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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Public Hearing

January 6, 2004

Maryville, Missouri

Volume 2

In the Matter of the Request of)
Aquila, Inc. d/b/a Aquila Networks -)
L&P and Aquila Networks - MPS,)Case No. GR-2004-0072
to Implement a General Rate Increase)
in Electric Rates)

KENNARD JONES, Presiding,
REGULATORY LAW JUDGE

CONNIE MURRAY, Commissioner

REPORTED BY: Melanie K. Williams

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1 A P P E A R A N C E S

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4 TIM SCHWARZ, Senior Counsel

5 FOR: Staff of the Missouri Public

6 Service Commission

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9 DOUGLAS E. MICHEEL, Senior Public Counsel

10 FOR: Office of the Public Counsel

11

12

13 WARREN WOOD, Legal Counsel

14 FOR: Staff of the Missouri Public

15 Service Commission

16

17 DEAN L. COOPER, Brydon, Swearngen & England, P.C.

18 FOR: Aquila, Inc., d/b/a Aquila Networks-MPS

19 Aquila Networks-L&P

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I N D E X

WITNESS DAVID A. EASTERLA..... 7

WITNESS JAMES TEANEY..... 16

CERTIFICATE..... 25

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1 P R O C E E D I N G S

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(Hearing commenced at 12:30 p.m.)

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JUDGE JONES: I'd like to welcome everyone to
8 the local public hearing. This is a local public
9 hearing for Aquila natural gas rate case, Case
10 Number GR-2004-0072. This hearing is being held to
11 give the public an opportunity to voice their
12 support of or opposition to the proposed rate
13 increase. My name is Kennard Jones. I'm the
14 regulatory law judge presiding over this public
15 hearing. Specifically, Aquila is seeking an
16 \$800,000 rate increase for this area.

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1 by those utilities. The Commission consists of five
2 Commissioners appointed by the governor, and one of
3 those Commissioners, Ms. Connie Murray, is seated to
4 my right.

5 As stated earlier, the purpose of this hearing
6 is to give you, the public, an opportunity to voice
7 your comments in this rate case. This is an
8 official hearing of the Commission. A transcript
9 will be made as part of the official record.
10 Accordingly, all of your remarks will be made under
11 oath. Although one Commissioner is present, all of
12 the Commissioners will have an opportunity to read
13 your remarks.

14 In addition to this local public hearing,
15 others will be held in Platte City, Nevada, Rolla,
16 Marshall, and Sedalia. Additionally, a trial-type
17 hearing will be held in this case in late February,
18 into early March, in Jefferson City, Missouri. That
19 hearing will also be open to the public. During the
20 hearing, all of the parties put on witnesses for and
21 against the rate case.

22 Tonight, what we'll do -- this afternoon,
23 rather -- is, I will call your names as witnesses;
24 you will then move to the podium; you will be asked
25 to spell your name, for the record, and also give

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1 your address; and then proceed to give the comments
2 that you'd like to give on the record. There may be
3 questions from the Commission or from some of the
4 attorneys that are present. Please do not step away
5 from the podium until you're excused.

6 Are there any questions, at this time, from the
7 audience? Seeing none, I'll ask that the attorneys
8 enter their appearance, for the record.

9 MR. SCHWARZ: May it please the Commission, Tim
10 Schwarz appearing for the Staff of the Missouri
11 Public Service Commission, P.O. Box 360, Jefferson
12 City, Missouri 65109.

13 JUDGE JONES: Thank you.

14 MR. MICHEEL: Douglas E. Micheel appearing on
15 behalf of the Office of the Public Counsel and the
16 public, P.O. Box 2230, Jefferson City, Missouri,
17 65102-2230.

18 MR. COOPER: Dean Cooper, from the law firm of
19 Brydon, Swearingen & England, P.C., P.O. Box 456,
20 Jefferson City, Missouri, 65102, appearing on behalf
21 of Aquila, Inc., d/b/a Aquila Networks - MPS and
22 Aquila Networks - L&P.

23 JUDGE JONES: Thank you. Are there any other
24 attorneys present? Seeing none, I will call -- the
25 first witness is Mr. David A. Easterla. Mr.

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1 Easterla, will you step forward. Raise your right
2 hand.

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6 DAVID A. EASTERLA, having been first duly sworn, was
7 examined and testified as follows:

8

9 JUDGE JONES: State your name and spell your
10 name.

11 THE WITNESS: David, D-A-V-I-D, Easterla,
12 E-A-S-T-E-R-L-A, Maryville, Missouri, 64468.

13 JUDGE JONES: And are you a customer of Aquila?

14 THE WITNESS: Yes, I am.

15 JUDGE JONES: Thank you. You may proceed with
16 your comments.

17 THE WITNESS: Well, the first thing, I know we
18 see a lot more, but there's only two of us signed
19 up; right? For testifying or whatever I'm doing
20 here, but that's fine. I appreciate living in a
21 democracy where I have such opportunity to do this.

22 See, when I first got this notice, I thought,
23 oh, great, we've got a rate drop here, but that
24 wasn't the case, as already been explained. It was
25 an increase, a suggested increase, of 13.49 percent,

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1 which, I guess, according to the typical residential
2 customer, we're talking about an increase of some
3 \$8.33 per month or, on an annual basis, almost a
4 hundred dollars. Ninety-nine and -- what I'm
5 reading here is ninety-six cents.

6 I'd like to state that I'm not a historian, but
7 I believe in history. I think a lot can be
8 interpreted concerning the present by looking into
9 the past. And so I do pay attention to history. I
10 think we can learn something from it. And when I
11 received the notice, it reminded me of a newspaper
12 article that I had cut out and saved. And I do save
13 articles that I feel are significant. Actually, it
14 it's kind of an upsetting article, but maybe that's
15 the reason I saved it. I don't know. I have it
16 right here. I'm not going to take the time to read
17 the whole thing, I'll guarantee you that, but there
18 are some important parts that I want to read and
19 point out.

20 This is from the front page of the Kansas City
21 Star, July 7, 2002, entitled, "Troubled Aquila Gave
22 Out Big Bonuses." I'm simply going to read out
23 certain parts. Again, if anyone wants to read the
24 whole thing, that's their option. I will not take
25 the time to read the entire thing.

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1 "In early February, as trouble brewed around
2 the prized Aquila energy trading operation, three
3 members of the parent company's board of directors
4 gathered to discuss executive compensation.

5 Fellow energy trader Enron Corporation already
6 had stumbled into bankruptcy in a cloud of
7 accounting scandals. A spin-off of the Aquila
8 trading unit, once the centerpiece of plans to
9 enrich shareholders, had dropped. And the parent
10 company's stock price had fallen from a high of
11 \$37.55 in May to \$23.53 on February 1.

12 Even so, the board's compensation committee
13 decided that the company's top executives deserved
14 hefty bonuses that went beyond the established
15 salary and incentive packages. Aquila officials
16 emphasize that the multimillion dollar pay packages
17 were for performance last year, not this year.

18 The compensation committee decided that nearly
19 \$6 million in salary and bonuses destined for
20 Chairman Richard Green Jr. was insufficient because
21 of his work in cultivating the trading operation."
22 And I don't know what means -- cultivating the
23 trading operation means, but that's what it states.
24 "As a result, the committee put an additional \$4.5
25 million in discretionary cash and stock into his

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1 paycheck in recognition of his contribution, pushing
2 his total compensation to more than \$10.3 million.

3 Robert Green, president and chief executive
4 officer, received more than \$9.4 million in salary
5 and bonuses. Nearly half of it, \$4.5 million in
6 cash and stock, came his way because the
7 compensation committee thought he also deserved
8 something extra." And I think maybe all of us would
9 like something extra.

10 "Three other executives received a total of \$12
11 million in bonuses, and this was on top of their
12 salaries, most tied to existing incentive packages.
13 All told, bonuses for the five executives, including
14 the Green brothers, totaled roughly \$30 million, not
15 counting stock options.

16 The bonuses were paid in March. A month later,
17 Aquila, formally known as UtiliCorp United
18 Incorporation, announced that it would fire 500
19 employees, a move to save about \$35 million a year.
20 That was soon followed by additional layoffs and the
21 announcement of a cut in dividends for shareholders
22 and asset sales to further conserve cash." I'm
23 skipping a little bit here.

24 It should be noted, "Green and the employees of
25 Aquila own the stock themselves." And then they

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1 make a quote from a gentleman whose name is Steve
2 Bailey, a stockholder, stating, "The impact of lost
3 jobs and wealth on the company's employees saddens
4 him. The dividend cut shook his confidence as an
5 investor. But what has really stuck in his craw is
6 how Aquila's board boosted the bonuses of the
7 company's top executives in times of trouble.

8 Aquila's top executives have been well rewarded
9 compared with their energy industry peers. Among 13
10 companies the company considers a peer group,
11 Aquila's chief executive, during 2001, was among the
12 three best paid, not counting stock options, and
13 made more than executives of some larger companies,
14 according to a review of their proxy statements."

15 So in summary here, which they have -- and I'm
16 not going to read any more of that. Again, it's
17 available if anyone wants to read it.

18 As far as executive compensation alone,
19 involving two people, Chairman Richard Green Jr.,
20 for 2001, compensation totaled \$10,306,696. They
21 had the breakdown of it. I won't take the time for
22 the breakdown. It's here. The second, President
23 and Chief Executive Officer Robert Green, total 2001
24 compensation, \$9,417,261. Again, that's broken
25 down, as far as the salary and other compensation,

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1 et cetera. And I won't take the time to break that
2 down.

3 You know, it's hard to believe anyone's worth
4 that much money in a year. That's all I can say. I
5 can't imagine being worth that much money,
6 regardless of how much they have accomplished. I
7 don't think the President of the United States --
8 his compensation even approaches that. And I think
9 that's something to, at least, certainly mention.
10 And, in fact, when we talk just about one million,
11 mathematicians tell us that most humans can't even
12 comprehend that much, as far as one million,
13 whatever it might be, whether it's dollars or
14 whatever.

15 So based upon the historical background which
16 I have just read, mentioned, discussed for 2001, I
17 am totally against any monetary increase for such
18 utility services. Aquila should not try to make up
19 for past mistakes concerning taking it out,
20 basically, on the customers. And I feel that's
21 really kind of where we are.

22 I'm sure that the Greens and other top
23 executives -- I'm sure they're very intelligent
24 people. They're very hardworking people. They're
25 very bright. I'm sure they have tremendous

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1 experience and all of that, but for goodness sakes,
2 I think their annual monetary compensations are
3 certainly way out of bounds and not within reason.

4 We are living in tough times. I won't speak
5 for Kansas City, but I do keep up with national
6 news, world news. Basically, times are tough
7 throughout the world. And if we're not careful, I
8 don't think they'll get any better. That's a
9 personal comment of mine and a belief. I hope I'm
10 wrong.

11 With that in mind, I think that the ordinary
12 citizen, the middle class, the low income families,
13 et cetera, are people that are really getting hit
14 the hardest. And I think it's going to be tough. I
15 can speak personally myself. I spent nine years
16 getting three degrees, including a doctorate, a
17 Ph.D. I've been teaching 39 years here and 3 years
18 at Kansas City. That makes a total of 42 years of
19 teaching experience. And I can certainly tell you
20 that my annual salary is not any secret. I serve
21 the public. In fact, my annual salary is published
22 in the Blue Book each year by the State of Missouri,
23 for good reason. I think it should be. I'm glad it
24 is. As I said, my salary certainly comes nothing
25 close to what we have just already heard. In fact,

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1 it's well below \$100,000 annually. And I don't
2 expect anyone to take my word for it. Go to the
3 Blue Book, take a look yourself, and you'll see
4 yourself what it is.

5 Since Aquila is a public utility serving the
6 public, really I have several questions, but I
7 understand I can't get answers. That's fine, but
8 I'm going to go ahead and pose a question just out
9 of curiosity anyway. Because I don't believe that
10 monetary compensation should be secrets. And
11 really, that's what my first question concerns, as
12 far as the present day top executives, 2003, what is
13 their total compensations? I think that's a fair
14 question; okay? For the Aquila top executives, what
15 is the range, the lowest to the highest, for these
16 top executives, the average, or whatever it might
17 be. And my other question concerns, you know, just
18 out of curiosity, dating back to history a little
19 bit, as far as 2001, what about those top
20 executives, you know, what's happened to them? Did
21 they return this excessive reimbursement? I don't
22 know. I'm asking. Was any action against them by
23 stockholders who were bitter about this or whatever.
24 Was any remorse shown? You know, was there
25 excessive -- you know, just a legal maneuver, you

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1 might say, at the expense of probably most
2 uninformed stockholders.

3 So I hope the Missouri Public Service
4 Commission will take these facts into consideration
5 and my recommendation against any monetary increase.
6 And I'm saying this certainly for the sake and, I
7 think, the survival of basically most of Northwest
8 Missouri customers.

9 I know that a lot of my students -- I've seen
10 them drop out of school in the last few years.
11 Probably a higher dropout than I've seen in my 42
12 years of teaching. And often, as their advisor, as
13 their teacher, yeah, we get close, and then they
14 tell me, hey, mom and dad can't make it. I've got
15 to go home, got to work, got to help pay the bills,
16 you know, whatever. So that's all I have to say.

17 JUDGE JONES: Thank you, Mr. Easterla.

18 Commissioner Murray, do you have any questions?

19 COMMISSIONER MURRAY: I don't, but thank you
20 for your comments.

21 JUDGE JONES: Are there any questions from any
22 of the attorneys present?

23 MR. MICHEEL: I just have one comment. I can
24 tell you that the issue of executive compensation is
25 something that we will be looking at and will be

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1 reviewing in the context of the rate case. And I
2 would be happy to talk with you after this procedure
3 about that.

4 JUDGE JONES: Thank you.

5 THE WITNESS: I have nothing against fair
6 compensation, but I don't think it should be
7 excessive.

8 JUDGE JONES: Thank you for your comments, Mr.
9 Easterla.

10 THE WITNESS: Okay. Thank you.

11 JUDGE JONES: Mr. James Teaney, will you please
12 approach the podium. Will you raise your right hand
13 and be sworn, please.

14

15

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17 JAMES TEANEY, having been first duly sworn, was examined
18 and testified as follows:

19

20 JUDGE JONES: Will you state and spell your
21 name and give your address.

22 THE WITNESS: It's James Teaney, J-A-M-E-S,
23 T-E-A-N-E-Y, 207 Ross Street, Ravenwood, Missouri
24 64479.

25 JUDGE JONES: And are you a customer of Aquila?

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1 THE WITNESS: Yes.

2 JUDGE JONES: You may proceed with your
3 comments.

4 THE WITNESS: I'm an unofficial spokesman of
5 Northwest. I am employed here. So I will take the
6 time -- if the Commission or anybody that's here
7 would like to take a tour of our steam plant, if
8 they can clear their schedule, they're welcome.

9 One of the reasons why I am here is because
10 Northwest, while it's known for the electronic
11 campus, it's also known for its alternative energy.
12 And the things that we do, in a way, has probably
13 affected this rate or this change of tariff. And
14 right now, as I understand, Northwest pays a sum
15 monthly. For every month that I burn wood chips,
16 then I have to pay Aquila a balance that's lost
17 revenue. And if this sum wasn't put in there, why
18 then this would have been passed onto residential
19 customers. And so, you know, Northwest -- I mean,
20 if this price had been whittled down, that's what
21 it's stuck with. But if I wanted to go totally on
22 natural gas, then, you know, that loss to them is
23 passed onto the residential customers. That's not
24 right. I have to be connected to the gas line.
25 There's no way I can be independent of the gas line.

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1 I can't predict the weather and I can't predict how
2 much gas is, but we're kind of -- Aquila is our LDC,
3 our supplier. It's their pipes. It's their meter.
4 We buy transportation gas. And so how that affects
5 me is my bank gas. For the last five or six years,
6 I've operated under the assumption that whatever I
7 put in the ground, I lose three percent of it.
8 There's a lost charge there. And so if I over
9 nominate, that gas went in the ground in Kansas, and
10 so I lost three percent of it. But it gave me that
11 flexibility, so I didn't have to exactly every month
12 say I'm going to balance out every month. With this
13 rate or this tariff charge now, it appears that I
14 need to be pretty close to balanced out. And then
15 the payoff at the end of the month, whether it's a
16 plus or minus, is going to be adjusted. So I guess
17 I would like to know the numbers on my part. I
18 mean, I want a supply of energy for the University
19 as cheaply as I can. And so I need numbers. What's
20 that payoff going to be at the end of the month if I
21 -- if I bank gas or I nominate gas at the first of
22 the month or if I lock in gas for five months.
23 Aquila is a big enough company that they surely lock
24 in gas over the winter. And so they should be able
25 to tell me what's that payoff price or what's that

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1 magic number going to be at the end of the month, so
2 I can say, oh, I'm two or three thousand
3 dekatherms over and do I need to burn this. Or
4 maybe their price is higher than mine and by the
5 time the payoff is out, I might be money ahead, you
6 know, keeping that balance in there and letting them
7 buy that balance back, but -- let me look at my list
8 here.

9 Yeah. I just -- we hate to lose the
10 flexibility. We would like to -- you know, natural
11 gas has become an alternative fuel, with distributed
12 power and things like that, and so it's raised the
13 prices. And we don't consider natural gas a
14 distributed power. And we -- we try and keep away
15 from it. Natural gas is what we'd have to burn if
16 we didn't have an alternative. But every month that
17 we do that, somebody loses money somewhere. And so,
18 once again, we have that rate increase to make up
19 that difference. And it's not an incentive to go to
20 alternative energy, if that's the cost people have
21 to pay that it goes that way. I think that's all
22 I've got to say.

23 JUDGE JONES: Thank you. Commissioner Murray,
24 do you have any questions?

25 COMMISSIONER MURRAY: I don't know if this is

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1 working, but can you hear me?

2 THE WITNESS: Yes.

3 COMMISSIONER MURRAY: Have you discussed your
4 questions with anyone either from the Company or
5 with the Staff of the Public Service Commission or
6 with the Office of the Public Counsel?

7 THE WITNESS: We've had discussions. One of
8 the things that -- you know, this discussion of this
9 monthly charge has been forever. I mean, it started
10 since 1980 or '81. So that monthly charge has been
11 there before I was there. That's more or less what
12 accounts as a sunk cost. It's just there. And it's
13 going to happen. The -- when we, you know, was
14 notified of this tariff increase, we were actually
15 notified by our transportation service first, the
16 16th, saying, you know, this is going to affect your
17 balance that you have in the ground, so you're going
18 to have to maybe watch it and see how you nominate
19 more closely. And then we received the letter from
20 Aquila. It was dated the 29th, saying, you know,
21 the tariff was going to change.

22 One of the other things I have is, right now,
23 it seems that everybody's using my numbers as to
24 what I have in the ground. So that kind of bothered
25 me when I talked to Aquila. And when I talked to my

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1 transportation service, I said, well, how much gas
2 do I have out there, and, also, when does this date
3 take effect. Is it the end of December, January.
4 How many months do I have, if I've got a balance out
5 there, to use that up, if I have to, and nobody's
6 really given me a firm number.

7 COMMISSIONER MURRAY: Have you tried to get
8 that question answered by talking to anyone at
9 Aquila?

10 THE WITNESS: Yes. I'd talked to Joe Fangman,
11 as far as the balance number, yes.

12 COMMISSIONER MURRAY: Have you talked to the
13 Public Service Commission about that?

14 THE WITNESS: No. Once again, I'm kind of an
15 unofficial spokesman for Northwest. There's people
16 higher than me that probably need to make the
17 official question.

18 COMMISSIONER MURRAY: Thank you. I appreciate
19 your comments.

20 JUDGE JONES: Are there any questions from any
21 of the attorneys? Mr. Schwarz?

22 MR. SCHWARZ: Yes. I think I have a couple of
23 questions. Does the University contract for its
24 interstate pipeline transportation or is that a
25 service that's done through Aquila?

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1 THE WITNESS: The way I understand it, I
2 nominate through them and then I pay distribution
3 handling and marketing. And if I go over my
4 nomination, if I burn over my nomination, then I pay
5 meter charges and whatever.

6 MR. SCHWARZ: Okay. Does ONEOK provide you
7 with your storage balances and --

8 THE WITNESS: Not really. It appears they're
9 using my numbers.

10 MR. SCHWARZ: With whom do you have storage
11 contracts? Is that --

12 THE WITNESS: I assumed it was still under
13 Aquila. Or, you know, I may not have any or
14 somebody out there may say I have 5,000
15 dekatherms.

16 MR. SCHWARZ: I guess my question is really, is
17 that pipeline storage -- and I apologize what pipe
18 -- what --

19 THE WITNESS: A & R.

20 MR. SCHWARZ: Pardon?

21 THE WITNESS: A & R.

22 MR. SCHWARZ: A & R?

23 THE WITNESS: Yes.

24 MR. SCHWARZ: So is the storage on A & R?

25 THE WITNESS: That I don't know, whether it's

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1 ONEOK, whether it's in Kansas in the ground, in the
2 salt mines, or where it's at.

3 MR. SCHWARZ: And is your concern the change in
4 balancing practices that Aquila has proposed?

5 THE WITNESS: Right, yes. I guess if they're
6 going to balance me out at the end of the month, I
7 want a reasonable time to know what that price is
8 going to be. In other words, like I say, if they
9 have contracted gas, like I have, for that winter,
10 then I should know what that price is going to be if
11 I have to buy gas from them. Or if they're going to
12 balance me out against that gas price, rather than
13 the stock market. I mean, we've operated a lot of
14 years with the stock market. And two, three years
15 ago, we seen \$11 gas on that market. So we just
16 didn't burn gas that day. We had that flexibility.
17 We don't always have that flexibility. I still have
18 to have the natural gas there.

19 MR. SCHWARZ: You've mentioned that you use
20 wood chips?

21 THE WITNESS: Uh-huh.

22 MR. SCHWARZ: So --

23 THE WITNESS: That would be our base fuel, yes,
24 wood chips.

25 MR. SCHWARZ: So you have a boiler that will --

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1 THE WITNESS: Right.

2 MR. SCHWARZ: -- burn wood chips, but it can
3 burn gas as an alternate?

4 THE WITNESS: We have separate boilers for
5 burning gas.

6 MR. SCHWARZ: So it's separate boilers?

7 THE WITNESS: Yeah. As of this morning,
8 probably six o'clock, we shut off the gas boiler.
9 And it was five, ten degrees out and we heated this
10 campus with wood and paper. So we're not burning
11 gas right now. And it's just because the weather is
12 cold enough we can actually burn both boilers, but,
13 once again, the environment and the weather doesn't
14 always agree and let us do that.

15 MR. SCHWARZ: Thank you.

16 JUDGE JONES: Thank you, Mr. Schwarz.

17 Are there any other questions?

18 Thank you, Mr. Teaney. I appreciate your
19 comments.

20 Those persons who have signed up to testify
21 have testified. Is there anyone else present who
22 would like to approach the podium and give comments?
23 Seeing none, then we'll adjourn the hearing. Thank
24 you all for attending.

25 (Hearing concluded at 12:58 p.m.)

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C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF CLAY)

I, the undersigned Certified Court Reporter and Notary Public of the State of Missouri, do hereby certify that I reported in machine shorthand the foregoing proceedings and that the foregoing pages constitute a full and complete transcription of my shorthand notes.

Dated this 15th day of January, 2004.

Melanie K. Williams, C.C.R. No. 982 (G)
My Commission Expires: 03/05/2005

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