

REDACTED
Per Commission Directive
on February 26, 2004

Exhibit No.
Witness: Maurice Brubaker
Type of Exhibit: Direct Testimony
Sponsoring Party: Federal Executive Agencies, SIEUA and
St. Joseph Missouri Industrial Users
Subjects: Revenue Requirements: Treatment of
Fuel Costs
Date: February 27, 2004

BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI

In the Matter of Aquila, Inc., d/b/a Aquila)
Networks - L&P and Aquila Networks - MPS) Case No. ER-2004-0034
to implement a General Rate Increase in)
Electricity)

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)
)

Direct Testimony and Schedule of

Maurice Brubaker

On behalf of

Federal Executive Agencies
Sedalia Industrial Energy Users Association
St. Joseph, Missouri Industrial Energy Users

February 27, 2004
Projects 8051, 8052, 8053



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

**BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI**

In the Matter of Aquila, Inc., d/b/a Aquila)
Networks - L&P and Aquila Networks - MPS)
to implement a General Rate Increase in) Case No. ER-2004-0034
Electricity

Affidavit of Maurice Brubaker

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000. We have been retained by the Federal Executive Agencies, the Sedalia Industrial Energy Users Association, and the St. Joseph, Missouri Industrial Energy Users in this proceeding on their behalf.

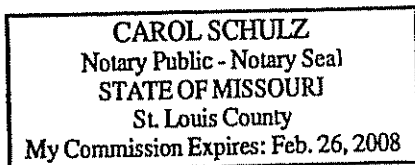
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedule which were prepared in written form for introduction into evidence in the ER-2004-0034 Proceeding.

3. I hereby swear and affirm that my direct testimony and schedule are true and correct and show the matters and things they purport to show.

Maurice Brubaker

Maurice Brubaker

Subscribed and sworn before this 27th day of February, 2004.



Carol Schulz

Notary Public

My Commission expires on February 26, 2008.

**BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI**

In the Matter of Aquila, Inc., d/b/a Aquila Networks - L&P and Aquila Networks - MPS to implement a General Rate Increase in Electricity)))))))))	Case No. ER-2004-0034
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Direct Testimony of Maurice Brubaker

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

2 **A**Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208,
3 St. Louis, Missouri 63141-2000.

4 **Q WHAT IS YOUR OCCUPATION?**

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

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 **A**This information is included in Appendix A to my testimony.

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 **A**I am appearing on behalf of the Federal Executive Agencies, the Sedalia Industrial
11 Energy Users Association (SIEUA), and the St. Joseph, Missouri Industrial Energy
12 Users.

**Maurice Brubaker
Page 1**

1 **Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

2 A I will address the subject of the appropriate treatment of fuel cost recoveries for
3 electric sales. In so doing I will comment on

4
5 proposals made by Aquila Networks – MPS (MPS) with respect to its electric system.
6 After analyzing the proposal put forward by the Utilities, I will present an alternate
7 proposal.

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10 The fact that other issues are not addressed in this testimony should not be
11 construed as an endorsement of the positions advanced by the Utilities. Furthermore,
12 the fact that any testimony at all is offered should not be construed as any limitation on
13 the ability of these intervenors to pursue to its logical conclusion the results of the
14 October 28, 2003 Decision of the Missouri Supreme Court in Ag Processing, Inc. v
15 Public Service Commission, Supreme Court Docket No. SC 85352.

16 **FUEL AND PURCHASED POWER COST RECOVERY**

17 **Q WHAT PROPOSAL HAVE THE UTILITIES MADE WITH RESPECT TO RECOVERY**
18 **OF FUEL AND PURCHASED POWER?**

19 A They propose to use estimated prices of all inputs, including the same gas price that was
20 estimated when the original filing was made. (In other words, the estimate of gas prices
21 has not been modified to reflect an update, although many other costs have been
22 updated.) In addition, Utilities proposed that the estimated prices of natural gas be
23 increased by 50¢ per Mcf in order to provide them with some margin above the base
24 forecast of natural gas prices. Also, the Utilities propose that they would refund to

1 customers 100% of the difference between the final gas prices actually experienced and
2 the gas prices used to establish rates.

3 **Q DO YOU BELIEVE IT IS APPROPRIATE TO PROVIDE FOR THE RECOVERY OF**
4 **GAS COSTS IN THIS FASHION?**

5 A Not entirely. I would note, however, that gas prices are currently at fairly high levels
6 (compared to more normal historic levels), that gas prices have become increasingly
7 volatile, and that a similar (but not identical) mechanism was employed in 2001 in
8 Docket No. ER-2001-299 involving the rates of Empire District Electric Company.

9 **Q IS THERE A RISK TO CUSTOMERS IF RATES ARE SET USING CURRENT GAS**
10 **PRICES, WITHOUT ANY POSSIBILITY OF SUBSEQUENT REFUND IF GAS PRICES**
11 **DROP?**

12 A Yes, there is a risk. The risk is that gas prices may come down from the levels used to
13 establish rates. If that occurs, then consumers will have paid more for gas than the
14 utility actually experienced to purchase the gas. Given the current level of gas prices,
15 and the future outlook, as more fully discussed by my colleague, Mr. Stephens, I believe
16 there is a greater likelihood that gas prices will decrease than that they will increase. Of
17 course, no one knows for certain. But, this is the very reason that some mechanism
18 similar to that proposed by the Utilities makes sense in the current environment.

19 **Q IF SOMETHING SIMILAR TO WHAT HAS BEEN PROPOSED IS ADOPTED, SHOULD**
20 **THE MECHANISM ADDRESS ONLY GAS COSTS, OR ONLY FUEL COSTS?**

21 A No. The Utilities can serve their electric needs by a combination of various fuels,
22 including oil, gas and coal, as well as power purchased under contract from other utilities

1 or purchased on more of a spot basis. To the extent that surplus coal-fired power exists
2 in the market, it is possible that the Utilities will be able to adjust their mix of inputs to
3 reduce the percentage of natural gas below that which is currently estimated.
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6 **Q THAT BEING THE CASE, WHAT DO YOU RECOMMEND?**

7 A I recommend that if a mechanism is established that the parameter used be the net
8 variable cost of fuel and purchased power. In other words, for the electric systems, the
9 base number would be the total expected delivered cost of all fuels, plus the variable
10 component of purchased power, divided by the expected kilowatthour sales.
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14 **Q SHOULD THE GAS PRICES CURRENTLY PROPOSED BY THE UTILITIES BE**
15 **USED?**

16 A No. I recommend that a more recent outlook for natural gas prices be used. Mr.
17 Stephens presents one such outlook in his testimony, and I expect other witnesses will
18 do so as well. When the Commission makes its final decision, it should decide what is
19 the most realistic outlook for natural gas prices at that time, and incorporate those
20 numbers into the fuel model for purposes of determining the base values (i.e., the values
21 before adding 50¢ per Mcf to gas prices) for the average cost of fuel and variable
22 purchased power for the electric systems, and the base value of fuel for steam sales. I
23 have no objection to doing a second calculation with a gas price assumption 50¢ per Mcf

1 higher than the base number. This higher number would form the basis for the rates
2 actually charged to customers.

3 **Q HOW WOULD REFUNDS BE DETERMINED AND MADE IN SUBSEQUENT**
4 **PERIODS?**

5 A I recommend that whatever mechanism is established be put in place for a three-year
6 period. At or near the end of the three-year period the utilities would be required to
7 present calculations of their average per kilowatthour cost of fuel and variable purchased
8 power . To the extent
9 that these numbers are less than what was included in the rates, customers would be
10 owed a refund.

11 **Q SHOULD THE CUSTOMERS RECEIVE A REFUND OF 100% OF ANY AMOUNT**
12 **THAT IS SUBSEQUENTLY DETERMINED TO HAVE BEEN OVERCOLLECTED?**

13 A With respect to the 50¢ per Mcf added-on gas price, I believe that a 100% refund should
14 be required. After all, the purpose of this margin is primarily to provide the Utilities with
15 some additional comfort and to reduce their risk.

16 With respect to amounts below the base costs (absent the 50¢ per Mcf add-on)
17 consumers, in theory, also would be entitled to a 100% refund. However, I think there is
18 merit in providing the Utilities with some additional incentive to minimize the costs of fuel
19 and purchased power. They will experience a greater incentive if they are not compelled
20 to refund 100% of the difference between estimated and actual costs. Thus, in order to
21 provide an incentive for the Utilities, and to allow them to participate in the benefits of
22 lower fuel prices, it would be my recommendation that the Commission consider allowing
23 the Utilities to keep a modest portion of any amounts below this base number. For

1 example, allowing the Utilities to retain 10% of this amount would provide them with an
2 incentive and allow them to participate in the benefits if they are successful in procuring
3 fuel and purchased power at lower costs.

4 **Q HAVE YOU DEVELOPED AN ILLUSTRATIVE EXAMPLE OF HOW YOUR**
5 **PROPOSAL WOULD WORK?**

6 A Yes. Please refer to Schedule 1, which is attached to this testimony. In this schedule I
7 have developed an example showing the calculation of the costs included in the test
8 period, and illustrated how a different level of cost experienced during a three-year
9 reconciliation period would be compared to the costs included in rates and how refunds
10 to customers would be calculated.

11 **Q ARE THESE NUMBERS INTENDED TO REPRESENT A RECOMMENDATION WITH**
12 **RESPECT TO THE SPECIFIC VALUES?**

13 A No. However, the numbers that I have employed for this illustration are somewhat
14 similar in magnitude to those proposed by Aquila for the MPS system.

15 **Q PLEASE DESCRIBE YOUR ILLUSTRATIVE EXAMPLE.**

16 A Column 1 shows the test period fuel and variable purchased power cost data as
17 assumed to be approved by the Commission in its final order. Line 1 shows base fuel
18 and variable purchased power costs of \$100,000,000. This would be the cost of fuel as
19 delivered to each generating station, and the variable component of purchased power
20 cost. Line 2 shows retail sales, and Line 3 shows the cost per kilowatt-hour using these
21 base costs and retail sales.

1 Line 4 shows an additional assumed premium for gas costs above the forecast
2 level in this case, in the amount of \$5,000,000. The cost per kilowatthour sold impact of
3 the premium is shown on Line 5, and Line 6 shows the total cost included in rates of
4 2.1¢ per kilowatthour.

5 **Q WHAT IS SHOWN IN COLUMN 2?**

6 A Column 2 shows the total statistics for the assumed three-year reconciliation period.
7 Line 7 shows the total fuel and variable purchased power costs actually incurred during
8 the three-year period. Line 8 shows total retail sales, and Line 9 shows that the average
9 cost per kilowatthour was 1.8¢, which is less than the base fuel and purchased power
10 cost included in the tariffs.

11 **Q WHAT IS THE FIRST STEP IN THE REFUND CALCULATION?**

12 A The first step in the refund calculation is to determine the total dollars of fuel and variable
13 purchased power costs collected by the utility during the three-year reconciliation period.
14 This is shown on Lines 10 through 12. Line 10 is the base cost recovered which is
15 determined by multiplying the base cost per kilowatthour included in rates, of 2.0¢ per
16 kilowatthour in this example, times total retail sales. The amount related to the premium
17 is determined in a similar manner, multiplying the total retail sales times the incremental
18 cost recovery attributable to the inclusion of the assumed gas price premium. The total
19 is shown on Line 12. In this illustration, \$336 million was collected by the utility during
20 the three-year reconciliation period.

21 The next step is shown on Lines 13 through 15. This is the determination of the
22 dollar amount to be refunded. Since the total variable fuel and purchased power cost

1 was less than the base amount, 100% of the premium is refunded. In addition, 90% of
2 the remaining difference between fuel costs incurred and the base fuel costs is refunded.

3 Line 16 shows the amount retained by the utility, which equals the actual costs
4 incurred minus the refund obligation. In this case, \$44.8 million would be refunded to
5 customers. As shown on Line 17, shareholders would benefit by retaining \$3.2 million.

6 **Q HOW WOULD THE REFUND BE ACCOMPLISHED?**

7 A The refund would be implemented as a percentage applied to the base tariffs of all
8 customers whose rates recovered fuel costs during this period of time. The calculation
9 is shown on Line 19, and in this illustration equals 4.595% of the base tariff revenues
10 collected. Having calculated the refund percentage, each customer whose base
11 revenues during the applicable period of time included fuel cost recovery would receive
12 a refund equal to 4.595% of the amount paid for electric service during the refund period.

13 **Q AS A PART OF THIS RECONCILIATION AND REFUND PROCEEDING, SHOULD A**
14 **PRUDENCY REVIEW BE REQUIRED?**

15 A Yes. The Utilities should be required to file a complete and detailed explanation of their
16 acquisition practices for both fuel and purchased power during the period for which
17 reconciliation is provided. This evidence should be subject to testing in a regular
18 evidentiary proceeding. Any costs that are found to have been imprudently incurred
19 should be refunded to customers as a part of this process.

20 **Q SHOULD CARRYING CHARGES BE ACCRUED ON THE OVER/UNDER**
21 **COLLECTIONS DURING THIS PERIOD?**

1 A Yes. Carrying charges, at a rate to be established by the Commission, should be
2 accrued each month.

3 **Q IF THE FILING BY THE UTILITY INDICATES THAT A REFUND IS APPROPRIATE,**
4 **SHOULD THE REFUND BE DELAYED UNTIL THE FULL PRUDENCY REVIEW IS**
5 **CONDUCTED?**

6 A No. If the utility believes that customers are due a refund, it should be required to
7 include a refund plan in its filing. As soon as the Commission has reviewed and
8 approved the plan, these refunds should be made. To the extent that the prudency
9 review reveals the need to refund any additional amounts, those amounts can be
10 refunded after the Commission has processed the prudency review and reached a
11 determination. Customers should not be required to wait until the prudency review is
12 completed to receive refunds that the utility has agreed are appropriate.

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

11 **A** Yes.

Qualifications of Maurice Brubaker

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

2 A Maurice Brubaker. My business mailing address is P. O. Box 412000, 1215 Fern Ridge
3 Parkway, Suite 208, St. Louis, Missouri 63141-2000.

4 **Q PLEASE STATE YOUR OCCUPATION.**

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

7

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

9 A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in
10 Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section
11 of the Engineering and Technology Division of Esso Research and Engineering
12 Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

13 In the Fall of 1965, I enrolled in the Graduate School of Business at Washington
14 University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of
15 Master of Business Administration. My major field was finance.

16 From March of 1966 until March of 1970, I was employed by Emerson Electric
17 Company in St. Louis. During this time I pursued the Degree of Master of Science in
18 Engineering at Washington University, which I received in June, 1970.

19 In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis,
20 Missouri. Since that time I have been engaged in the preparation of numerous studies
21 relating to electric, gas, telephone and water utilities. These studies have included
22 analyses of the cost to serve various types of customers, the design of rates for utility

1 services, cost forecasts, cogeneration rates and determinations of rate base and
2 operating income. I have also addressed utility resource planning principles and plans,
3 reviewed capacity additions to determine whether or not they were used and useful,
4 addressed demand-side management issues independently and as part of least cost
5 planning, and have reviewed utility determinations of the need for capacity additions
6 and/or purchased power to determine the consistency of such plans with least cost
7 planning principles and the prudence of the actions undertaken.

8 I have testified before the Federal Energy Regulatory Commission (FERC),
9 various courts and legislatures, and the state regulatory commissions of Alabama,
10 Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia,
11 Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Nevada,
12 New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island,
13 South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and
14 Wyoming.

15 The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and
16 assumed the utility rate and economic consulting activities of Drazen Associates, Inc.,
17 founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It
18 includes most of the former DBA principals and staff. Our staff includes consultants with
19 backgrounds in accounting, engineering, economics, mathematics, computer science
20 and business.

21 During the past ten years, Brubaker & Associates, Inc. and its predecessor firm
22 has participated in over 700 major utility rate and other cases and statewide generic
23 investigations before utility regulatory commissions in 40 states, involving electric, gas,
24 water, and steam rates and other issues. Cases in which the firm has been involved

1 have included more than 80 of the 100 largest electric utilities and over 30 gas
2 distribution companies and pipelines.

3 An increasing portion of the firm's activities is concentrated in the areas of
4 competitive procurement. While the firm has always assisted its clients in negotiating
5 contracts for utility services in the regulated environment, increasingly there are
6 opportunities for certain customers to acquire power on a competitive basis from a
7 supplier other than its traditional electric utility. The firm assists clients in identifying and
8 evaluating purchased power options, conducts RFPs and negotiates with suppliers for
9 the acquisition and delivery of supplies. We have prepared option studies and/or
10 conducted RFPs for competitive acquisition of power supply for industrial and other end-
11 use customers in more than a dozen states, involving total needs in excess of 2,500
12 megawatts.

13 In addition to our main office in St. Louis, the firm also has branch offices in
14 Corpus Christi, Texas; Plano, Texas; Denver, Colorado; Asheville, North Carolina; and
15 Chicago, Illinois.

MEB:cs/8051/41486

Aquila Networks

Illustration of Fuel and Variable Purchased Power Cost Recovery and Reconciliation

Line	Description	Test Period (1)	Three-Year Reconciliation Period (2)
1	Base Fuel and Variable Purchased Power Cost	\$100,000,000	
2	Sales, MWh	5,000,000	
3	Cost/kWh	2.0¢	
4	Additional Premium for Gas Costs	\$5,000,000	
5	Cost/kWh of Premium	0.1¢	
6	Total Cost/kWh in Rates	2.1¢	
 <u>Refund Calculation</u>			
7	Total Fuel and Variable Purchased Power Costs		\$288,000,000
8	Retail Sales		16,000,000
9	Cost/kWh		1.8¢
 Cost in Rates			
10	Base ^(a)		\$320,000,000
11	Premium ^(b)		<u>16,000,000</u>
12	Total		\$336,000,000
 Refund Amount			
13	100% of Premium		\$ 16,000,000
14	90% of Remainder		<u>28,800,000</u>
15	Total		\$ 44,800,000
16	Retained by Utility ^(c)		\$291,200,000
17	Shareholder Benefit ^(d)		\$ 3,200,000
 Refund Mechanism			
18	Total Tariff Revenue		\$975,000,000
19	Refund Percentage ^(e)		4.595%

- (a) Line 3, Column 1 times Line 8, Column 2
 (b) Line 5, Column 1 times Line 8, Column 2
 (c) Line 12, Column 2 minus Line 15, Column 2
 (d) Line 16, Column 2, minus Line 7, Column 2
 (e) Line 15, Column 2 divided by Line 18, Column 2