

1 Q ON WHOSE BEHALF ARE YOU PRESENTING THIS DIRECT TESTIMONY ON
2 REVENUE REQUIREMENT ISSUES?

3 A This testimony is presented on behalf of Ag Processing, Inc., the Sedalia Industrial
4 Energy Users Association and Wal-Mart Stores, Inc. (collectively "Industrials").

5 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

6 A I am providing testimony on the recorded price for the purchase of the Crossroads
7 units and the transmission expense savings from Aquila becoming a network service
8 customer of the Southwest Power Pool (SPP). Finally, I am proposing that all fuel
9 costs and revenues from off-system sales (OSS) be included as a component of
10 Aquila's fuel adjustment clause (FAC).

11 **Crossroads Generating Units**

12 Q PLEASE DESCRIBE THE ADJUSTMENT YOU ARE PROPOSING FOR THE
13 CROSSROADS GENERATING UNITS.

14 A I am proposing that Aquila recognize on its regulatory books the transfer of the
15 deferred taxes associated with the Crossroads units.

16 Q WHAT IS THE VALUE OF THIS ISSUE?

17 A The deferred taxes associated with depreciation and amortization expense for the
18 Crossroads units amount to \$16.8 million. The recognition of these taxes would
19 reduce Aquila's rate base for purposes of this rate case. I recently became aware
20 that there are other deferred taxes related to the Crossroads units. After review, a
21 further adjustment may be required.

1 **Q WHAT DEFERRED TAXES ARE YOU PROPOSING TO INCLUDE RESULTING**
2 **FROM THIS TRANSACTION AND HOW ARE THOSE DEFERRED TAXES**
3 **GENERATED?**

4 A I have included the deferred taxes associated with amortization and depreciation.
5 These taxes are generated due to the fact that the Internal Revenue Service allows
6 an investment to be amortized or depreciated over a shorter time than the Company
7 expenses on its books. This creates a timing difference between the tax basis and
8 book basis of the property. These differences create deferred taxes which are used
9 to offset rate base.

10 **Q PLEASE PROVIDE A BRIEF EXPLANATION OF THE CIRCUMSTANCES**
11 **SURROUNDING THE DECISION TO PURCHASE THE CROSSROADS UNITS.**

12 A Aquila was interested in procuring capacity and energy. To address this need, Aquila
13 issued a Request for Proposals (RFP) on March 19, 2007. It received 18 responses
14 to the RFP. After evaluating all of the RFP responses, Aquila chose to buy the
15 Crossroads units from its affiliate, Aquila Merchant. Aquila claimed that this option
16 was the least expensive of all the options. (I have only recently received the
17 responses to the RFP and will review those responses to determine if the Crossroads
18 option was the least expensive.) At the time of transfer of the Crossroads units to the
19 regulated operations of Aquila, the Parent Company of Aquila retained the deferred
20 taxes associated with the operation of Crossroads while in the ownership of Aquila
21 Merchant.

1 Q **WHY DO YOU RECOMMEND THAT THE DEFERRED TAXES BE RECORDED ON**
2 **THE REGULATED BOOKS OF AQUILA?**

3 A Deferred taxes should follow the sale of the asset. In transactions that I am familiar
4 with, the deferred taxes accompany the asset sale or transfer. The Missouri
5 Commission Staff usually requires that the deferred taxes follow the ownership of the
6 asset.

7 There is also the issue concerning the Commission's affiliate transaction rules.
8 In transactions involving purchases from affiliates, utilities are required to buy from
9 affiliates at the lesser of market value or cost. Merely recording the asset at its net
10 book cost without the consideration of deferred taxes does not comply with the
11 affiliate transaction rules.

12 Aquila claims that since the ratepayers did not provide those taxes, they are
13 not entitled to the deferred taxes. I believe this argument is without merit. If that
14 were the case, deferred taxes would never accompany an asset sale or transfer as
15 the ratepayers would not have provided those taxes. I further contend that the
16 ratepayers of Aquila are equally if not more entitled to those deferred taxes, than the
17 shareholders of Aquila, since the ratepayers will be required to pay rates to provide a
18 return 'on' and 'of' that investment.

19 For these reasons, I propose that Aquila be ordered, as part of the transfer of
20 the Crossroads units, to include on its regulated books the deferred taxes
21 accumulated while in the ownership of Aquila Merchant.

1 **Transmission Expense Savings**

2 **Q PLEASE EXPLAIN THIS ISSUE.**

3 A At the time of the filing of direct testimony in this case, Aquila was a transmission
4 customer of SPP. During the intervening time, Aquila filed with the Commission an
5 application to join SPP as a network service customer (Case No. EO-2009-0179). On
6 February 5, 2009, the Commission approved Aquila's request to join the SPP as a
7 network service customer. It is my understanding from conversations with Aquila that
8 there will be substantial expense savings as a result of being a network service
9 customer in SPP. I also believe that being a network service customer of SPP may
10 permit Aquila to transport the power from Crossroads units to its load less
11 expensively. I propose that the savings generated from this new membership status
12 be reflected in the current case as a true-up item. I have proposed that this issue be
13 reflected in the true-up due to the fact that Aquila was granted approval from the
14 Commission to join SPP as a network service customer after the expiration of the test
15 year. It is unquestioned that these reduced transmission costs are recurring and
16 would more accurately reflect Aquila's cost of service on a going-forward basis.

17 **OSS Included in Fuel Adjustment Clause**

18 **Q PLEASE EXPLAIN YOUR POSITION REGARDING OSS AND THE FAC.**

19 A The Company is currently authorized to reflect changes in fuel prices through an
20 FAC. The FAC in Aquila's tariff does not track variations in OSS. Excluding OSS
21 from the FAC causes concerns when attempting to separate fuel expense incurred to
22 serve native load from fuel expense to supply OSS. It also makes it difficult for
23 independent parties (Staff and the Office of Public Counsel) to verify the fuel costs for
24 these different transactions. Given the current situation where OSS is not included in

1 the FAC, an incentive exists for Aquila to assign more fuel expense to native load
2 customers than to the OSS, thus creating larger profits for the shareholders.

3 I propose that all fuel and variable purchased power expenses and all
4 revenues from OSS be flowed back into the FAC calculation. This will assure that
5 any benefits from increased levels of OSS will be reflected in customer rates and
6 eliminate the potential for the mis-allocation of fuel and variable purchased power
7 expenses.

8 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A** Yes, it does.

Qualifications of Greg Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Greg Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree
10 in Business Administration, with a major in Accounting. Subsequent to graduation I
11 was employed by the Missouri Public Service Commission. I was employed with the
12 Commission from July 1, 1979 until May 31, 2008.

13 I began my employment at the Missouri Public Service Commission as a
14 Junior Auditor. During my employment at the Commission, I was promoted to higher
15 auditing classifications. My final position at the Commission was an Auditor V, which I
16 held for approximately ten years.

17 As an Auditor V, I conducted audits and examinations of the accounts, books,
18 records and reports of jurisdictional utilities. I also aided in the planning of audits and
19 investigations, including staffing decisions, and in the development of staff positions in
20 which the Auditing Department was assigned. I served as Lead Auditor and/or Case

1 Supervisor as assigned. I assisted in the technical training of other auditors, which
2 included the preparation of auditors' workpapers, oral and written testimony.

3 During my career at the Missouri Public Service Commission, I have
4 presented testimony in nine electric rate cases, nine gas rate cases, seven telephone
5 rate cases and several water and sewer rate cases. In addition, I have been involved
6 in cases involving service territory transfers. In the context of those cases listed
7 above, I have presented testimony on all conventional ratemaking principles that are
8 related to a utility's revenue requirement. During the last three years of my
9 employment with the Commission, I was involved in developing transmission policy
10 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

11 In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a
12 Consultant. The firm Brubaker & Associates, Inc. provides consulting services in the
13 field of energy procurement and public utility regulation to many clients including
14 industrial and institutional customers, some utilities and, on occasion, state regulatory
15 agencies.

16 More specifically, we provide analysis of energy procurement options based
17 on consideration of prices and reliability as related to the needs of the client; prepare
18 rate, feasibility, economic, and cost of service studies relating to energy and utility
19 services; prepare depreciation and feasibility studies relating to utility service; assist
20 in contract negotiations for utility services, and provide technical support to legislative
21 activities.

22 In addition to our main office in St. Louis, the firm has branch offices in
23 Phoenix, Arizona and Corpus Christi, Texas.

\\Huey\Shares\PLDocs\TSK\9051\Testimony - BAI\150783.doc