

Exhibit No.:

*Issues: Supplemental Executive
Retirement Plan; Corporate
Cost Allocations; Severance
Adjustment*

Witness: Charles R. Hyneman

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

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

Date Testimony Prepared: February 13, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric)

AQUILA NETWORKS-L&P (Electric & Steam)

CASE NOS. ER-2004-0034 & HR-2004-0024

(CONSOLIDATED)

Jefferson City, Missouri

February 2004

****Denotes Highly Confidential Information****

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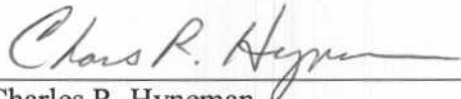
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks)
L&P and Aquila Networks MPS to implement a) Case No. ER-2004-0034
general rate increase in electricity.)
)
In the matter of Aquila, Inc. d/b/a Aquila Networks)
L&P to implement a general rate increase in Steam) Case No. HR-2004-0024
Rates.)
)

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 40 pages to be presented in the above case; that the answers in the following surrebuttal 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.



Charles R. Hyneman

Subscribed and sworn to before me this 13th day of Feburary 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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SURREBUTTAL TESTIMONY
OF
CHARLES R. HYNEMAN
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)

Q. Please state your name and business address.

A. Charles R. Hyneman, 3675 Noland Road, Independence, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Charles R. Hyneman who has previously filed direct testimony in this proceeding?

A. Yes, I am. I filed direct testimony in this case on December 9, 2003, on the areas of Aquila Inc.'s (Aquila or Company; formerly known as UtiliCorp United, Inc.) corporate cost allocations to Aquila Networks-MPS (MPS) and Aquila Networks-L&P (L&P).

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address the rebuttal testimonies filed by certain Aquila witnesses. I will address (1) the rebuttal testimony of Aquila witness Philip M. Beyer concerning the Staff's proposed disallowance of Aquila's Supplemental Executive Retirement Plan (SERP) costs, (2) the rebuttal testimony of Aquila witness

1 Jon R. Empson concerning the Staff’s proposed allocation of a portion of certain Aquila
2 corporate overhead department costs to Aquila’s current corporate financial restructuring
3 operations and (3) the rebuttal testimony of Aquila witness Ronald A. Klote concerning the
4 Company’s proposal to recover severance and related expenses associated with its so-called
5 “state-based reorganization.”

6 **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

7 Q. Please summarize the areas of Mr. Beyer’s rebuttal testimony concerning
8 Aquila’s SERP that you will address in this testimony.

9 A. I will establish the following points in response to Mr. Beyer’s rebuttal
10 testimony relating to Aquila ‘s SERP:

- 11 • The “Change in Control” provisions of Aquila’s SERP are “golden
12 parachutes” designed to prevent a takeover of Aquila and serve as
13 nothing more than an executive protection mechanism if a change in
14 control of Aquila occurs.
- 15 • The Staff’s treatment of SERP expenses in this case is consistent with its
16 treatment of the SERP expenses of other utility companies operating in
17 Missouri.
- 18 • Aquila’s SERP costs are based, in part, on multi-million dollar bonuses
19 paid to Aquila executives for their performance building and growing
20 Aquila’s non-regulated merchant and energy-trading activities.
- 21 • Aquila’s SERP was originally designed as a “restoration plan” to restore
22 incremental pension benefits to highly-compensated employees
23 disallowed by tax law, but has evolved into an additional compensation
24 plan as well as an executive protection plan reserved only for selected
25 highly-compensated employees.
- 26 • Aquila’s change in accounting for its SERP from the pay-as-you-go
27 method to an accrual method under Statement of Financial Accounting
28 Standards No. 87, Employers’ Accounting for Pensions (FAS 87)
29 resulted in greatly increased SERP costs in 2002.

30 Q. What is a Supplemental Executive Retirement Plan?

1 A. A SERP is an unfunded, non-qualified pension plan that provides pension
2 benefits to a select group of executives. These pension benefits are in excess of those provided
3 by a company's qualified pension plan, which covers all employees, including executive-level
4 employees. Unlike a true pension benefit restoration plan, a SERP goes beyond simply
5 restoring benefits that the qualified plan cannot include because of tax law limitations. For
6 example, while qualified plans typically base benefits on salary alone, SERPs can take bonuses
7 and other incentives into account if the board of directors so desire. A restoration plan is a plan
8 designed solely to restore pension benefits not payable because of limitations imposed by tax
9 laws.

10 Q. What is a Non-Qualified Plan?

11 A. A nonqualified plan is any retirement, savings or deferred compensation plan for
12 employees that does not meet all of the tax and labor law requirements that are applicable to
13 qualified pension plans. Nonqualified plans are usually used to provide benefits to a select
14 group of executives within a company and are, therefore, subject to different tax and accounting
15 treatments. Aquila's employee pension plan is a qualified plan while its SERP is a non-qualified
16 plan.

17 Q. Is Aquila's SERP funded?

18 A. Yes, to some extent. Aquila made an initial deposit in its SERP trust in the
19 amount of \$400,000 in May 2000. As a result of its acquisition of L&P, Aquila transferred
20 \$3,797,353 from L&P's SERP trust fund in May 2002 to cover SERP benefits payable to certain
21 L&P executives. These executives, Messrs. Steinbecker, Stoll, Myers, Stuart and Svuba were
22 covered in L&P's SERP under a "Change in Control" provision. This provision allowed them
23 to receive all SERP awards that would not otherwise be available to them absent the Change in

1 Control provision of L&P's SERP. This results in a payment of benefits that were not yet
2 earned. In addition, all vesting requirements were immediately accelerated and all restrictions on
3 the awards were eliminated (Aquila SEC Form S-4 filed on May 4, 1999).

4 **CHANGE IN CONTROL PROVISIONS IN AQUILA'S SERP**

5 Q. Mr. Beyer states at page 6 of his rebuttal testimony that the "Change-in-Control"
6 provisions of Aquila's SERP does not create an expense. Please comment on this assertion.

7 A. Aquila has not been subject to a change in control as defined in its SERP.
8 Therefore, the Change in Control provisions of the SERP have not been implemented.
9 However, if there is a change in control of Aquila (as defined in paragraph 1.04 of Aquila's
10 SERP), paragraph 3.02 of Aquila's SERP states that even if an executive has not met the normal
11 vesting requirements of the plan, he or she becomes automatically vested if a change in control
12 occurs. This provision would clearly create an additional expense in that it would provide
13 SERP benefits to executives that have not been earned.

14 Whether or not Aquila's Change in Control provisions have created or increased the cost
15 of the SERP is irrelevant. If a regulated utility's board of directors design a SERP to protect the
16 jobs of the company's executives by making it more difficult for the company to be acquired by
17 another company, then the cost of the SERP should be borne by the beneficiaries of those
18 provisions. In theory, utility ratepayers should not care who actually runs the utility company as
19 long as the management of the utility ensures the provision of safe and adequate service. Costs
20 to retain one group of management over another should not be passed on to ratepayers.

21 The Change in Control provisions of Aquila's SERP are golden parachutes designed to
22 prevent a takeover of Aquila and serve as nothing more than an executive protection mechanism
23 if a change in control of Aquila occurs. These costs should not be borne by Aquila's regulated
24 customers.

1 **THE STAFF'S TREATMENT OF SERP EXPENSES OF OTHER UTILITY**
2 **COMPANIES OPERATING IN MISSOURI**

3 Q. At page 4 of his rebuttal testimony, Mr. Beyer states that he has no knowledge of
4 Staff eliminating SERP expenses from other utilities' revenue requirement determinations. Has
5 the Staff recommended the costs of a utility's SERP be excluded from its revenue requirement
6 because of the SERP's Change in Control provisions?

7 A. Yes. In Case No. GR-2002-292, the Staff recommended the disallowance of
8 Missouri Gas Energy's allocated SERP costs from Southern Union Company for several
9 reasons. One primary reason was that Southern Union's SERP contained a "change in control"
10 provision similar to the provision in Aquila's SERP.

11 Q. How has the Staff treated SERP expenses in general for utilities other than
12 Aquila and MGE?

13 A. The Staff's general treatment of SERP expenses is that if the costs are reasonable
14 in amount and accounted for on a pay-as-you go basis, then the Staff usually recommends that
15 the Commission allow the SERP expenses in the utility's revenue requirement. I have reviewed
16 the Staff treatment of SERP expenses in several recent Missouri utility rate cases.

17 Empire District Electric Company's (Empire) latest rate case was Case
18 No. ER-2002-424. In 2001, Empire recorded \$14,560 in SERP costs (Staff Data Request
19 No 110, Case No. ER-2002-0424). The Staff and Empire agreed on the method of accounting
20 for pension expense in Case No. ER-2002-0034 which resulted in \$0 SERP expense included in
21 Empire's revenue requirement in that case, which was settled by the Commission's acceptance
22 of a stipulation and agreement.

23 In Laclede Gas Company's last rate case, Case No. GR-2002-356, and AmerenUE's last
24 gas rate case, Case No. GR-2003-0517, the Staff allowed SERP costs on a pay-as-you go basis

1 using an average of test year and previous year SERP payments. Both of these cases were
2 settled by the Commission's acceptance of stipulations and agreements.

3 Since Kansas City Power & Light Company has not filed a rate case since 1985, there is
4 no information readily available to determine how the Staff treated KCPL's SERP expenses in
5 its last rate case audit, or if KCPL even had a SERP plan in 1985.

6 Q. Is there any basis for Mr. Beyer's insinuation that the Staff is treating Aquila's
7 SERP costs any differently from how it has treated SERP costs for other Missouri utilities?

8 A. No, there is not.

9 Q. Is Aquila is proposing to charge its Missouri ratepayers for the multi-million
10 dollar bonuses it paid to its top executives for their part in building and growing Aquila's non-
11 regulated merchant and energy-trading activities.

12 A. Yes. On page 5 of his rebuttal testimony, Mr. Beyer seeks to justify Aquila's
13 inclusion of bonus payments in the calculation of its SERP benefits. His justification is that
14 "most" peer companies include bonus income in the calculation of supplemental base pay and
15 Aquila's outside consultant recommended Aquila include bonus pay in its SERP benefit
16 calculation.

17 The changes to Aquila's SERP executed on June 28, 2001, and made retroactive to
18 January 1, 2001, allows for executive bonus pay to be included in the calculation of SERP
19 benefits (Bonus SERP Benefit). This bonus pay was made to executives primarily for their
20 work on Aquila's non-regulated energy merchant and energy trading operations. For example,
21 information obtained from SEC reports show that Aquila's current Chairman and Chief
22 Executive Officer (CEO) Richard Green was paid a base salary of \$972,116 in 2001 and was

1 also paid a bonus of \$3,000,000. This \$3,972,116 in compensation was used to calculate the
2 Mr. Green's average compensation which is used as the basis to determine his SERP benefits.

3 Q. What is the basis for your assertion that executive bonuses paid in 2001 was
4 primarily a reward for Aquila's performance in its nonregulated operations?

5 A. In Aquila's Securities and Exchange Commission (SEC) Form DEF 14A, Proxy
6 Statement filed with the SEC on April 15, 2003, Aquila provides the explanation of the
7 Compensation Committee of Aquila's Board of Directors basis for bonus payments from 1999
8 through 2001 and why no bonuses (with the exception of retention bonuses) were paid in 2002:

9 We believe it is critical that the executive compensation programs align
10 executive awards with the performance of the Company and reflect the
11 Company's strategy and scale. Our industry, and our company,
12 experienced an extreme year of volatility in 2002. It is imperative that
13 our executives' compensation for 2002 reflects the Company's
14 performance for the year. To that end, there were no executive
15 incentives awarded for 2002 performance, nor were there any new
16 awards of performance units or stock options. From 1999 through 2001
17 our company experienced dramatic growth and exceptional financial
18 performance. The awards earned by our executives for that period
19 reflected that superior performance, just as the lack of awards for 2002
20 reflects the year's disastrous financial results

21 Q. Does the Staff believe it is reasonable for Aquila to charge its Missouri
22 ratepayers for compensation costs that were developed significantly on the basis of an
23 executive's performance in the utility's nonregulated operations?

24 A. No. The Staff believes it is unreasonable for MPS' and L&P's regulated
25 customers to pay for multimillion-dollar executive bonuses, which are compensation for the
26 executive's work on non-regulated operations. The inclusion of bonus payments in the
27 calculation of SERP benefits, the majority of which have been for nonregulated operations,
28 represents just one of several significant flaws in Aquila's rationale for including SERP
29 expenses in MPS' and L&P's cost of service in this case.

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1 Q. Are there other examples where MPS' and L&P's regulated customers are being
2 asked to pay for multimillion-dollar executive bonuses which are unrelated to regulated utility
3 operations?

4 A. Yes. Aquila's former CEO Robert Green was also paid a \$3,000,000 bonus in
5 2001 for his work in Aquila's nonregulated operations. Aquila's current Chief Operating
6 Officer, Keith Stamm was CEO of Aquila Merchant Services from January 2000 through
7 November 2001. His bonus for 2001 was \$4,310,000 in addition to a base salary of \$323,017.
8 Also, Aquila's General Counsel Leslie J. Parrette, Jr., was paid a \$300,000 bonus in 2002 to
9 "retain his services through a critical period for the company" (Aquila DEF 14A filed April 15,
10 2003). The bonus was in addition to his base salary of \$305,144. Mr. Parrette was also the only
11 senior executive to receive a bonus in 2002.

12 Q. Did Aquila make an adjustment to its per book expense to remove Mr. Parrette's
13 \$300,000 bonus from this rate case?

14 A. Yes. Aquila recognized that this bonus should not be charged to regulated
15 operations by removing this bonus in its adjustment CS-16A. However, Aquila did not remove
16 the increase in SERP benefits and SERP expense caused by this bonus or any other bonus it has
17 paid since January 1, 2001.

18 Q. Mr. Beyer states on page 2 of his rebuttal testimony, that restoration plans like
19 Aquila's are not intended to provide enhanced benefits. He also states in the next sentence that
20 Aquila's SERP is limited to restoring lost benefits due to the tax law. Do you agree with these
21 statements?

22 A. No. Aquila's SERP was originally designed as a "restoration plan" with the
23 purpose to restore executive-level incremental pension benefits excluded by tax laws, but has

1 evolved into an additional compensation plan reserved only for selected highly-compensated
2 executives. Aquila's SERP, as it stands today, goes much beyond the purpose of a restoration
3 plan and provides additional benefits over and above what a traditional restoration plan
4 provides.

5 Prior to 1998, Aquila's SERP was a restoration plan designed to provide pension
6 benefits to selected highly-compensated executives that would have been received by these
7 executives but for the existence of the tax law's compensation limits. On January 1, 1998, the
8 SERP was amended to include executive compensation under Aquila's nonqualified deferred
9 compensation plan. This benefit came to be known as the "Basic SERP Benefit." It was at this
10 point that Aquila's SERP changed course from a benefit restoration plan to a plan that provides
11 benefits over and above what is provided by Aquila's all-employee qualified pension plan.

12 On August 4, 1998, the Change in Control provisions of Aquila's SERP was amended to
13 make it easier for an attempted takeover to meet the SERP's definition of Change in Control.

14 On November 29, 2000, Aquila again amended the Change in Control provisions of the
15 plan by requiring Aquila to make an irrevocable contribution to a SERP trust. The amount that
16 is required to be contributed to the SERP trust is the amount that would equal the value of the
17 SERP benefits payable under the plan as of the date of the Change in Control. This change was
18 added, it appears, not only as a "poison pill" that serves as a detriment to the potential takeover
19 of Aquila, but also as a "golden parachute" as a means to ensure that funds are available to pay
20 Aquila's executives the SERP benefits that have accrued to the date of that Change in Control.

21 Aquila's latest amendment to its SERP was made on June 28, 2001. The SERP was
22 amended to provide, in addition to Aquila's Basic SERP Benefit, a "Bonus SERP Benefit" and a
23 "Supplemental SERP Benefit." The following explanations of these additional benefits are

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1 provided in a document , which is a part of the SERP, entitled Summary of Modifications,
2 UtiliCorp United Inc. Supplemental Executive Retirement Plan (As Amended and Restated
3 Effective January 1, 2001). This document is attached as Schedule 1 to this testimony:

4 *The Bonus SERP Benefit is designed to provide executives an
5 additional retirement benefit based on the executive's annual bonus pay.

6 *The Supplemental SERP Benefit is designed to provide executives
7 employed in pay bands I-IVa an additional market-based retirement
8 benefit.

9 Q. At page 4 of his testimony, Mr. Beyer states that the Staff has allowed SERP
10 expenses in its MPS cost of service recommendation to the Commission. Is this correct?

11 A. Yes. In Aquila's past rate cases, the Staff has determined that the amount of
12 directly charged and allocated SERP expense to MPS was accounted for on a pay-as-you-go
13 basis and was reasonable in amount. MPS' SERP expense in its last two rate cases was \$0 and
14 \$44,983, respectively.

15 In Case No. ER-97-394, Aquila witness Beth Armstrong stated in response to Staff Data
16 Request No. 407 that, "No dollars have been spent or charged to MPS for any SERP in 1996."
17 (Schedule JWM-1, page 152 of 465, attached to the Surrebuttal Testimony of Aquila witness
18 John W. McKinney in Case No. ER-97-394; attached as Schedule 2 to this testimony).

19 In Case No. ER-2001-672, Aquila's total company allocable SERP costs were \$265,906,
20 of which MPS was allocated \$44,983 with an electric jurisdictional expense of \$34,688 (Direct
21 Testimony of Staff witness Graham Vesely, page 12, Benefits Supplemental Retirement, Case
22 No. ER-2001-672; attached as Schedule 3 to this testimony).

23 Mr. Beyer references Staff witness Vesely's Direct Testimony in Case
24 No. ER-2001-672, at page 4 of his rebuttal testimony, in making his point that the Staff allowed

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1 SERP expenses for MPS, but his testimony does not mention the fact that the amount of MPS'
2 SERP expense was \$44,983, compared to the \$465,151 MPS is seeking to recover in this case.

3 Q. How does the amount of SERP costs in Aquila's last rate case compare to the
4 amount in this case?

5 A. In 2002, the test year for corporate allocations in this rate case, Aquila's total
6 allocable SERP cost was \$2,080,313. Of this amount, MPS was allocated \$465,151 and L&P
7 was allocated \$147,031. In addition, L&P has been directly charged an additional \$352,114 in
8 SERP expenses for a total amount of \$499,145.

9 Q. Did the Staff discover an error in the quantification of its SERP adjustment while
10 preparing this surrebuttal testimony?

11 A. Yes. The Staff SERP adjustment only removed Aquila's corporate allocated
12 SERP costs. The Staff inadvertently overlooked the SERP costs that were directly charged to
13 MPS (\$9,529 credit) and L&P (\$352,114). The Staff's updated revenue requirement
14 calculations and reconciliation will reflect this correction.

15 Q. Does the Staff have any particular concern about Aquila charging L&P's
16 customers \$352,114 in direct SERP costs?

17 A. Yes. As described above, Aquila acquired L&P's \$3,787,353 SERP fund as a
18 part of its acquisition of L&P. However, instead of using this fund to pay SERP benefits to the
19 executives covered by L&P's SERP, Aquila is charging L&P's ratepayers for this cost. Even if
20 the Commission decides to allow the SERP costs in MPS' and L&P's costs of service, it should
21 not allow Aquila to charge its L&P customers for SERP liabilities it acquired as a part of the
22 acquisition with L&P. These SERP costs were increased as a result of the Change in Control

1 provision of L&P's SERP and should be classified as merger costs and not included in L&P's
2 cost of service.

3 Q. Mr. Beyer states on page one of his rebuttal testimony that SERP-type programs
4 are standard within the industry. Do you agree with this statement?

5 A. Yes. However, the actual terms and conditions of various utility SERPs are as
6 different and diverse as the utility companies themselves. Mr. Beyer's statement is similar to
7 saying that employee benefit programs are standard within the utility industry. It is not the type
8 of compensation in the broadest sense that is being questioned by the Staff, it is the actual terms
9 and conditions of Aquila's SERP that is being questioned. It is the actual terms and conditions
10 of the SERP which determine who benefits from the SERP and who should pay for the costs of
11 the SERP that is relevant in this discussion.

12 Some SERPs are strictly pension restoration plans with reasonable costs and proper
13 accounting and are eligible to be considered for ratemaking purposes. While other SERPs
14 include golden parachute type Change in Control provisions, with executive compensation and
15 benefits in excess of what is covered in the all-employee qualified pension plan. The costs of
16 this type of SERPs should not be included in a utility's cost of service.

17 Q. Did Aquila's change in accounting for its SERP from the pay-as-you-go method
18 to an accrual method under Statement of Financial Accounting Standards No. 87, Employers'
19 Accounting for Pensions (FAS 87) result in greatly increased SERP costs in 2002.

20 A. Yes. Prior to 2002, Aquila's SERP costs were immaterial. However, because of
21 Aquila's Board of Directors' decision to significantly increase the size of its SERP, Aquila's
22 actuarial consultant recommended that the increase in the size of the SERP required a change in
23 accounting to the FAS 87 accrual method. Just the change to the FAS 87 method of accounting

1 caused the SERP to increase from approximately \$250,000 in 2001 to approximately \$2.7
2 million in 2002.

3 Q. What is the Staff's recommendation concerning Aquila's accounting for its
4 SERP?

5 A. The Staff recommends to the Commission that in any future rate case, it allow
6 recovery only if Aquila's SERP costs are (1) accounted for on a pay-as-you go basis, (2) the
7 costs are reasonable considering Aquila's SERP expenses in previous years, (3) the terms and
8 conditions of the SERP allow for the calculation of the SERP benefit only at the amount that is
9 limited by tax law compensation limits, and (4) the SERP does not include Change in Control
10 provisions which act in the manner of a "poison pill" or executive "golden parachutes."

11 **CORPORATE COST ALLOCATIONS - RESTRUCTURING OPERATIONS**

12 Q. At page 9 of his rebuttal testimony, Mr. Empson states that the Staff has
13 "subjectively" chosen to eliminate a portion of selected corporate department costs. Do you
14 agree with Mr. Empson's characterization of your adjustment as subjective?

15 A. No. My adjustment to allocate certain corporate overhead costs to Aquila's
16 current financial restructuring operations is based on my experience auditing corporate allocated
17 costs (including auditing Aquila's corporate allocated costs in its previous rate case, Case
18 No. ER-2001-672 and Southern Union Company's last Missouri rate case, No. GR-2001-292),
19 as well as a study and analysis of documentary evidence. This evidence includes responses to
20 Staff data requests, Aquila's annual reports to the Securities and Exchange Commission (SEC),
21 Form 10-K, Aquila's income tax returns for 2001 and 2002, Aquila's press releases and
22 Aquila's Cost Allocation Manual (CAM). My adjustment was based on professional judgment

1 given my experience with Aquila's corporate organization and the study and analysis of
2 substantial documentary evidence.

3 Q. Which departments did the Staff determine should be allocated to
4 restructuring operations?

5 A. The Staff determined that 75 percent of departments 4035, CFO, and 4040,
6 Chairman, should be allocated to Aquila's restructuring operations. In addition, the Staff is
7 proposing an allocation of 50 percent of departments 4030 Chief Operating Officer; 4031
8 General Counsel; and 4043 Board of Directors Management. Finally, the Staff is proposing a
9 25 percent allocation of department 4183 Corporate Financial Reporting; department 4194 Tax-
10 Income Team; and 6131 President Global Networks Group to Aquila's current financial
11 restructuring operations.

12 Q. Which department did Aquila determine should be allocated to restructuring
13 operations?

14 A. In its direct filing, Aquila eliminated 100 percent of the following corporate
15 departments - 4035 CFO, 4032 Strategic Initiatives, 4100 Capital Structure and Analysis, and
16 4042 Strategic Planning and Analysis.

17 Q. Please provide a description of each of the corporate departments in the
18 Staff's restructuring adjustment.

19 A. The following department descriptions are included in Aquila's 2003 Cost
20 Allocation Manual (CAM), which is attached to Aquila witness Agut's direct testimony:

21 Dept 4030 Chief Operating Officer - Management costs incurred for
22 day-to-day supervision of the entire company operations including
23 international operations.

24 Dept 4031 General Counsel - Overall responsibility for all matters of
25 a legal nature including mergers, acquisitions, joint ventures and
26 divestitures.

1 Dept 4040 Chairman and CEO - Makes Executive decisions for the
2 corporation. Performs services for all divisions as well as overseas
3 operations.

4 Dept 4043 Board of Directors Management - Oversees the
5 coordination of issues surrounding the board of directors.

6 Dept 4183 Corporate Financial Reporting- Perform external reporting
7 for consolidated Aquila, Inc. Also includes external audit fees.

8 Dept 4194 Tax-Income Team - Responsible for all income tax
9 compliance including the preparation of tax returns, tax accounting,
10 and audit administration.

11 Dept 6131 President-Global Networks Group - Provide financial support,
12 financial analysis, and business counsel for global networks operations,
13 which includes both international and domestic networks. Time incurred
14 with respect to international units and the cable.

15 Q. On page 10 of his rebuttal testimony Mr. Empson states that senior
16 management's time has been and continues to be focused on the day-to day operations of the
17 utility business. In your opinion is this an accurate statement?

18 A. No. This statement is not accurate. In my opinion, based on my experience
19 auditing Aquila's corporate cost allocations in its previous rate case, Case No. ER-2001-672 and
20 this case, Aquila's senior management has spent very little time managing the day-to-day
21 operations of Aquila's utility businesses. Management focus in 2000 and 2001 was on
22 developing Aquila's nonregulated businesses (wholesale energy trading and merchant
23 operations), nonregulated investments (Quanta Services, Inc.) and international business
24 acquisitions. Senior management's focus in 2002 and 2003 was on selling off the many
25 companies Aquila acquired over the last decade and trying to prevent Aquila from succumbing
26 to the enormous financial pressures it has recently experienced.

1 Q. What are the primary sources of evidence you used in developing your opinion
2 that Aquila management's focus since 2000 has been on the nonregulated and international
3 operations of the Company rather than its U.S. regulated utility operations?

4 A. There are at least three unbiased and objective sources of evidence that can be
5 used to determine the priorities of a company's senior management. These sources are
6 (1) board of director minutes (what senior management is communicating to the board of
7 directors about company operations), (2) SEC reports and annual reports to shareholders (what
8 senior management is communicating to the company's shareholders and the SEC) and
9 company press releases (what senior management is communicating to the general public). I
10 have studied each of the these three sources for the past three years and have concluded that
11 Aquila's senior management does not spend a significant amount of time on the day-to day
12 management of utility operations.

13 Q. Please summarize your review of Aquila's SEC reports and why the information
14 you learned from studying these reports indicates how management is spending its time.

15 A. In its annual report to the SEC (Form 10-K405) filed on March 29, 2001,
16 Aquila (then named UtiliCorp United, Inc.) described its key events in 2000 under the
17 heading "Financial Review." The Staff believes these key events indicate where the focus of
18 the company, including its senior officers, was during this time period. Of the 10 key events
19 in 2000, five are related to international business units, two are related to Aquila's initial
20 public offering of its merchant and energy trading operations and acquisition of GPU
21 International, two are related to the acquisition of St. Joseph Light & Power Company and
22 the termination of the merger with the Empire District Electric Company, and one is related

1 to its increasing investment in Quanta Services, Inc. This list of key events, as set out in
2 Aquila's 10-K for 2000 is as follows:

3 KEY EVENTS IN 2000

- 4 1. UnitedNetworks acquired the Orion New Zealand gas
5 distribution business in April for \$274 million.
- 6 2. We invested an additional \$360 million in Quanta Services,
7 Inc. during the first half of the year, raising our beneficial
8 equity interest to 36%.
- 9 3. In June, we reduced our interest in UnitedNetworks from 79%
10 to 62% and granted the minority shareholder participation and
11 protective rights. This resulted in deconsolidating the financial
12 reporting for our New Zealand operations and removing
13 approximately \$670 million in existing New Zealand debt and
14 related assets from UtiliCorp's balance sheet.
- 15 4. We purchased the Alberta electric network operations of
16 TransAlta Corporation in late August for \$480 million and
17 formed UtiliCorp Networks Canada. In November, we sold the
18 retail part of the acquired business for \$75 million.
- 19 5. In September, Ucomm, United Energy's broadband
20 telecommunications business, had a successful initial public
21 offering in Australia of 34% of its shares. As a result, UtiliCorp
22 recorded a \$44 million gain.
- 23 6. UtiliCorp and United Energy acquired 45% of AlintaGas
24 Limited, the largest gas distribution company in Western
25 Australia, in October for \$166 million.
- 26 7. On December 13 we announced plans for an initial public
27 offering of approximately 20% of Aquila's common shares,
28 expected to take place in the first or second quarter of 2001.
- 29 8. Aquila bought GPU International in December for \$225
30 million, acquiring interests in six power plants with 500
31 megawatts of generating capacity.
- 32 9. We completed our \$282 million merger with St. Joseph Light
33 & Power on December 31. Its Missouri electric and gas
34 territory is adjacent to ours.

1 10. On January 2, 2001, we terminated our agreement to merge with
2 the Empire District Electric Company due to regulatory
3 uncertainties.

4 What is significant in the review of these top ten Aquila events in 2000 is that not one of
5 the top ten events for Aquila in 2000 involved Aquila's domestic electric and gas utility
6 companies other than in the area of mergers and acquisitions.

7 Q. What were Aquila's key events in 2001?

8 In its annual report to the SEC (Form 10-K405) filed on March 21, 2002, Aquila
9 described its seven key events in 2001. Of the seven key events in 2001, two are related to
10 Aquila's initial public offering of its merchant and energy trading operations, two are related to
11 debt and equity financings, two are related to acquisitions and one is related to the impact of the
12 Enron bankruptcy on Aquila's wholesale energy trading operations. The two financing events
13 are related to the Company as a whole. The other five events have no association with
14 managing the day-to-day operations of a utility company. This list of key events as set out in
15 Aquila's 2001 10-K is as follows:

16 KEY EVENTS IN 2001

- 17 1. In March we raised approximately \$332 million through the
18 sale of shares of our common stock.
- 19 2. We completed an initial public offering of Class A Aquila
20 Merchant common shares in April, which raised approximately \$446
21 million in net proceeds and left us with an 80% interest in the
22 subsidiary.
- 23 3. In June, we exchanged \$189.5 million of senior notes with
24 interest rates ranging from 8.0% to 9.0% for \$200 million of new
25 senior notes with interest rates at 7.75%, maturing in June 2011. We
26 also retired \$204.1 million of senior notes, mortgage bonds and
27 company-obligated preferred securities.
- 28 4. We formed a partnership in August with ArcLight Energy
29 Partners Fund I, L.P. to buy a gas storage facility under construction
30 near Sacramento, California. The cost to acquire and complete the

1 facility is about \$220 million. Our investment in this project is
2 expected to be \$25.0 million. We expect to complete the purchase in
3 the second quarter of 2002, subject to regulatory approval.

4 5. We have agreed to acquire Midlands Electricity plc for \$362
5 million. Midlands is the fourth-largest regional electric company in
6 the United Kingdom. The transaction is expected to close in the first
7 quarter of 2002. Midlands also has \$1.7 billion of debt that would be
8 non-recourse to us.

9 6. We announced in November that we would offer to acquire all
10 outstanding publicly held shares of Aquila Merchant in exchange for
11 shares of Aquila common stock. We completed the exchange offer in
12 January 2002 by issuing about 12.6 million Aquila common shares. At
13 that time Aquila Merchant again became a wholly-owned subsidiary
14 and public trading of its shares ceased.

15 7. In December 2001, Enron Corporation filed for bankruptcy. As
16 a result, we made provisions for receivables and open trade positions
17 of \$40 million on an after-tax basis.

18 Q. Finally, provide some key events for Aquila in 2002 as reported in its Form
19 10-K for that year.

20 A. In its annual report to the SEC (Form 10-K405) filed on April 15, 2003, Aquila
21 explained that its 2002 earnings were down significantly from 2001 and provided the following
22 events which had a major impact on this decline. While these events were not specifically
23 designated as "key events" they are the major events that impacted Aquila's earnings in 2002
24 and thus would be the major areas of management focus. These events as described by Aquila
25 in its Form 10-K for 2002 were:

26 1. We exited from the wholesale energy trading business during the
27 third quarter of 2002 and incurred trading and contract losses of
28 \$115.8 million during the last half of the year that related to our exit.
29 This business contributed EBIT of approximately \$25.6 million in the
30 third and fourth quarters of 2001, compared to a loss before interest
31 and taxes of \$270.0 million in 2002, before impairments and
32 restructuring charges.

33 2. Less volatile commodity prices in the first half of 2002 compared to
34 a robust commodity environment in the same period of 2001 resulted

1 in a \$139.5 million decrease in EBIT from Wholesale Services, before
2 restructuring and impairment charges.

3 3. In 2002, we incurred \$210.2 million of restructuring charges in
4 connection with the realignment of our Domestic Networks business
5 and the exit from our wholesale energy trading business.

6 4. As a result of asset sales and impairments, we recorded impairment
7 charges and net losses on sale of assets of \$1,583.2 million in 2002.

8 5. Lower power prices and higher natural gas prices in 2002 resulted in
9 narrow “spark spreads” (the difference between the price at which
10 electricity is sold and the cost of the fuel used to generate it) which
11 reduced or eliminated the economic benefits of running certain power
12 plants and exercising power generation rights under our tolling contracts.
13 These conditions also negatively impacted our ability to sell additional
14 generation capacity that came on-line. EBIT for Capacity Services in
15 2002 was down \$96.9 million when compared to 2001, before
16 impairments and restructuring charges.

17
18 Again, as was clear from 2000 and 2001, the major events in 2002, which captured
19 senior management’s time, were not related to the day-to-day provision of electric and gas
20 utility services. However, in 2002 there was one issue related to utility operations included in
21 Aquila’s annual significant events - the realignment of its domestic utility business.

22 Q. What actions did Aquila take in 2002 as part of its corporate financial
23 restructuring?

24 A. Aquila describes the restructuring events in 2002 on page 4 of its Form 10-K as
25 follows:

- 26 • The wind down of our Merchant Services trading portfolio in North America
27 and Europe.
- 28
- 29 • The sale of our natural gas storage facilities in both North America and the
30 United Kingdom.
- 31
- 32 • The sale of our notes receivable loan portfolio.
- 33
- 34 • The sale of our gas gathering and processing business located primarily in
35 Texas and Oklahoma.
- 36

1 • The sale of our investment in Quanta Services, Inc. (a company specializing
2 in building and maintaining networks used to carry energy and
3 telecommunications) from 38% to 10.2%. We sold the remaining shares
4 during the first quarter of 2003.

5
6 • The sale of our equity investment in our regulated utility operations in New
7 Zealand.

8
9 • The initiation of negotiations to sell our Australian and United Kingdom
10 investments.

11
12 Q. Please describe the events in 2003 which indicate how Aquila's senior
13 management spent its time.

14 A. In its SEC Form 10Q filed on November 6, 2003, Aquila described the
15 significant events up to the third quarter in 2003 which had a significant impact on Aquila's
16 earnings. These events were listed as follows:

17 1. Sales, cost of sales and gross profit decreased \$239.5 million,
18 \$161.9 million and \$77.6 million, respectively, in 2003 compared to
19 2002. These decreases were primarily due to the sale of our gas
20 gathering and pipeline assets and our coal handling facility in the
21 fourth quarter of 2002. In addition, sales and gross profit for our
22 Canadian network operations decreased \$30.0 million and \$27.0
23 million, respectively, due to the decision by the Alberta Energy and
24 Utilities Board (AEUB) to decrease our 2002 and 2003 customer
25 billing rates. Offsetting these decreases were sales and gross profit for
26 Lake Cogen and Onondaga that were higher in 2003 by \$12.7 million
27 and \$14.3 million, respectively, due to mark-to-market gains on long-
28 term gas and power swaps resulting from higher natural gas and power
29 prices in the first half of 2003, partially offset by lower volumes
30 delivered.

31 2. Operating expense decreased \$61.7 million in 2003 compared to
32 2002 primarily due to the sale of our gas gathering and pipeline assets,
33 our Merchant loan portfolio and our coal handling facility in 2002 and
34 early 2003.

35 3. Impairment charges and net loss on sale of assets consisted of \$47.5
36 million related to our consolidated independent power plants, Lake
37 Cogen and Onondaga. In the third quarter of 2003, we decided to
38 proceed with the sale of these assets and therefore wrote these assets
39 down to estimated fair value less costs to sell, which was less than
40 their carrying value. Impairment charges in 2002 consisted of a \$236.6
41 million loss on the sale of our gas gathering and pipeline assets.

1 4. Depreciation and amortization expense decreased \$58.4 million in
2 2003 compared to 2002. The elimination of depreciation from our
3 Canadian utility plant was due to its classification as held for sale
4 which decreased depreciation expense \$14.5 million as discussed
5 above. In addition, approximately \$23.2 million of the decrease was
6 due to the sale of our gas gathering and pipeline assets and our coal
7 handling facility in the fourth quarter of 2002. The remaining decrease
8 was primarily due to the decision by the AEUB to reduce the
9 depreciation rates on most of our distribution assets in Alberta, which
10 impacted the first six months of 2003.

11 5. Equity in earnings of investments decreased \$4.9 million due to the
12 sale of our investment in the Oasis Pipe Line Company in the fourth
13 quarter of 2002.

14 6. Other income decreased \$50.4 million in 2003 compared to 2002,
15 primarily due to the sale of our Merchant loan portfolio in the fourth
16 quarter of 2002. This business generated \$37.1 million of other income
17 in 2002. In 2003, we incurred \$6.8 million of costs related to a
18 currency put option intended to protect us from unfavorable currency
19 movements on the Canada sale proceeds and \$2.2 million of foreign
20 currency losses related to U.S. dollar denominated debt issued by our
21 Canadian subsidiaries.

22 7. Income tax expense (benefit) decreased \$56.5 million primarily due to
23 pretax income in 2003 compared to a pretax loss in 2002 and the AEUB
24 decision discussed above. This decision decreased sales and
25 depreciation; however, only the sales impact is tax effected for Canadian
26 regulatory purposes.

27 For the fourth year in a row, the key events for Aquila had very little or nothing to do
28 with managing a utility company. Yet Mr. Empson's testimony states, "senior management's
29 time has been and continues to be focused on the day-to-day operations of the utility business."

30 Q. Have you performed an analysis of Aquila's press releases in your study of
31 Aquila's corporate allocations and as an indication of how senior management of Aquila spent
32 its time?

33 A. Yes. I performed an analysis of Aquila's press releases for 2000 and 2001 in my
34 audit of Aquila's corporate cost allocations in Case No. ER-2001-672. The results of this
35 analysis follow:

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1 In the years 2000 and 2001, Aquila issued 115 press releases about significant events
2 affecting the Company. The Staff assumes that Aquila's senior management was involved in
3 the events surrounding the subject of the press release. The Staff placed the topic of each
4 press release into one of six categories. The results are as follows:

5	Category	Number	Percent
6	1. International Operations	19	16.5
7	2. Aquila Merchant/Trading	20	17.4
8	3. Domestic Utility	14	12.2
9	4. Domestic Mergers	6	5.2
10	5. Other Nonregulated	8	7
11	6. General Corporate	<u>48</u>	<u>41.7</u>
12	Total	115	100

13 The Staff's analysis shows that only 12 percent of Aquila's press releases during this
14 period were directly related to Aquila's domestic utility operations while 46 percent were
15 focused on nonregulated and international operations.

16 Q. Did the Staff perform an analysis of Aquila's 2002 and 2003 press releases?

17 A. Yes. The Staff reviewed 141 press releases issued by Aquila in 2002 and 2003
18 and classified them into the four categories of 1) Nonregulated Operations; 2) Restructuring
19 Operations (including asset sales); 3) General Corporate Operations; and 4) Utility Operations.

20 The results are as follows:

21	Category	Number	Percent
22	1. Nonregulated	36	26
23	2. Restructuring (asset sales)	64	45
24	3. General Corporate	22	16
25	4. Utility	<u>19</u>	<u>13</u>
26	Total	141	100

27 The results of this study indicate that senior management's time was focused on
28 nonregulated activities including Aquila's current financial restructuring at about 70 percent of
29 the time. What is significant is that for both press release studies, 2000-2001 and 2002-2003,

1 utility operations was the focus of the press release in only 12 to 13 percent of the time. This
2 analysis is attached as Schedule 4 to this testimony.

3 Q. You state that your review of Aquila's press releases is one source of evidence
4 you used to formulate an opinion of how senior management spent its time over the past four
5 years. Did you make an adjustment to allocate the time of any employees of Aquila's
6 department responsible for researching, writing and issuing corporate press releases to Aquila's
7 restructuring operations?

8 A. No, I did not. However, it would have been clearly reasonable to do so. This
9 corporate department, 4120 External Communications performs communication work for and
10 reviews the communication's work of all operations of the company, including international
11 operations. The department's responsibilities include media relations, corporate advertising,
12 publications, graphics, corporate identity, presentations, annual meeting, and internal
13 communications. While the evidence indicates that a significant amount of this department's
14 time has been spent on Aquila's restructuring operations, I determined that the Staff's
15 adjustment on Aquila's restructuring operations, although conservative, is the appropriate
16 adjustment to make in this case. If the Staff's adjustment removed too high of a percentage of
17 one department's cost, there are other departments involved in restructuring operations, such as
18 department 4120, where no adjustment was made.

19 Q. Describe the results of the Staff's review of the minutes of Aquila's Board of
20 Directors meetings.

21 A. During my audit of corporate cost allocations in Case No. ER-2001-672, I
22 reviewed the minutes of Aquila's Board of Directors meetings in 1999, 2000 and 2001. My
23 review of these meeting minutes shows that Aquila's senior management and Board of

1 Directors spent a significant amount of time on international business unit issues as well as
2 Aquila's other nonregulated activities. I continued the review of Aquila's Board of Directors
3 meeting minutes for 2002 and 2003. The focus of the Board meetings shifted in 2002 and 2003
4 from Aquila's international business acquisitions and other nonregulated investments to dealing
5 with the significant financial difficulties Aquila was experiencing during this time. From my
6 review of these Board meeting minutes from 1999 through 2003, only approximately 5 percent
7 of the discussion was related to specific regulated utility operations. Approximately 40 percent
8 related to general corporate matters, and approximately 55 percent of the discussion related to
9 Aquila's nonregulated operations, nonregulated investments, international businesses and
10 Aquila's current financial difficulties.

11 Q. On page 11 of his rebuttal testimony Mr. Empson states that you arbitrarily
12 disallowed significant costs from several corporate departments without any factual basis.
13 Please comment.

14 A. Mr. Empson is incorrect. As I explained earlier, my adjustment was based on
15 my audit of Aquila's corporate cost allocation procedures and significant objective documentary
16 evidence. In my direct testimony in this case, I explained that as the basis for this adjustment I
17 reviewed Aquila's Board of Directors minutes, annual reports, income tax returns, SEC filings,
18 press releases, outside auditor workpapers, responses to Staff data requests, testimony filed in
19 past Aquila regulatory proceedings and payments to outside contractors. In addition, I used
20 experience gained in auditing Aquila's corporate allocations process in its last rate case to
21 develop a general understanding of the extent of Aquila's corporate departments' involvement
22 in Aquila's restructuring operations.

1 Q. Has Aquila's past actions made it more difficult for the Staff and to obtain
2 information on how Aquila's executives spend their time?

3 A. Yes. The issue of positive time reporting has been brought up in past Aquila rate
4 cases. In Case No. ER-97-394, the Staff asked the Commission to order Aquila to keep positive
5 time reporting so the Staff could more easily identify the projects that Aquila's senior
6 management worked on during the year. Aquila resisted the Staff's proposal. In its Report and
7 Order in that case, at page 53, the Commission strongly suggested to Aquila that it adopt
8 positive timekeeping, as recommended by the Staff.

9 Q. Has Aquila adopted positive time reporting?

10 A. No, not in any meaningful way. The only way positive time reporting would be
11 helpful for the purpose of allocating corporate overhead costs is for selected corporate
12 department employees to keep track of the specific projects they worked on and/or the specific
13 subsidiary or division the work they did during that day was related to. This would result in a
14 significant percentage of corporate costs being directly charged to the specific utility company
15 or project. This is the ideal method of corporate cost assignment.

16 Q. In his rebuttal testimony, Mr. Empson describes how he provided guidance to
17 Aquila's regulatory team in making sure that Aquila's customers do not bear the costs
18 associated with Aquila's corporate financial restructuring (exiting or winding down Aquila's
19 nonregulated and international businesses). He then describes how Aquila witness
20 Beverlee Agut removed \$17.4 million from Aquila's corporate cost allocation pool. Please
21 describe the nature of the \$17.4 million of costs removed from the corporate allocations pool.

22 A. The following is a breakdown of the \$17.4 million removed from the pool of
23 corporate overhead department costs to be allocated to Aquila's business units. Of the total

1 costs removed, \$15.3 was not related to Aquila's corporate restructuring, while \$2.1 million was
2 related to the restructuring.

3 Restructuring-related costs removed from Aquila's filing (\$2.6 million)

- 4 * Elimination of 3 Departments involved in Corporate Restructuring - \$500,000
- 5 * Removal of CFO costs due to work on restructuring operations - \$800,000
- 6 * Retention Bonuses for General Counsel Department - \$800,000
- 7 * Costs related to Aquila's credit quality problems - \$500,000

8 Non Restructuring-related costs removed from Aquila's filing (\$14.8 million)

- 9 * Nonrecurring restricted stock awards - \$6 million
- 10 * Reaudit of Aquila's 2001 books and records \$2 million
- 11 * Combination of CEO and Chairman departments - \$2 million
- 12 * Elimination of Dept 6130, UED Headquarters President - \$3.8 million
- 13 * Miscellaneous other costs - \$1 million

14 Q. How did Ms. Agut describe the elimination of three departments involved in
15 corporate restructuring activities in her direct testimony in this case?

16 A. Ms. Agut states at page seven of her direct testimony in this case that she
17 removed the costs of three departments involved in corporate restructuring activities "because
18 their function during the test period mainly focused on selling off business units. It is
19 anticipated that this type of work will continue."

20 Q. How did Ms. Agut describe the elimination of CFO department costs in her
21 direct testimony in this case?

22 A. Ms. Agut states at page eight of her direct testimony that, "in 2002, the Chief
23 Financial Officers, Messrs. Dan Streek and Rick Dobson, extensively focused on maintaining
24 the solvency of Aquila. It is anticipated that this focus will continue for at least a couple of
25 years."

26 Q. Given the basis for Aquila's adjustment to remove \$2.6 million in corporate
27 costs that were related to its corporate financial restructuring as indicated above, is the purpose
28 for the Staff's adjustment and Aquila's adjustment essentially the same in that both adjustments

1 attempt to prevent corporate restructuring costs from being passed on to Aquila's regulated
2 utility customers?

3 A. Yes. However, the extent of the analysis and evidence produced by Aquila to
4 support its adjustment appear to be nothing more than the following statements in Aquila
5 witness Agut's direct testimony in this case:

6 * The first three departments were removed because their function during the
7 test period mainly focused on selling off business units. It is anticipated that this
8 type of work will continue.

9 *In 2002, the Chief Financial Officers, Messrs. Dan Streek and Rick Dobson,
10 extensively focused on maintaining the solvency of Aquila. It is anticipated that
11 this focus will continue for at least a couple of years.

12 After a review of Aquila's proposed corporate allocation adjustments in this case I found
13 it difficult to understand how Aquila's CFO could be "extensively focused" on Aquila's
14 financial restructuring while other senior officers such as Aquila's Chairman and CEO,
15 Richard Green were not.

16 As a result of the questions raised in my review of Aquila's proposed corporate
17 allocations adjustment, I designed my audit of Aquila's corporate cost allocations using
18 essentially the same sources of evidence I used in Aquila's previous rate case, Case
19 No. ER-2001-672. In the 2001 case I addressed a similar issue of trying to determine how to
20 allocate the costs of several senior officer corporate departments. The results of my study and
21 analysis in Aquila's current case caused me to go further than Aquila witness Agut in assigning
22 more corporate department costs to Aquila's financial restructuring operations.

23 Q. In discussing Aquila's corporate restructuring costs Mr. Empson states at page
24 12 of his rebuttal testimony that during 2002, most direct payroll related costs were either within
25 the Merchant business or within departments whose allocated costs were eliminated by Aquila
26 before it filed its rate increase application. Is this statement correct?

1 A. No. In order for this statement to be correct, it would have to be true that
2 Aquila's Chairman and CEO, Mr. Richard Green, did not spend a significant amount of time in
3 2002 on Aquila's corporate restructuring activities as Aquila did not allocate any of Mr. Green's
4 payroll costs to restructuring operations in this rate case.

5 It is simply not credible to assert that the Chairman and CEO of a major energy
6 company currently experiencing the severe financial problems that Aquila is experiencing does
7 not spend most if not all of his time on efforts to bring the company back to financial health. In
8 order for Mr. Empson's statement to be true, one would have to accept that during 2002--at the
9 height of Aquila's financial problems, the year when Aquila exited the wholesale energy
10 marketing and trading business, the year where Aquila sold approximately \$1 billion in
11 Company assets and suffered rating agency debt downgrades-- Aquila's CEO spent most of his
12 time on the day-to-day management of Aquila's regulated electric and gas utility operations.

13 Q. At page 12 of his rebuttal testimony Mr. Empson appears to be critical of the
14 Staff's restructuring adjustment because Mr. Empson claims Aquila's restructuring activities
15 are one-time, non-recurring events. Is this position consistent with the position taken by
16 Aquila in its direct testimony in this case?

17 A. No. It is completely inconsistent. Mr. Empson is criticizing a position he agreed
18 with when Aquila filed its direct testimony in this case in July 2003. Mr. Empson gave
19 Ms. Agut the guidance to remove costs related to corporate restructuring operations and she
20 made an attempt to do so. She removed the cost of three departments because their function
21 during the test period mainly focused on selling off business units. She also stated that Aquila
22 anticipated that this type of work would continue. Ms. Agut, under the supervision of

1 Mr. Empson removed the cost of the CFO office in this case. Ms. Agut's reason for this
2 adjustment was that:

3 In 2002, the Chief Financial Officers, Messrs. Dan Streek and Rick
4 Dobson, extensively focused on maintaining the solvency of Aquila. It is
5 anticipated that this focus will continue for at least a couple of years.

6 Q. If Aquila's restructuring activities ended today, would the Staff's adjustment
7 in this case still be appropriate?

8 A. Yes. Because of the significant amount of work involved in the complete
9 overhaul in Aquila's business, Aquila still needs people with the experience and expertise to
10 run the operations of an international diverse energy company until the restructuring of
11 Aquila's operations is complete.

12 The people involved in the acquisition of Aquila's various international companies,
13 power plants, pipelines, etc., and the people involved in the operations of Aquila's energy
14 trading and merchant operations are the ones who will be needed to oversee the winding
15 down of these operations. Conversely, once the restructuring operations are complete, these
16 employees will no longer be needed and will likely be let go.

17 Q. ** _____
18 _____ **?

19 A. ** _____
20 _____
21 _____
22 _____
23 _____

24 _____ **.

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1 Q. ** _____
2 _____ **?

3 A. ** _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____.

10 Q. Please provide an example the types of employees Aquila needs while it is
11 involved in its restructuring operations that it won't need when it returns to a traditional
12 electric and gas utility company.

13 A. During its restructuring, Aquila will need to maintain its substantial General
14 Counsel's department with attorneys who have experience and expertise in merger and
15 acquisition activities. This expertise is needed in order to oversee the legal implications of
16 selling billions of dollars in corporate assets. Aquila's General Counsel's department
17 includes 17 employees with many who earn a salary in excess of \$100,000. It is doubtful
18 that if and when Aquila returns to being a simple electric and gas utility that it will need this
19 type of expertise.

20 Q. Please describe Aquila's General Counsel department.

21 A. This department has overall responsibility for all matters of a legal nature
22 including mergers, acquisitions, joint ventures and divestitures.



1 Q. Please explain the development of Aquila's General Counsel's corporate
2 overhead department.

3 A. In a June 19, 2000 press release, Aquila's then President and Chief Operating
4 Officer, Robert Green, stated "UtiliCorp's growth has resulted in the company reaching a scale
5 and complexity of global operations that warrants the establishment of a professional in-house
6 legal staff headed by an experienced general counsel." A logical conclusion would be that once
7 Aquila transitions back to a traditional domestic electric and gas utility, the current size and
8 experience level of Aquila's in-house legal staff may not be needed. An indication of this is that
9 Aquila paid \$800,000 in retention bonuses to Aquila's legal staff to retain their services through
10 its current financial restructuring.

11 Q. On page 14 of his rebuttal testimony, Mr. Empson states that the Staff used
12 Aquila's Cost Allocation Manual (CAM) as the basis for its disallowance percentages. Is
13 this a correct statement?

14 A. No. As I explained in my direct testimony in this case, my adjustment was made
15 after I reviewed Aquila's Board of Directors minutes, annual reports, SEC filings, press
16 releases, outside auditor workpapers, responses to Staff data requests (including Aquila's
17 CAM), testimony filed in past Aquila regulatory proceedings and payments to outside
18 contractors. In addition, I used experience gained in auditing Aquila's corporate allocations
19 process in its last rate case to develop a general understanding of the extent of Aquila's
20 corporate departments' involvement in Aquila's restructuring operations.

21 Q. Did you rely in part on Aquila's CAM in formulating your adjustment?

1 A. Yes. Aquila’s CAM provides a description of each department’s activities as
2 well as other information related to the basis of each department’s allocation of costs to Aquila’s
3 business units.

4 Q. Mr. Empson states at page 14 of his rebuttal testimony that “the CAM is
5 intended to describe the general functions of departments over time and does not necessarily
6 constitute the specific activities performed by each department.” Is Mr. Empson’s
7 characterization of the CAM consistent with what is stated as the purpose of the CAM in its
8 overview page?

9 A. No. Section A of the CAM, Summary of Cost Assignment describes the first
10 purpose of the CAM is to provide a consistent method of assigning costs to Aquila’s Business
11 Units, Divisions, and product lines. Nowhere in the CAM itself does it state the purpose if to
12 “describe the general functions of departments over time.” Section A of the CAM states:

13 The Aquila Inc. Corporate Cost Allocation Manual (CCAM) was
14 designed to satisfy three primary purposes:

- 15 1. To provide a consistent method of assigning costs to Aquila’s
16 Business Units, Divisions, and product lines.
17 2. To promote operational efficiencies.
18 3. To aide management as a tool for cost control.

19 Q. Please explain how you used the CAM in your audit?

20 A. The first step in the review of a specific department is to review the department’s
21 description in the CAM. For example, in reviewing the operations of Department 4194 Tax-
22 Income Team, I read the following department description in the CAM: “Responsible for all
23 income tax compliance including the preparation of tax returns, tax accounting, and audit
24 administration.”

1 I then reviewed Aquila's previous two federal income tax returns. From my review of
2 these tax returns, I determined that a significant portion of the tax returns were dedicated to
3 selling assets and other nonregulated activities. Included in the 2002 tax return were several
4 Form 966s, Corporate Dissolution or Liquidation; Form 4797, Sales of Business Property, tax
5 forms calculating the gain on sale of Aquila's corporate aircraft that it disposed of as part of its
6 restructuring operations; Form 5471 related to foreign corporations and other forms that are
7 related to Aquila's current restructuring operations.

8 From my review of the actual work product of the tax department I determined that a
9 conservative estimate of the amount of time that Aquila's restructuring operations caused the
10 employees of the Tax department in preparing these tax returns was approximately 25 percent.

11 **SEVERANCE ADJUSTMENT**

12 Q. At pages 12 and 13 of his rebuttal testimony Mr. Klote describes Aquila's
13 proposed severance cost adjustment. Please comment on this portion of Mr. Klote's rebuttal
14 testimony.

15 A. In his rebuttal testimony Mr. Klote described Aquila's "state-based"
16 reorganization which Aquila began in 2002. The purpose of Aquila's movement to a state-
17 based organizational structure was to make utility operations more efficient, primarily in the
18 area of reduced payroll costs The following is Aquila's April 16, 2002 press release announcing
19 this project:

20 KANSAS CITY, Mo., Apr 16, 2002 (BUSINESS WIRE) -- Aquila, Inc.
21 (NYSE:ILA)(formerly UtiliCorp United) is moving to a state-based
22 organizational structure for its utility operations to enhance operational
23 efficiency and community focus, a company official said today.

24 The realignment is designed to provide greater operational accountability
25 within Aquila's seven-state utility operations that serve 1.3 million

1 natural gas and electricity customers in Missouri, Kansas, Nebraska,
2 Colorado, Iowa, Michigan and Minnesota.

3 “A state-based leadership structure will allow us to more effectively
4 address operational and community issues in the individual states,” said
5 Keith Stamm, president and chief operating officer of Aquila’s Global
6 Networks Group. “Our goal is to continue supplying safe, reliable energy
7 supplies while creating a stronger focus on improving customer service.”

8 As a result of the restructuring, some of the company’s Kansas City-
9 based centralized staff will relocate into state operations. It’s expected
10 the realignment will result in an overall reduction in workforce, primarily
11 positions at the central headquarters in Kansas City. The level of
12 reductions will be determined as state structures are formed in the next
13 few weeks, Stamm said. All new state structures will be in place by July
14 31.

15 “It’s difficult to adopt a change that impacts individuals’ job security,”
16 said Stamm. “Aquila will consistently treat affected employees fairly and
17 with respect during this transition.”

18 Prior to 1995, Aquila’s U.S. networks operated in a state-based
19 organizational structure. These operations are comprised of utilities
20 acquired by Aquila since 1985 when the company began expanding from
21 its original Missouri Public Service base. In 1995, Aquila consolidated
22 the leadership and support staff functions into a centralized corporate
23 structure to build a unified corporate culture among the various utilities
24 and to create efficiencies and standardization in technology and basic
25 operating procedures.

26 “Since we have achieved the goal of standardizing the core operating and
27 financial systems, as well as corporate governance policies, it’s a natural
28 progression to now place additional responsibility within the state
29 operations,” said Stamm. “Leadership in the state operations is best
30 equipped to make many business decisions based on their customer,
31 community and regulatory knowledge.

32 “Our utilities will continue to provide a strong foundation for Aquila,
33 and we believe these steps will help ensure their economic well-being in
34 the future. “

35 Q. Was Aquila’s new efficient utility structure reflected in MPS’s rates in its last
36 rate case, Case No. ER-2001-672?

37 A. No. Rates from Case No. ER-2001-672 went into effect in March 2002. Aquila
38 did not announce its new efficient utility structure until April 2002. MPS’ rates that are in effect

1 today (and will be in effect until June 2004) still reflect Aquila's old less efficient utility
2 structure.

3 Q. Is Aquila proposing any adjustment in this rate case to compensate MPS'
4 customers for charging rates that were based on the old less efficient utility structure in Case
5 No. ER-2001-672?

6 A. No. In fact, Aquila is proposing to charge MPS' and L&P's customers for the
7 fact that it made its utility structure more efficient. This is the whole basis of Aquila's proposed
8 severance adjustment, also known as adjustment CS-10. Aquila totaled up the severance and
9 severance-related payments for the employees it severed under this project and is proposing to
10 recover MPS' and L&P's share of these costs in this rate case over a three-year period.
11 Although Aquila recognizes that it has collected higher payroll costs in rates than it is actually
12 paying to employees (Mr. Klote states at page 14 of his rebuttal testimony that "Aquila does not
13 deny the fact that regulatory lag exists concerning this issue"), it refuses to recognize these
14 payroll savings as an offset to its severance costs.

15 Q. At page 11 of his rebuttal testimony Mr. Klote list the reasons why the Staff is
16 opposed to Aquila's severance adjustment. Does Mr. Klote correctly describe the Staff's
17 reasons for its opposition to this adjustment?

18 A. No. One primary reason why the Staff is opposed to the recovery of
19 severance costs is that these types of costs are non-recurring expenditures. In addition to
20 being nonrecurring, the costs that Aquila seeks to recover have already, at least to a
21 significant extent, been recovered in rates. The rates for Aquila's last rate case, Case
22 No. ER-2001-672 went into effect in March 2002 as a result of the Commission accepting a
23 settlement that simultaneously resolved both that rate case and a Staff excess earnings

1 complaint case. Since that date, and continuing until rates are changed from the resolution
2 of this case in June 2004, Aquila has been recovering and will continue to recover payroll,
3 payroll taxes and other benefit costs in current rates for substantially all of the employees that
4 are no longer on MPS' payroll.

5 Q. What is your knowledge of the level of payroll that was included in MPS' last
6 rate case, Case No. ER-2001-672?

7 A. During that audit I worked closely with the Staff auditor who was responsible
8 for MPS' payroll adjustment, Graham A. Vesely. I have reviewed Mr. Vesely's testimony in
9 that case and noted that he did not recommend any adjustment to MPS' proposed level of
10 base payroll costs in that case. In fact, the Staff's payroll adjustment in this case included all
11 employee additions and payroll increases through January 31, 2002, (Vesely Direct
12 Testimony, Case No. ER-22001-672, page 3). I reviewed the rebuttal testimonies of 13
13 Aquila witnesses in that case and found that Aquila had no objection to the Staff's (or any
14 other parties to the case) base payroll adjustment. Aquila did have one witness to presented
15 rebuttal testimony on the Staff's proposed partial disallowance of incentive compensation
16 costs. Therefore, I am confident in saying that for the purposes of a discussion on regulatory
17 lag on the issue of payroll costs in Aquila's last rate case, 100 percent of the base payroll
18 costs that Aquila thought should be included in MPS' rates, were included.

19 Q. Does Mr. Klote disagree with the position taken in your direct testimony that
20 Aquila has recovered at least a portion of its severance costs through regulatory lag?

21 A. No. Mr. Klote does not disagree that Aquila has recovered at least a portion
22 of its severance costs through regulatory lag. However, he argues that the Commission
23 should not recognize the fact that Aquila has recovered these costs because Aquila's rates do

1 not reflect payroll increases in the years between rate cases and because the Staff did not pick
2 up a projected pay increase that is considerably outside of the test year in this case.

3 Q. What is “regulatory lag?”

4 A. Regulatory lag is the passage of time between when a utility’s financial results
5 change, and when that change is reflected in the utility’s rates.

6 Q. How does regulatory lag allow for a company such as Aquila to retain payroll
7 savings for a period of time?

8 A. Payroll costs represents one of the largest if not the largest expense of
9 providing utility service. When rates are set in a rate case, 100 percent of the payroll costs
10 needed to provide safe and reliable utility services are generally included in these rates. If a
11 utility takes an action, soon after rates are set in a rate case, to significantly reduce its payroll
12 costs, then these payroll savings, net costs to achieve these payroll savings will accrue to the
13 utility’s shareholders. This situation will then persist until the utility’s rates change, either as
14 a result of a rate increase application from the company in question or as a result of a
15 complaint application filed by the Staff or another party to reduce rates.

16 Q. Can regulatory lag work both to the benefit and the detriment of a utility?

17 A. Yes. Due to natural changes in revenue and expenses, either the utility or the
18 ratepayer may temporarily benefit from the effects of regulatory lag. Under ideal
19 circumstances, both parties have an equal opportunity to benefit because regulatory lag is
20 generally supposed to be caused by an unplanned and naturally occurring event. Sometimes
21 certain expenses decrease faster than other costs increase, thereby offsetting the impact and
22 sometimes the opposite occurs. Sometimes revenues increase faster than expense and, again,

1 sometimes expenses increase faster than revenues. Regulatory lag can be thought of as a
2 natural phenomenon in the utility ratemaking process.

3 Q. Does the Staff have any opposition to Aquila's retaining the benefits of its
4 payroll reductions until its actual payroll costs are reflected in rates in this case?

5 A. No. The Staff's objection is not that Aquila has retained the savings of its
6 payroll reductions, the Staff objects to the fact that Aquila wants to retain 100 percent of the
7 payroll savings, yet also wants to recover in rates 100 percent of the costs to achieve those
8 savings. The Staff believes this position is unfair and unreasonable and should be rejected by
9 the Commission.

10 Q. Did Aquila do any study to determine if it even suffered from a financial
11 detriment from incurring the severance costs associated with its employee reductions?

12 A. No. The Staff is not aware of any study where Aquila offset the dollar amount
13 of severance costs it incurred with the amount of payroll savings it accrued.

14 Q. Under what circumstances would you consider recommending recovery of a
15 cost similar to Aquila's severance cost adjustment?

16 A. The first criteria would be that the cost would have to be recurring in nature.
17 Secondly, Aquila would have to do a detailed study of the amount of payroll savings it
18 accrued in rates from its workforce reduction. The amount of payroll savings would then be
19 compared to the amount of severance costs it incurred. If the study results show that the
20 severance costs exceeded the payroll savings and this incremental amount was determined to
21 be material in amount, then, and only then, would the Staff consider some form of rate relief.

22 Q. Has the Commission ruled on the issue of rate recovery of severance costs for
23 Aquila?

1 A. Yes. In Aquila’s rate case ER-97-394, the Commission ruled that severance
2 costs should not be recovered in rates. Specifically, the Commission stated at page 45 of its
3 Report and Order in that case:

4 The Staff has proposed an approximate \$142,600 disallowance for test
5 year severance costs. The Staff witness states that such costs are
6 largely non-recurring and are quickly offset by savings in payroll
7 expense. The typical severance pay is six months salary.

8 UtiliCorp disagrees with the Staff’s position. UtiliCorp states that
9 payroll savings are achieved, to the benefit of the ratepayers, by
10 severing employees. UtiliCorp believes that the concurrent severance
11 costs, therefore, should also be borne by the ratepayers.

12 UtiliCorp also points out that it regards severance pay as a
13 management tool and therefore seeks inclusion of what it considers an
14 ongoing amount of severance costs in rates. The test year severance
15 expense was a result of the UtiliCorp reorganization program, referred
16 to as “Building Tomorrow’s UtiliCorp,” or BTU. The UtiliCorp
17 witness explains that the BTU program is ongoing, along with a
18 certain level of severance costs. UtiliCorp maintains that these costs
19 should properly be reflected in rates.

20 The Commission finds the weight of evidence in this issue indicates
21 that the severance costs in question were a one-time occurrence and
22 not an ongoing expense. In addition, while some benefit to the
23 ratepayer may accrue, the evidence is insufficient on that point.

24 Therefore, the Commission will adopt the proposed adjustment of the
25 Staff.

26 Q. Does this conclude your surrebuttal testimony?

27 A. Yes, it does.

Summary of Modifications

UtiliCorp United Inc. Supplemental Executive Retirement Plan

(As Amended and Restated Effective January 1, 2001)

- Executives employed in pay bands I-V are eligible for the SERP.
- The SERP was amended to add a new "Bonus SERP Benefit" and "Supplemental SERP Benefit."
- The Bonus SERP Benefit is designed to provide executives an additional retirement benefit based on the executives' annual bonus pay. Bonus pay is currently excluded from consideration under UtiliCorp's qualified defined benefit pension plan. All SERP participants are eligible for the Bonus SERP Benefit. (See SERP sections 1.02 and 4.02)
- The Supplemental SERP Benefit is designed to provide executives employed in pay bands I- IVa an additional market-based retirement benefit. The maximum retirement benefit is generally equal to 7.5% of the executive's average total pay in excess of the annual Internal Revenue Code dollar limitation. (See SERP sections 1.10, 1.12, 1.13 and 4.03)
- In order to receive the Bonus SERP Benefit and Supplemental SERP Benefit, an executive must either (i) retire from employment on or after attaining age 55, or (ii) separate from service after completing ten (10) or more years of service. All SERP benefits are adjusted to take into account early retirement and other applicable actuarial adjustments. (See SERP section 3.01)
- If a married executive dies after having satisfied the vesting requirements for the Bonus SERP and Supplemental SERP Benefits, the executive's surviving spouse will receive a benefit equal to 50% of the benefit that would have been paid to the executive. There is no death benefit for unmarried executives. (See SERP section 4.07)
- The Committee has the discretion to adopt a mandatory pay-out policy pursuant to which an executive's SERP benefit would be paid in a single lump sum if the actuarial value of such benefit is less than specified dollar amount. (See SERP section 4.05)

Response: (1) Discussions regarding the funding of OPEB benefits have been underway since the Missouri Legislature passed the law in 1994 (Section 386.315 RSMo) which allowed the utilities SFAS 106 recovery for OPEB amounts which are externally funded by the utility. Since there was no cash flow included in the 1993 electric case for FAS 106 expense, the actual funding was not completed until April 9, 1997. Funding was made at this time to support the Company's rate case seeking FAS 106 recovery. (2) A VEBA (Voluntary Employee's Beneficiary Assoc.) account is being used as a funding vehicle. The aggregate funding method has been used to determine the amount funded. (3) The VEBA funding is done specifically for MPS employee post-retirement benefits. (4) See attached Mercer computation of the \$1 million which has been funded to date. (5) The funding of the VEBA account is intended to cover the entire FAS 106 expense (i.e. benefit payments and benefits accrued but not paid during the current year). (6) See attached Mercer computation of the \$1 million that has been funded to date. The data used in this computation is an extrapolation of the information included in the December 31, 1996 report for 1997. The actuarial assumptions used are the same as documented in the 1996 report except as noted in the footnotes on the attachment.

ATTACHMENTS: Mercer computation of the estimated maximum tax deductible VEBA contribution.

ANSWERED BY: Beth Armstrong

.....
MPSC-407 Information requested:

(1) Provide the 1997 actuarial reports (ERISA and FAS87 & 106) as soon as they are available. Include all reports which would be charged 100% to MPS or on an allocated basis. (2) Provide any additional actuarial reports for any Supplemental Executive Retirement Plan also. (3) Identify actual dollars spent (charged to MPS) for any SERP plan in 1996. (4) Identify the expense recorded on MPS' books for any SERP plan in 1996 and indicate whether the expense amount is based upon accrual accounting under FAS87 or actual cash disbursements for benefits.

Response: (1) The 1997 actuarial reports are not available as of the date of this response. We anticipate receipt of the reports in late October 1997. (2) UtiliCorp has a SERP, however, there are no actuarial reports for such plan. (3) No dollars have been spent or charged to MPS for any SERP plan in 1996. (4) No amounts have been expensed for any SERP plan in 1996.

ATTACHMENTS: None

ANSWERED BY: Beth Armstrong (assisted by Brenda Williams)

.....
MPSC-408 Please provide the latest annual insurance premiums for all types of insurance coverages and the actual insurance premiums that were in effect at June 30, 1997.

Response: See attached spreadsheet.

ATTACHMENTS: Spreadsheet

ANSWERED BY: Diana Powell, Risk Management

.....
MPSC-409 Refer to the response to DR 277.

1) Question 2 in DR 277 did not request MPS's opinion as to whether prior ratemaking treatment for capitalized software/hardware costs is relevant to this case. The question asked is whether or not MPS has requested Rate Base treatment and/or depreciation/amortization on costs incurred for capital assets which were not in service/fully implemented, in any prior Rate Case. 2) In addition, MPS's BTU adjustment requests recovery of budgeted costs for BTU projects which will not be incurred until 1998 or 1999. Please identify any prior rate case in Missouri where MPS requested or was granted Rate Base and/or cost of service recovery of budgeted expense and/or costs for capital assets.

1 reflects the difference between annualized employer costs and those incurred in the test
2 year.

3 Q. Please list employee benefits charged to MPS that you are recommending
4 be included in cost of service, exclusive of disallowances previously discussed.

5 Resource	Staff Annualization	MPS Juris
6 Code	Description	Electric Expense
7		
8 1709	401K Employer Share	1,556,023
9 1711	Employee Stock Contribution Plan (ESCP)	706,957
10 1715	Benefits Health and Dental	2,174,418
11 1716	Benefits Life Insurance	94,795
12 1717	Benefits Educational Reimbursement	24,222
13 1718	Benefits AD&D Insurance	21,336
14 1725	Benefits Supplemental Retirement	34,688
15 1726	Benefits Restricted Stock	30,199
16 1727	Benefits LT & ST Disability	64,094
17 1729	Benefits Great Pursuits	50,079
18 1799	Benefits Other	127,434
19	Annual Incentive Compensation	1,678,752
20	Union Incentive Compensation	138,664
21	Total	7,601,660
22		

23 A. The Staff has included in its filed case the incentives and benefits levels
24 shown above, on an annualized basis, allocated as appropriate to electric operations,
25 without further proposed disallowances.

26 FUEL INVENTORIES

27 Q. What was your responsibility in this case with regard to the determination
28 of fuel inventory levels?

29 A. My responsibility was to determine an estimate of an appropriate level of
30 inventories for coal and oil maintained at UtiliCorp's generating facilities. Coal
31 inventories are maintained at the Jeffrey Energy Center and the Sibley plant. Oil
32 inventories are maintained at the Nevada and Greenwood facilities.

Number	Category	Date	Press Release
1	1	01/28/04	Aquila, CFTC Reach Settlement
2	1	08/29/03	Aquila Agrees to \$75,975 Settlement on Western Energy Market Manipulation, Reaffirms That It Acted Properly
3	1	08/20/03	Aquila CEO Announces Stock Sale to Pay Tax Obligation
4	1	08/19/03	Aquila responds to EPCOR statement of claim
5	1	07/07/03	Default Under Aries Power Project Construction Loans Has No Impact on Aquila's Liquidity or Debt Obligations; Existing Power Contract Unaffected
6	1	05/09/03	Aquila's Tire-Derived Fuel Project Helps Communities Fight Spread Of West Nile Virus
7	1	09/20/02	Competitive Wholesale Power Market Still Needed; Subcommittee's Draft Report Provides Roadmap, Remedies
8	1	09/05/02	Aquila Makes No Recommendation On Main Street's Unsolicited Mini-Tender Offer
9	1	07/02/02	Aquila Comments On Quanta Services, Inc.; Confirms 2002 EPS Guidance of \$1.30-\$1.40 Per Share
10	1	06/05/02	Aquila Submitted Responses to FERC; Review of Gas Trades Confirms No Round-trip Trades Occurred
11	1	06/03/02	Aquila Submitted Responses to FERC; Confirms Round-Trip Trades Not an Acceptable Practice
12	1	05/24/02	Aquila Responds to News Reports About California 'Ricochet' Power Trades
13	1	05/24/02	Aquila Refutes Inaccurate, Misleading Reports About Its European Operations
14	1	05/20/02	Aquila Concludes Review of Trading Activity, Finds No Improper Transactions; Webcast to Discuss Review at 8:00 a.m. Eastern Time Tomorrow
15	1	05/17/02	Aquila Says New York Times Article Inaccurate
16	1	05/14/02	Aquila Presentation to Financial Analysts Will be Webcast Live On May 14
17	1	05/13/02	Aquila Applauds Decision by Delaware Chancery Court'; Confirms Program To Offer Appropriate Premium To Quanta Stockholders
18	1	05/08/02	Aquila Completes Purchase of Ownership Interest in Midlands Electricity
19	1	05/03/02	Aquila Mails Additional Proxy Materials to Quanta Stockholders
20	1	04/30/02	Aquila to Acquire Cogentrix Energy, Adding 3,500 Megawatts of Contracted Generation; Details Reviewed in Webcast Today at Noon Eastern Time
21	1	04/16/02	Aquila Mails Definitive Proxy Materials to Quanta Stockholders
22	1	04/03/02	Aquila Files Preliminary Proxy Materials
23	1	03/25/02	Hearing for Preliminary Injunction Against Quanta's Sect Set for May 7, 2002
24	1	03/25/02	Aquila Teams With Florida's Seminole Electric On Consulting And Power Deals
25	1	03/21/02	Aquila Files Lawsuit Against Quanta Services and Certain of its Directors
26	1	03/18/02	UtiliCorp Changes Name to Aquila, Inc., Begins Trading Under Symbol ILA
27	1	03/18/02	Aquila and FirstEnergy Agree to Final Terms for Aquila's Acquisition of Midlands Electricity
28	1	02/06/02	Red Lake Gas Storage Open Season Starts Today
29	1	01/31/02	Aquila Set to Develop Arizona Gas Storage Facility
30	1	01/29/02	Aquila Brings Energy and Risk Management Skills to Global Chemical Fertilizer Industry
31	1	01/16/02	California Meteorologist Wins \$50,000 in Aquila/AMS Forecast Competition
32	1	01/14/02	Aquila And Nisource Form Alliance
33	1	01/11/02	Aquila Expands Line of Weather Products to Cushion Agribusiness Community From Crop Yield Volatility
34	1	01/07/02	UtiliCorp Completes Aquila Short-Form Merger NYSE Trading of Aquila Shares Ceases
35	1	01/04/02	UtiliCorp Accepts Tendered Aquila Shares, Expects to Complete Short-Form Merger January 7
36	1	01/03/02	UtiliCorp Says Its Aquila Exchange Offer is Set for Completion
37	2	01/16/04	Aquila and FirstEnergy Complete Sale of Midlands Electricity to Powergen
38	2	11/13/03	Aquila Agrees to Sell Interests in 12 Power Plants to ArcLight Capital Partners for \$300.9 Million
39	2	11/06/03	Aquila Reports Third Quarter Net Loss of \$169.9 Million, Reflecting Continued Restructuring
40	2	10/30/03	Aquila Review of 2003 Third Quarter Results Will be Webcast On November 6 at 9:30 a.m. Eastern
41	2	10/21/03	Avon Energy Partners Holdings: Sale of Aquila Sterling Limited
42	2	10/21/03	Aquila and FirstEnergy Sign Agreement to Sell Midlands Electricity to Powergen
43	2	10/06/03	D2r2 Announces Agreement To Purchase Aquila's Unite Subsidiary
44	2	10/06/03	Aquila Agrees To Sale Of Missouri Eastern Natural Gas System To Ameren Corporation
45	2	09/25/03	Aquila Agrees to Terminate Arrangement to Sell Its Interest in Midlands Electricity
46	2	09/25/03	Aquila, Inc., FirstEnergy Corp. and Scottish And Southern Energy plc Announcement
47	2	09/15/03	Aquila Agrees to Sell Canadian Utility Operations for CDN\$1.36 Billion

48	2	08/12/03	Aquila Reports Second Quarter Net Loss, Reflecting Merchant Wind-Down; Continues to Make Progress on Foreign Asset Sales
49	2	08/07/03	Aquila Review of 2003 Second Quarter Results Will Be Webcast on August 12 at 9:30 a.m. Eastern
50	2	07/24/03	Aquila Receives \$477 Million on Sale of Australian Properties
51	2	07/11/03	Aquila Obtains Approval from Colorado Public Utilities Commission to Collateralize Utility Assets
52	2	07/10/03	Aquila Passes Major Milestone to Completing Sale of Australian Properties
53	2	05/22/03	Sale of Aquila Sterling Limited -- Information for Bondholders
54	2	05/22/03	Aquila Signs Agreement to Sell Its Interest in Midlands Electricity
55	2	05/15/03	First Quarter Net Loss Reflects Costs of Energy Merchant Wind-Down, Rate Actions and Lower Expenses Contribute to Improved Results in Networks
56	2	05/13/03	Aquila Terminates Acadia Tolling Agreement; Aquila Continues to Deliver on its Restructuring Plan
57	2	04/30/03	Aquila Seeks State Regulatory Approval to Secure Obligations Supporting Utility Working Capital Requirements
58	2	04/22/03	Aquila Agrees to Sell Its Interests in Australia
59	2	04/15/03	Aquila Fourth Quarter and Year-End Net Loss Driven by Impairment and Restructuring Charges as Company Repositions Business
60	2	04/11/03	Aquila Completes Refinancing
61	2	03/28/03	Aquila to File for Extension of 10-K Report; Company Announces June 4 Annual Meeting Date
62	2	03/14/03	Aquila Posts Information on Restructuring Efforts on Website; Work Progressing on Renewal of Short-Term Financing
63	2	12/20/02	Aquila Will Not Issue Guidance for 2003
64	2	11/19/02	Aquila Responds to S&P Downgrade
65	2	11/15/02	With Liquidity of \$897 Million, Aquila is Positioned to Withstand Potential Effects of Fitch Downgrade
66	2	11/13/02	Aquila Reports 3rd Quarter Loss, Suspends Dividend to Support Ongoing Transition Plan and Receives Interest Coverage Waiver
67	2	11/12/02	Aquila Conference Call On Third-Quarter Results Will be Webcast At 9:00 a.m. Eastern, Thursday, November 14
68	2	10/31/02	Aquila Exits Lodi Gas Storage Project
69	2	10/18/02	Aquila Presentation At EEI Financial Conference Will be Webcast October 22 At 1:30 P.M. Eastern
70	2	10/16/02	Aquila Announces More Asset Sales, Raising Total to \$976.6 Million; Winds Up European Energy Merchant Operations
71	2	10/15/02	Aquila Closes \$34.9 Million Sale of Its U.K. Gas Storage Assets
72	2	10/11/02	Aquila Subsidiary Completes \$503 Million Sale of Its Interest in New Zealand's UnitedNetworks; Estimates Fourth Quarter Gain of \$28 Million
73	2	10/07/02	Aquila Completes \$265 Million Sale of Natural Gas Pipeline and Processing Assets
74	2	10/01/02	Aquila and Its CEO Robert K. Green Agree Upon Resignation; Responsibilities Assumed by Chairman Richard C. Green, Jr.
75	2	09/30/02	Aquila Completes Sale of Its Interest in Lockport Energy Facility
76	2	09/09/02	Aquila Signs Agreement to Sell Its Controlling Stake in UnitedNetworks; Vector Limited Selected as Successful Bidder
77	2	09/04/02	Standard & Poor's Concludes Review; Aquila Maintains Investment Grade Rating
78	2	09/03/02	Aquila Positioned to Withstand Potential Effects of Moody's Action
79	2	08/19/02	Aquila Confirms \$754 Million Liquidity Position, Company Well-Financed to Withstand Possible Moves by Rating Agencies
80	2	08/19/02	Aquila and ET Company, Ltd Sign \$265 Million Agreement On Sale of Texas/Oklahoma Natural Gas Pipeline and Processing Systems
81	2	08/16/02	Aquila Reaffirms Liquidity Position and Credit Standing in Response to Yesterday's Market Activity
82	2	08/08/02	Aquila and ScottishPower's PacifiCorp Power Marketing, Inc. Sign \$180 Million Agreement On Sale of Texas Gas Storage Assets
83	2	08/08/02	Aquila Reports Second Quarter Operating Earnings of \$.34 Per Diluted Share, Records Non-Recurring Charges of \$966 Million
84	2	08/07/02	Aquila Seeks Buyer for Midlands Electricity
85	2	08/06/02	Aquila to Exit Wholesale Energy Marketing and Trading Business
86	2	08/05/02	Aquila Conference Call On Second-Quarter Earnings Will be Webcast At 9:00 a.m. Thursday, August 8
87	2	08/02/02	Aquila and Cogentrix Agree to Terminate Acquisition Agreement; Current Power Market Conditions Cited
88	2	07/31/02	Aquila's Acquisition of Cogentrix Uncertain
89	2	07/03/02	Aquila Completes Concurrent Equity and Debt Offerings as Part of Its Strategic and Financial Repositioning
90	2	07/02/02	Aquila Says the Sale of Pulse, EdgeCap and Utili-Mode in Australia Has No Ongoing Impact On Its Earnings Per Share
91	2	07/02/02	Aquila Reaches Agreement to Sell Interest in Lockport Energy Facility
92	2	06/28/02	Aquila Prices \$500 Million Senior Notes Offering as Part of Its Strategic and Financial Repositioning
93	2	06/27/02	Aquila Completes Equity Offering as Part of Its Strategic and Financial Repositioning: Prices 37,500,000 Primary Common Shares
94	2	06/18/02	Aquila Plans \$900 Million of Concurrent Equity and Debt Offerings to Strengthen Its Balance Sheet and Liquidity Position
95	2	06/17/02	Aquila Announces Strategic and Financial Repositioning; Reduces Dividend, Earnings Guidance and Wholesale Activity

96	2	06/13/02	Aquila's Board Meets to Review "Project BBB+/Baa1" Progress, Initiates Review of Dividend Policy; Cooperating With SEC Informal Inquiry
97	2	06/11/02	Aquila Announces Plans to Sell New Zealand Assets as Part of Its Project BBB+/Baa1
98	2	05/22/02	Aquila Eliminates 200 Positions, Move Supports Project BBB+/Baa1
99	2	05/21/02	Aquila Focused on Improving Credit Rating, Launches Project BBB+/Baa1
100	2	04/29/02	Aquila Reconfirms Commitment to Strong Balance Sheet and Investment Grade Rating
101	3	06/04/03	Aquila Shareholders Elect New Independent Director; Company Reviews at Annual Meeting Ongoing Efforts to Restore Aquila's Financial Stability
102	3	05/13/03	Aquila Board Names New CFO; Establishes Corporate Compliance Function
103	3	10/18/02	Aquila Names Rick Dobson Interim Chief Financial Officer, Effective November 20
104	3	10/18/02	Aquila Aligns Board and Conference Call Schedule With Schedule for SEC Filings
105	3	10/04/02	Aquila Names Keith Stamm Chief Operating Officer; Mike Jonagan Will Head Capacity Services
106	3	08/15/02	Aquila Completes Certification With Securities and Exchange Commission Without Modification
107	3	08/07/02	Aquila Declares Quarterly Dividend
108	3	07/10/02	Aquila Chairman Richard C. Green, Jr. Urges Congressional Action on Energy Derivatives; Endorses Senator Feinstein's Legislation
109	3	06/10/02	Aquila Presentation to Financial Analysts Will be Webcast Live On June 12
110	3	05/31/02	Aquila Expects 70 Percent of 2002 Operating Earnings to Come From Regulated Utilities and Contract Power Sales
111	3	05/21/02	Aquila Appoints KPMG to Serve as Company's Independent Auditors
112	3	05/01/02	Three Directors Reelected At Aquila Annual Meeting; Company Leaders Reiterate Confidence in Future Direction
113	3	05/01/02	Aquila Declares Quarterly Dividend
114	3	05/01/02	Aquila announces \$.32 first Quarter EPS; Conference Call And Webcast Set for 1:00 P.M. Eastern Time Today
115	3	04/19/02	Aquila Expects Lower First-Quarter EPS; May 1 Conference Call and Webcast Set for 1:00 p.m. EDT
116	3	04/16/02	Aquila Secures \$650 Million in New Credit Lines
117	3	02/07/02	Correcting UtiliCorp Reports Record Full-Year Operating EPS of \$2.44
118	3	02/07/02	UtiliCorp Reports Record Full-Year Operating EPS of \$2.44; Today's New York Meeting and Webcast Set for 8:30 A.M. EST
119	3	02/06/02	UtiliCorp Declares Quarterly Dividend
120	3	01/30/02	UtiliCorp Completes Offering of 12,500,000 Common Shares
121	3	01/21/02	UtiliCorp Announces Plans to Issue 11 Million Common Shares
122	3	01/21/02	UtiliCorp Expects Record Full-Year Operating EPS of \$2.44; February 7 Conference Call and Webcast Set For 8:00 a.m. EST
123	4	10/24/03	Aquila Webcast To Feature Company CEO Presentation at EEI Conference
124	4	10/15/03	Largest Kansas Wind Farm Reaching Operation Milestone, State Legislators Gather at Site with Aquila, FPLE Officials
125	4	09/17/03	Aquila Seeks First U.S. Green Tags For Biomass To Generate Power At W.N. Clark Plant In Colorado
126	4	09/16/03	Aquila Chairman Outlines Initiatives to Bolster Economic Development and Improve Energy Supply in Missouri; Industry,
127	4	08/01/03	Aquila Files Missouri Gas Rate Case with Commission
128	4	08/01/03	Aquila Files Gas Rate Case for St. Joseph Region
129	4	07/30/03	Minnesota Commission Approves Rate Increase for Aquila Natural Gas Customers
130	4	07/03/03	Aquila Files Electric Rate Case for St. Joseph Area to Recover Costs of Electric Service Operations
131	4	07/03/03	Aquila Files Electric Rate Case with Commission
132	4	06/30/03	Aquila Files for Natural Gas Rate Increase in Nebraska to Recover Costs of System Improvements--Rate Area
133	4	06/26/03	Aquila Seeks Input from Community and State Leaders on Upcoming Rate Case for Missouri Electric Customers
134	4	06/13/03	Colorado Public Utilities Commission Approves Rate Increase For Aquila Electric Operations
135	4	05/01/03	Aquila Webcast to Feature Company CEO Presentation at AGA Conference
136	4	03/31/03	Aquila Adjusts Its Gas Cost Recovery Rate Due To Higher Wholesale Gas Prices
137	4	03/13/03	Michigan Public Service Commission Approves Final Phase of Rate Increase for Aquila Natural Gas Network
138	4	02/20/03	IOWA UTILITIES BOARD APPROVES RATE INCREASE FOR AQUILA NATURAL GAS NETWORK
139	4	06/03/02	AQUILA Seeks Recovery of Investment in Iowa Natural Gas Distribution System
140	4	04/16/02	New Aquila Networks Structure Focuses On States and Communities
141	4	04/02/02	Aquila Seeks Power Supply Contracts to Provide for Colorado Customers