

Exhibit No.:
Issues: *Accounting Schedules; Plant in Service, Depreciation Expense & Depreciation Reserve; Unamortized Accounting Authority Order Balances; Advertising Expense; Dues and Donations; Injuries and Damages; Insurance; Property Taxes; PSC Assessment; and Rate Case Expense*

Witness: *Trisha D. Miller*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2004-0072*
Date Testimony Prepared: *January 6, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

TRISHA D. MILLER

AQUILA, INC.
d/b/a AQUILA NETWORKS-MPS AND
AQUILA NETWORKS-L&P

CASE NO. GR-2004-0072

Jefferson City, Missouri
January 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

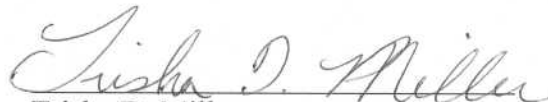
In the Matter of Aquila, Inc. d/b/a Aquila)
Networks-MPS and Aquila Networks-L&P,)
Natural Gas General Rate Increase)

Case No. GR-2004-0072

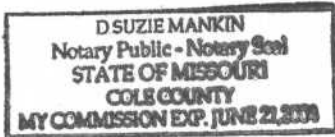
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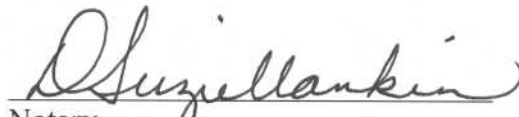
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Trisha D. Miller, being of lawful age, on her oath states: that she has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the following Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Trisha D. Miller

Subscribed and sworn to before me this 2nd day of January 2004.




Notary

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1 **DIRECT TESTIMONY**

2 **OF**

3 **TRISHA D. MILLER**

4 **AQUILA, INC. d/b/a AQUILA NETWORKS-MPS**

5 **AND AQUILA NETWORKS – L&P**

6 **CASE NO. GR-2004-0072**

7 Q. Please state your name and business address.

8 A. Trisha D. Miller, P.O. Box 360, Jefferson City, MO 65102.

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

10 A. I am a Regulatory Auditor for the Missouri Public Service Commission
11 (Commission or PSC).

12 Q. Please describe your educational background and experience.

13 A. I graduated from the University of Mississippi. I received a B.A. in
14 Accountancy (May 2001) and a Masters of Taxation (May 2002). In September of 2002, I
15 commenced employment with the Commission Staff (Staff) in my current position of Utility
16 Regulatory Auditor. I passed the Uniform Certified Public Accountant Examination in May
17 of 2003 and subsequently obtained my Certified Public Accountant's license from the state of
18 Missouri in September of 2003.

19 Q. What has been the nature of your duties while employed by the Commission?

20 A. I am responsible for assisting in the audits and examinations of the books and
21 records of utility companies operating within the state of Missouri.

22 Q. Have you worked on any other cases since your employment with the
23 Commission?

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1 A. Yes. I have filed testimony in Aquila, Inc.'s (Aquila) electric operations
2 known as Aquila Networks-MPS and Aquila Networks-Light & Power. I have also been
3 assigned to a small informal water case.

4 Q. What knowledge, skills, experience, training or education do you have in these
5 areas of which you are testifying as an expert witness?

6 A. I have extensively reviewed other utility rate cases related to the issues I am
7 sponsoring to ensure the consistency of the Staff's method and procedures. My prior
8 academic education has also prepared me to successfully sponsor the ratemaking areas I have
9 been assigned in this case. I have received certificates of training from the National
10 Association of Regulatory Utility Commissions in seminars it has sponsored concerning
11 electric utility cost of service and regulation. Further, I have attended numerous in-house
12 training seminars at the Commission, specifically designed for continuing education and
13 training in the areas of regulatory issues. I reviewed the Company's testimony, workpapers
14 and responses to Data Requests to familiarize myself with the Company's position on the
15 issues I will address. I have also worked closely with Senior Staff members familiar with my
16 areas of responsibility.

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

18 A. The purpose of my testimony is to describe certain accounting adjustments
19 made to the Aquila Networks – MPS ("MPS") and Aquila Networks – L&P ("L&P") natural
20 gas operations cost of service filings.

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

23 A. I am sponsoring the following Income Statement adjustments:

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1 Advertising Expense: MPS—S-23.4, S-45.4, S-52.4, S-56.4, S-70.4; L&P—S-43.5,
2 S-50.5, S-54.5, and S-68.5.

3 Dues and Donations: MPS—S-59.5, S-65.10, S-70.5; L&P—S-57.8, S-63.10, and
4 S-68.6.

5 Depreciation Expense: MPS—S-73.1 and L&P—S-71.1.

6 Injuries and Damages: MPS—S-64.2 and L&P—S-62.3.

7 Insurance: MPS—S-63.1, S-64.3; L&P—S-61.1 and S-62.4.

8 Property Taxes: MPS—S-77.6 and L&P—S-75.8.

9 PSC Assessment: MPS—S-67.3 and L&P—S-65.3.

10 Rate Case Expense: MPS—S-67.2 and L&P—S-65.2.

11 I am sponsoring the following Plant and Plant Reserve Adjustments:

12 Plant: L&P—P-22.1, P-23.1, P-24.1, P-27.1, P-35.1, and P-36.1.

13 Plant Reserve: L&P—R-24.1, R-25.1, R-28.1, R-36.1, and R-37.1.

14 Q. Are there separate adjustments for both the MPS and L&P divisions of Aquila?

15 A. Yes. There are separate revenue requirement runs for the MPS
16 Northern/Southern systems, the MPS Eastern system and the L&P system. The adjustment
17 numbers will be the same for each revenue requirement run for the MPS Northern/Southern
18 systems and the MPS Eastern system. The L&P natural gas system will have distinctive
19 adjustment numbers as designated in testimony.

20 Q. What Accounting Schedules are you sponsoring in this case?

21 A. For the Aquila Networks-MPS and Aquila Networks-L&P natural gas
22 operations, I am sponsoring: Accounting Schedule 2—Rate Base; Accounting Schedule 3—
23 Plant in Service; Accounting Schedule 4—Adjustments to Plant in Service; Schedule 5—

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1 Depreciation Expense; Schedule 6—Accumulated Depreciation; and Schedule 7—
2 Adjustments to Accumulated Depreciation.

3 **ACCOUNTING SCHEDULES**

4 Q. Are there separate accounting schedules for both the MPS and L&P divisions
5 of Aquila?

6 A. Yes. There are separate revenue requirement runs for the MPS
7 Northern/Southern systems, the MPS Eastern system and the L&P system. The accounting
8 schedule numbers and formats will be the same for each revenue requirement run.

9 Q. Please describe Accounting Schedule 2, Rate Base.

10 A. This Accounting Schedule takes the adjusted jurisdictional plant in service
11 balance from Accounting Schedule 3, Total Plant in Service, and deducts adjusted
12 jurisdictional depreciation reserve from Accounting Schedule 6, Depreciation Reserve, to
13 compute the net plant in service. Added to net plant in service on this Accounting Schedule
14 are Missouri jurisdictional amounts for cash working capital, materials and supplies,
15 prepayments and gas supply inventory. Rate base deductions include cash working capital
16 amounts for the federal tax offset, state tax offset and interest expense offset. Rate base
17 deductions also include customer advances, customer deposits, injuries and damages reserve,
18 amortization of natural gas plant and reserve for deferred income taxes. The mathematical
19 total of these items is the Rate Base amount that is incorporated in the Gross Revenue
20 Requirement recommendation shown on Accounting Schedule 1, Revenue Requirement.

21 Q. Please describe the items that are added to net plant in service in determining
22 rate base.

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1 A. The Staff's calculation of materials, supplies and prepayments is discussed in
2 the direct testimony of Staff Auditing witness Lesley R. Preston. The Staff's calculation of
3 the level of gas supply inventory is discussed in the direct testimony of Staff witness
4 Phil S. Lock. Cash working capital is discussed in the direct testimony of Staff witness
5 Preston.

6 Q. Please describe the items that are deducted from net plant in service in
7 determining rate base.

8 A. The Staff's calculation of customer advances and customer deposits are
9 discussed in the direct testimony of Staff witness Preston. The Staff's calculations of the
10 reserve for deferred income taxes and the unamortized investment tax credit are discussed in
11 the direct testimony of Staff Auditing witness Steve M. Traxler. The federal, state and city
12 tax offsets and the interest expense offset are discussed in the direct testimony of Staff witness
13 Preston.

14 Q. Are there any additional items that you are sponsoring on Accounting
15 Schedule 2, Rate Base?

16 A. Yes, I am sponsoring the amount for Amortization of Natural Gas Plant and
17 Reserve.

18 Q. Please explain this component of rate base.

19 A. Amortization of Natural Gas Plant is the Missouri jurisdictional balance of the
20 accumulated amortization reserve as of September 30, 2003. Use of the balance for this item
21 as of this date is consistent with the adjusted jurisdictional balance of net plant in service as of
22 September 30, 2003, the end of the known and measurable update period for this proceeding.

23 Q. Please explain Accounting Schedule 3.

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1 A. Accounting Schedule 3, Total Plant in Service, lists in Column B total natural
2 gas plant balances as of September 30, 2003. The plant adjustments are listed in Column C.
3 Column D lists the Missouri jurisdictional plant allocation factors for each of the three natural
4 gas systems. Column F contains the Missouri adjusted jurisdictional plant in service balances
5 for the respective natural gas systems.

6 Q. Please explain Accounting Schedule 4.

7 A. Accounting Schedule 4, Adjustments to Total Plant, details the Staff's
8 individual adjustments to total natural gas plant in service, which are listed in Column C of
9 Accounting Schedule 3.

10 Q. Please explain Accounting Schedule 5.

11 A. Accounting Schedule 5, Depreciation Expense, lists in Column B the Missouri
12 adjusted jurisdictional plant in service balances from Accounting Schedule 3, Column F.
13 Column C contains the depreciation rates proposed by Staff witness Rosella L. Schad of the
14 Engineering and Management Services Department. The rates in Column C are then applied
15 to the jurisdictional plant balances in Column B to determine the annualized level of
16 depreciation expense that appears in Column D for each of the three natural gas systems.

17 Q. Please explain Accounting Schedule 6.

18 A. Accounting Schedule 6, Depreciation Reserve, lists in Column B total natural
19 gas depreciation reserve balances as of September 30, 2003. Column D lists the Missouri
20 jurisdictional depreciation reserve allocation factors. Column E lists the Staff's Missouri
21 jurisdictional depreciation reserve adjustments and Column F contains the Missouri adjusted
22 jurisdictional depreciation reserve balances for each of the three natural gas systems.

23 Q. Please explain Accounting Schedule 7.

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1 A. Accounting Schedule 7, Adjustments to Depreciation Reserve, details the
2 Staff's individual adjustments to total depreciation reserve, which are listed in Column C of
3 Accounting Schedule 6.

4 Q. Please describe Accounting Schedule 9, Income Statement.

5 A. Accounting Schedule 9, Income Statement, contains the Staff's adjusted
6 Missouri natural gas jurisdictional revenues and expenses for the test year ended
7 December 31, 2002, and updated for known and measurable changes through September 30,
8 2003.

9 Q. Please explain Accounting Schedule 10, Adjustments to Income Statement.

10 A. Accounting Schedule 10, Adjustments to Income Statement, contains a listing
11 of the specific adjustments the Staff has proposed to the unadjusted test year income
12 statement to derive the Staff's adjusted net income. A brief explanation for each adjustment
13 and the name of the Staff witness sponsoring the adjustment are listed on Accounting
14 Schedule 10.

15 **PLANT IN SERVICE, DEPRECIATION EXPENSE & DEPRECIATION RESERVE**

16 Q. Please describe the plant in service and depreciation reserve balances included
17 in Accounting Schedule 3 and Accounting Schedule 6.

18 A. The plant in service and depreciation reserve balances shown in Schedules 3
19 and 6, respectively, are the September 30, 2003, balances that the MPS and L&P natural gas
20 operations divisions supplied through a response to Staff Data Request No. 27.

21 Q. Please describe Adjustment Nos. MPS—S-73.1 and L&P—S-71.1.

22 A. This adjustment annualizes depreciation expense based on September 30,
23 2003, plant in service and the Staff's proposed depreciation rates.

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1 Q. Please describe Adjustment Nos. L & P—P-22.1, P-23.1, P-24.1, P-27.1,
2 P-35.1, P-36.1, R-24.1, R-25.1, R-28.1, R-36.1, and R-37.1.

3 A. These adjustments represent the retirement of the former downtown office
4 building of the acquired St. Joseph Light and Power division.

5 **UNAMORTIZED ACCOUNTING AUTHORITY ORDER BALANCES**

6 Q. Please describe the unamortized Accounting Authority Order (AAO) balances
7 included in rate base.

8 A. Unamortized AAO balances at September 30, 2003 were included in rate base,
9 to reflect in the cost of service a return on the unamortized balance of the AAO deferrals
10 authorized by the Commission in Case Nos. GO-91-359 and GO-90-115. These AAO
11 deferrals represent costs associated with the MPS Gas Safety Line Project, Case
12 No. GO-91-359, and the MPS Major Gas Safety Program, Case No. GO-90-115, respectively.

13 Q. Did the Staff include amortizations to expense of the deferrals for each of the
14 above AAOs?

15 A. Yes. The Staff adopted the test year amortization for the gas safety line project
16 and the major gas safety program deferrals. The gas safety line project and the major gas
17 safety program deferrals have amortization periods of twenty years previously ordered by the
18 Commission.

19 **ADVERTISING EXPENSE**

20 Q. Please explain adjustments MPS—S-23.4, S-45.4, S-52.4, S-56.4, S-70.4;
21 L&P—S-43.5, S-50.5, S-54.5, and S-68.5.

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1 A. These adjustments restate the test year advertising levels to reflect allowable
2 expense.

3 Q. Please explain the history of such adjustments before the Commission.

4 A. As part of Re: Kansas City Power and Light Company, 28 MO P.S.C. (N.S.)
5 228 (1986) (KCPL), the Commission adopted an approach which classifies advertisements
6 into five categories and provides separate rate treatment for each category. The five
7 categories of advertisements recognized by the Commission for purposes of this approach are:

- 8 1. General: advertising that is useful in the provision of adequate service;
- 9 2. Safety: advertising that conveys the ways to use the Company's
10 service safely and to avoid accidents;
- 11 3. Promotional: advertising that encourages or promotes the use of the
12 particular commodity the utility is selling;
- 13 4. Institutional: advertising that seeks to improve or retain the Company's
14 public image; and
- 15 5. Political: advertising which is associated with political issues.

16 The Commission adopted these categories of advertisements because it believed that a
17 utility's revenue requirement should: 1) always include the reasonable and necessary cost of
18 general and safety advertisements; 2) never include the cost of institutional or political
19 advertisements; and 3) include the cost of promotional advertisements only to the extent that
20 the utility can provide cost-justification for the advertisement (KCPL, pp. 269-271).

21 Q. What standard did the Staff use to evaluate the Company's advertising expense
22 in this case and to develop the adjustments?

23 A. The Staff utilized the standards as initially established in the KCPL case
24 identified above, and utilized in subsequent cases, to determine the test year level of
25 advertising expense for the general, safety, institutional, promotional and political categories

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1 of advertising. The Staff proposes to disallow advertisements that are institutional,
2 promotional, unrelated to the natural gas industry or ask for charitable donations. The Staff
3 allowed all general and safety-related advertisements to the extent that they were related to
4 the natural gas industry and beneficial to Missouri natural gas ratepayers.

5 Q. Has the Company provided the Staff with copies of all test year advertisements
6 in this proceeding?

7 A. No. The Company only provided and identified advertisements they
8 characterized as general and safety.

9 Q. Did the Company provide copies of all general and safety advertisements
10 sponsored by the Company?

11 A. No. The Company was asked through Staff Data Request No. 28.1 to provide
12 a copy of all advertising sponsored by the Company in the test year for this case. However,
13 the Company was not willing to supply copies of all the advertisements sponsored in the test
14 year.

15 Q. How did the Staff treat these advertisements classified by the Company as
16 being general or safety in nature for rate purposes?

17 A. The Staff allowed all general and safety-related advertisements to the extent
18 that they were related to the natural gas industry and beneficial to Missouri natural gas
19 ratepayers. The Staff disallowed all advertisements identified by the Company as safety or
20 general, but which the Staff believes are institutional, promotional, or unrelated to the natural
21 gas industry, as well as advertisements that could not be identified by the Staff.

22 Q. Did the Company provide the Staff with any advertisements of a political
23 nature?

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1 A. No. The Company did not submit to the Staff any advertisements of a political
2 nature.

3 Q. Does Staff believe that the Company should have made all of its
4 advertisements available for review in this audit?

5 A. Yes. The Staff traditionally receives and reviews the information for all other
6 major utilities regulated by the Commission.

7 **DUES AND DONATIONS**

8 Q. Please explain adjustments MPS—S-59.5, S-65.10, S-70.5; L&P—S-57.8,
9 S-63.10, and S-68.6.

10 A. These adjustments decrease test year expenses relating to various dues the
11 Company has included in its cost of service. The Staff has excluded such dues and donations
12 because they are not necessary for the provision of safe and adequate service, and thus do not
13 provide any direct benefit to ratepayers.

14 Q. Please explain why Staff proposes to disallow American Gas Association
15 (AGA) dues.

16 A. AGA is a national association of investor-owned natural gas utilities, which is
17 significantly engaged in lobbying activities. The Company included in its cost of service
18 ninety-eight percent of the AGA dues allocated to MPS and L&P. The Company had
19 subtracted the other two percent that it felt was attributable to lobbying activities and for
20 advertising by AGA. Lobbying activities may benefit the shareholders, but do not directly
21 benefit the ratepayers.

22 Q. Did the Company book any charitable donations above-the-line?

1 A. No. The Company did not book any charitable donation expenses above-the-
2 line in this case. Further, Staff did not identify through its review of the Company's books
3 and records any other charitable contributions that needed to be removed from the test year
4 levels.

5 **INJURIES AND DAMAGES**

6 Q. Please describe adjustments MPS—S-64.2, and L&P—S-62.3.

7 A. These adjustments normalize injuries and damages expense by reflecting a
8 33-month average of actual claims payments. The adjustment amount is the difference
9 between the actual average of payments and the test year accrued provision for injuries and
10 damages.

11 Q. Why has the Staff used a 33-month average of actual payments?

12 A. Actual payments for injuries and damages have been fluctuating in the past
13 few years. The Staff believes that a 33-month average will smooth the effect of these
14 fluctuations.

15 Q. Please define the 33-month period used by the Staff.

16 A. The 33-month period is the time period from January 1, 2000, to
17 September 30, 2003, the end of the period for known and measurable changes.

18 **INSURANCE**

19 Q. Explain adjustments MPS—S-63.1, S-64.3; L&P—S-61.1 and S-62.4.

20 A. These adjustments annualize insurance expense based on insurance premiums
21 available through the end of the September 30, 2003, test year update period.

1 **PROPERTY TAXES**

2 Q. Please explain adjustments MPS—S-77.6 and L&P—S-75.8.

3 A. These adjustments annualize property tax expense for each of these divisions.

4 Q. How did the Staff compute property tax expense in this case?

5 A. The Staff examined the actual amounts of property tax payments made by
6 MPS and L&P for 2000, 2001 and 2002. Staff developed a relationship of actual property tax
7 payments to the level of property at January 1 for each of those years. The relationship was
8 applied to the plant in service balance at the end of the test year, December 31, 2002, to
9 calculate an annualized property tax amount in this case.

10 Q. How are property taxes paid?

11 A. The state and local taxing authorities determine the annual property tax
12 payment through an assessment of utility's real and personal property. This assessment is
13 made based upon the utility's property balances on January 1 of each year. The taxing
14 authorities also determine a property tax rate that is applied to the assessed values to compute
15 the property tax amount billed to utilities.

16 Q. When are property taxes paid by the utility?

17 A. The property taxes are paid to the state and local taxing authorities at the end
18 of each year, generally by December 31st.

19 Q. Are all property taxes charged to expense?

20 A. No. Although the majority of property taxes are expensed, a portion of
21 property taxes relate to construction activity as of the assessment date of January of each year.
22 The property taxes that relate to construction activities are capitalized.

1 **PSC ASSESSMENT**

2 Q. Explain adjustments MPS—S-67.3 and L&P—S-65.3.

3 A. These adjustments annualize the PSC assessment expenses based on the July
4 2003 Commission assessment for the 2004 fiscal year.

5 **RATE CASE EXPENSE**

6 Q. Please describe adjustments MPS—S-67.2 and L&P—S-65.2.

7 A. These adjustments normalize rate case expense over a three-year period.

8 Q. How was the rate case expense adjusted for Case No. GR-2004-0072?

9 A. The total amount of actual rate case expense incurred by MPS and L&P
10 through August 31, 2003, is being allowed at this time. Any additional cost that is a
11 reasonably incurred rate case expense will be considered for inclusion later in the case. Some
12 rate case costs, such as consulting fees, employee travel expenditures and legal representation,
13 are directly associated with the length of the case through the prehearing and hearing process.
14 The Staff will work with the Company to establish an ongoing normalized level of rate case
15 expense for inclusion in rates.

16 Q. Were there any adjustments made for rate case expense related to Aquila's
17 Corporate Restructuring/Collateralization case, Case No. EF-2003-0465, before the
18 Commission?

19 A. No. The Company absorbed all costs associated with Case No. EF-2003-0465
20 in the non-regulated operations without seeking recovery from the regulated operations. This
21 treatment is appropriate because these corporate restructuring costs do not benefit the
22 customers of Missouri. The Staff believes it is inappropriate to allow specific recovery in
23 rates of amounts related to Aquila's non-regulated operations. In addition, all costs relating to

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1 the corporate restructuring for the financial deterioration of the Company's non-regulated
2 operations should not be included for recovery in rates. The Staff asserts that costs associated
3 with Case No. EF-2003-0465 are directly associated with the Company's non-regulated
4 activities and corporate restructuring efforts.

5 Q. Does this conclude your direct testimony?

6 A. Yes, it does.