tax study to develop the best methodology for computing regulated income tax expense. In particular, developing a mutually agreeable basis for computing a tax deduction associated with depreciation expense for ratemaking purposes. As such, Aquila has agreed to the following:

> The Staff method used to calculate the tax deduction for book depreciation in the calculation of regulated income tax expense in this case will continue to be used in future rate cases until this study is completed or another method is mutually agreed upon.

At the time of this filing, the tax study is not complete. As such, the method proposed by staff in Case No. ER-2004-0034 and HR-2004-0024 has been used to compute the tax

straight line depreciation amount for this rate case filing. This calculation includes the calculation of a ratio of tax basis versus book basis depreciable plant used in the previous rate case filing.

Q. Please describe the deferred income tax adjustment.

A. The deferred income tax adjustment includes an amortization of excess deferred income taxes resulting from the 1986 Tax Reform Act. This calculation is the result of the 1986 Tax Reform Act which created excess deferred tax amounts associated with depreciation timing differences. As such, a manual amortization has been created to amortize excess deferred taxes created from the change in tax rates back to customers.

Q. What was the amount of the L&P steam current and deferred income tax expense adjustment for this rate case proceeding?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-4 for the L&P current and deferred income tax expense adjustment amount.

ACCUMULATED DEFERRED INCOME TAXES (RBO – 30)

Q. Please describe the accumulated deferred income tax offset to rate base.

A. The accumulated deferred income tax offset to rate base includes the accumulation of tax effected timing differences between the general ledger and tax accounting records. These items are known as schedule M's in the company's annual tax return. The majority of timing differences included in this filing are from general ledger accounts that include timing differences associated with plant activity. They include both L&P directly assigned timing differences, as well as, corporate timing differences which are common to all Aquila jurisdictions.

Q. What time period was used for accumulated deferred income taxes?

A. Accumulated deferred income taxes are based on actual and estimated timing differences through December 31, 2004.

Q. Please explain how the accumulated deferred income tax amount was computed.

A. The accumulated deferred income tax amount includes the following components:

- Accumulated deferred income taxes include timing differences recorded in MPS and L&P FERC account 190 and 282. Balances in FERC account 190 and 282 at December 31, 2004 include timing differences based on actual tax return filings through December 31, 2003 and estimates for the period ending December 31, 2004.
- Accumulated deferred income taxes include L&P allocable share of balances recorded in corporate FERC account 282. As described above, FERC account 282 at December 31, 2004 includes timing differences based on actual tax return filings through December 31, 2003 and estimates for the period ending December 31, 2004.

Q. How were accumulated deferred taxes not directly assigned to electric, gas or steam utilities allocated to the steam utility in this rate case?

A. The majority of the tax effected timing differences residing in accumulated deferred income tax balances are associated with different depreciation methods. As such, plant utility allocation factors were applied to the accumulated deferred income tax balances to allocate between the utilities.

Q. What is the total steam accumulated deferred income tax rate base offset for L&P?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-2 for the L&P accumulated deferred income tax rate base offset amounts.

CASH WORKING CAPITAL (WC-50)

Q. What is Cash Working Capital?

A. Cash Working Capital ("CWC") is the amount of cash necessary for MPS and L&P to pay the day-to-day expenses incurred to provide electric service to their customers.

Q. Is the method used in the current rate case to calculate L&P steam CWC requirements the same method that has been used in previous cases?

A. Yes, the method has been proposed by Commission Staff in numerous rate proceedings including Docket Nos. ER-99-0247, ER-2001-0672, and ER-2004-0034.

Q. Please explain this method.

A. A lead/lag study determines the amount of cash that is necessary on a day-to-day basis to provide energy services to customers. A lead/lag study analyzes the cash flows related to the payments received from its customers for the provision of electric service and the disbursements made by L&P to its suppliers and vendors of goods and services necessary to provide the energy services. A lead/lag study determines the number of days L&P has to make payments after receiving goods or services from a vendor and is compared with the number of days it takes to receive payment for the energy services provided to its customers.

Q. What are the sources of CWC?

A. Ultimately, shareholders and ratepayers provide all sources of cash working capital.

Q. How do shareholders supply CWC?

A. When L&P expends funds to pay for an expense before the ratepayers provide the cash through rates, the shareholders are the source of the funds. This cash represents a portion of

the shareholders' total investment in L&P. The shareholders are compensated for the CWC funds they provided by the inclusion of these funds in rate base. By including these funds in rate base, the shareholders earn a return on the funds they have invested.

Q. How do ratepayers provide CWC?

A. Ratepayers supply CWC when they pay for energy services received before L&P pays expenses incurred to provide that service. Ratepayers are compensated for the CWC that they provide by reducing rate base by the amount of CWC the ratepayers provide.

Q. How is the amount of CWC provided by both the ratepayers and shareholders generally determined?

A. A lead/lag study is performed.

Q. How are lead/lag study results interpreted?

A. A positive CWC requirement indicates that, in the aggregate, the shareholders provided the CWC for the test year. This means that, on average, the Company paid the expenses incurred to provide the energy service to the ratepayers before the ratepayers paid the Company for the provision of utility service.

A negative requirement indicates that, in aggregate, the ratepayers provided the CWC during the test year. This means that, on average, the ratepayers paid for their electric service before the utility paid the expense incurred to provide those services.

Q. Was there a lead/lag study prepared for L&P for this rate case proceeding?

A. Yes. A lead/lag study was prepared using mainly 2004 test year data.

Q. What was the result of the lead / lag study performed for 2004?

A. The results of the lead / lag demonstrates that in the aggregate ratepayers have supplied funds to the utility to pay for expenses prior to the utility paying for the same expenses. As such, a rate base offset amount will be included in this rate case filing.

Q. Where can the Cash Working Capital calculation be found?

A. Please see Schedule RAK-2 attached to my testimony which details the calculation of the Cash Working Capital rate base offset. Included within the calculation are the computed lead / lag days which were updated for the 2004 test year.

Q. Please explain the components of the calculation of CWC that appears on Schedule RAK-2.

A. The components of the calculation are as follows:

1) Column A (Account Description) lists the types of significant cash expenditures that MPS and L&P pay on a day-to-day basis.

2) Column B (Test Year Expense) provides the amount of annualized expense included in the cost of service. It shows the dollars associated with the items listed in column A on an adjusted Missouri jurisdictional basis.

3) Column C (Revenue Lag) indicates the number of days between the midpoint of the provision of service by MPS and L&P and the payment for the service by the ratepayer.

4) Column D (Expense Lead) indicates the number of days between the receipt of and the payment for the goods and services (i.e. cash expenditures) used to provide service to the ratepayers.

5) Column E (Net Lag) results from the subtraction of the Expense Lead (column D) from the Revenue Lag (column C).

Rate Case Utility Allocation Factors
Aquila Networks - L&P

		12/31/04			
		Electric	Gas	Steam	Total
TOTAL PLANT %		94.624%	2.295%	3.081%	100.000%
A&G Accounts (Rolling 12 Mos)					
901000	Cust Accts Supervision	72.690 %	27.310 %	0.000 %	100.000 %
902000	Cust Accts Meter Reading Expen	91.683 %	8.317 %	0.000 %	100.000 %
903000	Cust Accts Records & Collectio	92.524 %	7.476 %	0.000 %	100.000 %
904000	Uncollectible Accounts	93.365 %	6.635 %	0.000 %	100.000 %
905000	Misc Customer Accounts	69.553 %	30.447 %	0.000 %	100.000 %
907000	Customer Service Supervision	99.833 %	0.167 %	0.000 %	100.000 %
908000	Customer Assistance Exp	0.000 %	100.000 %	0.000 %	100.000 %
909000	Informational & Instruct Ads	91.862 %	8.138 %	0.000 %	100.000 %
910000	Misc Cust Service & Info	87.540 %	12.460 %	0.000 %	100.000 %
911000	Sales Supervision	91.323 %	8.677 %	0.000 %	100.000 %
912000	Sales Demonstrating & Selling	91.582 %	8.418 %	0.000 %	100.000 %
913000	Sales Advertising Expenses	82.635 %	17.365 %	0.000 %	100.000 %
916000	Miscellanous Sales Expenses	91.271 %	8.729 %	0.000 %	100.000 %
920000	Admin And General Salaries	89.282 %	5.552 %	5.166 %	100.000 %
921000	Office Supplies And Expense	90.909 %	3.830 %	5.260 %	100.000 %
922000	Admin Exp Trans Credit	90.975 %	3.761 %	5.264 %	100.000 %
922001	FDC Loading	124.245 %	(31.434)%	7.189 %	100.000 %
923000	Outside Services Employed	91.178 %	3.546 %	5.276 %	100.000 %
924000	Property Insurance	94.457 %	0.077 %	5.466 %	100.000 %
925000	Injuries And Damages	91.694 %	3.000 %	5.306 %	100.000 %
926000	Employee Pensions & Benefits	82.399 %	10.546 %	7.055 %	100.000 %
928000	Regulatory Commission Exp	81.445 %	7.922 %	10.633 %	100.000 %
929000	Duplicate Charges - Credit	94.530 %	0.000 %	5.470 %	100.000 %
930100	General Advertising Expenses	90.392 %	4.377 %	5.231 %	100.000 %
930200	Miscellaneous General Exp	92.410 %	2.243 %	5.347 %	100.000 %
930201	Environ Remed-MO Electric	94.530 %	0.000 %	5.470 %	100.000 %
931000	A & G Rents	87.314 %	7.634 %	5.052 %	100.000 %
935000	Maintenance General Plant	89.677 %	5.134 %	5.189 %	100.000 %
Electric/Steam Allocation Factors					
1	Electric - 100%	100.000 %	0.000 %	0.000 %	100.000 %
2	Steam - 100%	0.000 %	0.000 %	100.000 %	100.000 %
3	Allocated Plant Base Factor	94.624 %	2.295 %	3.081 %	100.000 %
4	Land Factor	90.070 %	0.000 %	9.930 %	100.000 %
5	Structures Factor	90.070 %	0.000 %	9.930 %	100.000 %
6	Boiler Plant Factor	83.415 %	0.000 %	16.585 %	100.000 %
7	Turbogenerators Factor	99.971 %	0.000 %	0.029 %	100.000 %
8	Access Elec Eqpt Factor	90.070 %	0.000 %	9.930 %	100.000 %
9	Misc Steam Gen Eqpt Factor	73.300 %	0.000 %	26.700 %	100.000 %
10	Electric/Steam Plant Factor	90.070 %	0.000 %	9.930 %	100.000 %
11	900 lb Steam Demand Factor	73.300 %	0.000 %	26.700 %	100.000 %
12	Total Coal Burned Factor	81.600 %	0.000 %	18.400 %	100.000 %
Income Statement Allocation Factors (Elec/Steam)					
13	Electric After Steam Alloc (O&M)	86.691%			
14	Electric After Steam Alloc (A&G)	94.530%			

Aquila Networks - L&P (Steam)
Cash Working Capital Calculation

Line #	Account Description (A)	Steam Test Year Expenses (B)	Revenue Lag (C)	Expense Lead (D)	Net (Lead)/Lag (C) - (D) (E)	Factor (Col E/365) (F)	CWC Req (B) X (F) (G)
	Operations & Maintenance Expense						
1	Cash Vouchers	1,694,161	38.7136	45.6250	(6.9114)	(0.01894)	(32,080)
2	Federal Income Taxes Withheld	66,625	38.7136	12.4259	26.2877	0.07202	4,798
3	State Income Taxes Withheld	19,435	38.7136	12.4259	26.2877	0.07202	1,400
4	FICA Taxes Withheld - Employee	34,819	38.7136	12.4259	26.2877	0.07202	2,508
5	Net Payroll	492,076	38.7136	13.9259	24.7877	0.06791	33,418
6	Accrued Vacation	19,504	38.7136	365.0000	(326.2864)	(0.89394)	(17,435)
7	Purchased Gas and Oil	9,521,774	38.7136	39.5900	(0.8764)	(0.00240)	(22,863)
8	Injuries and Damages	8,277	38.7136	237.7933	(199.0797)	(0.54542)	(4,514)
9	Purchased Power	0	38.7136	34.9130	3.8006	0.01041	0
10	Lake Road Coal & Freight	2,961,437	38.7136	35.1496	3.5640	0.00976	28,917
	Total Operation & Maintenance Expense	$ 14,818,108					(5,852)
	Interest Expense	$ 270,740	38.7136	92.0000	(53.2864)	(0.14599)	(39,525)
	Taxes other than Income Taxes						
11	Ad Valorem/Property Taxes	15,744	38.7136	182.5000	(143.7864)	(0.39394)	(6,202)
12	FICA Taxes - Employer's	34,819	38.7136	12.4259	26.2877	0.07202	2,508
13	Unemployment Taxes (FUTA & SUTA)	0	38.7136	76.3750	(37.6614)	(0.10318)	0
14	Corporate Franchise Taxes	7,253	38.7136	(76.0000)	114.7136	0.31428	2,280
15	City Franchise Taxes	0	38.7136	0.0000	38.7136	0.10606	0
16	Sales Taxes	24,581	38.7136	35.2000	3.5136	0.00963	237
	Total Taxes other than Income Taxes	$ 82,397					(1,178)
17	Current Income Taxes-Federal	(1,542,087)	38.7136	38.5000	0.2136	0.00059	(902)
18	Current Income Taxes-State	(275,373)	38.7136	38.5000	0.2136	0.00059	(161)
	Total Cash Working Capital Requirement	13,353,785					(47,619)

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila	)	
Networks-L&P, for authority to file tariffs	)	
Increasing steam rates for the service provided	)	Case No. HR-_____
To customers in the Aquila Networks-L&P area	)	

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF RONALD A. KLOTE

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

Ronald A. Klote

Subscribed and sworn to before me this 27th day of May, 2005.

Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008

Notary Public Notary Seal State of Missouri

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