

Exhibit No.:
Issues: *Accounting Authority Orders-
Unamortized Balances;
American Gas Association Dues*
Witness: *Trisha D. Miller*
Sponsoring Party: *MoPSC The Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *GR-2004-0072*
Date Testimony Prepared: *February 13, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL 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
February 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

AFFIDAVIT OF TRISHA D. MILLER

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 rebuttal testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the following rebuttal 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 11th day of February 2004.


Notary



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

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1 **REBUTTAL TESTIMONY OF**

2 **TRISHA D. MILLER**

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

4 **AND AQUILA NETWORKS-L&P**

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

6 Q. Please state your name and business address.

7 A. Trisha D. Miller, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

8 Q. Are you the same Trisha D. Miller who has previously filed testimony in this
9 proceeding?

10 A. Yes, I am.

11 Q. What is the purpose of this rebuttal testimony?

12 A. The purpose of this testimony is to address the direct testimony filed by
13 Aquila Networks-MPS ("MPS") natural gas operations and Aquila Networks-L&P (L&P)
14 natural gas operations witness Richard G. Petersen on the issues of dues and donations;
15 specifically the treatment of the American Gas Association (AGA) membership dues. Also, I
16 will address the direct testimony filed by the Office of Public Counsel ("OPC") witness
17 Ted Robertson concerning the issue of rate base treatment for the unamortized balances of
18 the MPS gas safety line project AAOs.

19 **ACCOUNTING AUTHORITY ORDERS (AAO) UNAMORTIZED BALANCES**

20 Q. Please define AAOs.

21 A. AAOs are applications made by a utility to account for specific events or
22 items in a manner that differs from the Federal Energy Regulatory Commission's (FERC)
23 prescribed Uniform System of Accounts (USOA) in some manner. Most often, AAOs are

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1 used to “defer” on the utility’s balance sheet a cost that would otherwise be charged to
2 expense currently on the utilities’ income statement. This treatment allows a utility to seek
3 rate recovery of the deferred item in a subsequent rate case, even if the cost in question was
4 not incurred within the test year ordered for that rate proceeding. The Commission has
5 usually reserved deferral treatment of expenses for “extraordinary items.” Extraordinary
6 items are defined as costs that are unusual in nature and infrequent in occurrence.

7 Q. Can capital items be the subject of AAOs as well as expense items?

8 A. Yes, if the capital expenditure has the nature of an extraordinary item. In that
9 instance, depreciation expense, property tax expense and carrying charges associated with the
10 extraordinary capital asset may be given deferral treatment through a Commission authorized
11 AAO. The Commission has granted capital cost AAOs on several occasions, including the
12 before-mentioned cases involving MPS’s compliance with the Commission’s gas safety
13 orders.

14 Q. Once costs are deferred pursuant to the Commission granting an AAO, are the
15 deferred costs subsequently allowed recovery in rates?

16 A. The costs are not recovered automatically but the Commission may find rate
17 recovery to be appropriate. As a standard practice, the Commission has reserved all
18 ratemaking questions concerning costs deferred through AAO applications to subsequent rate
19 proceedings. If the Commission does approve recovery of deferred costs, that recovery
20 generally takes the form of an expense amortization over periods that have ranged from five
21 to twenty years. The Commission may or may not grant rate base treatment to the
22 unamortized balance of the AAO deferral.

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1 Q. Is the Staff recommending rate recovery of the MPS Gas Safety Line Project
2 AAO, Case No. GO-91-359 and the MPS Gas Safety Programs AAO, Case No. GO-90-115?

3 A. Yes. Staff is recommending rate recovery of the deferred costs associated
4 from MPS's gas safety line projects.

5 Q. Is the Staff recommending rate base treatment of the unamortized AAO
6 balances?

7 A. Yes. Staff is recommending rate base recovery of the unamortized AAO
8 balances associated with MPS's gas safety line projects.

9 Q. Please describe OPC's witness Mr. Robertson's position on the treatment of
10 the unamortized AAO balances.

11 A. OPC is recommending that the unamortized AAO balances be excluded from
12 rate base.

13 Q. Does the Staff agree with OPC's position?

14 A. No. The Staff's position in this case is to continue to include in rate base the
15 unamortized balances associated with MPS's gas safety line project AAOs consistent with
16 the original treatment in Case No. GR-93-172.

17 Q. Please state OPC's reasoning for excluding the unamortized balances
18 associated with the MPS gas safety line projects.

19 A. OPC witness, Robertson, argues that the Commission's intent of AAOs is to
20 not provide protection from regulatory lag to shareholders and AAOs should only be issued
21 due to extraordinary events that occur from nature.

22 Q. Please describe why witness Robertson's argument stated on page 25, line 8
23 of his direct testimony "that it is not reasonable to provide such protection to shareholders"

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1 was not the Commission's intent in the Report and Order for Case Nos. EO-91-358 and
2 EO-91-360.

3 A. Mr. Robertson cited from the Commission Report and Order, MPS Case
4 Nos. EO-91-358 and EO-91-360 in his direct testimony, including a quote from the Order
5 authorizing AAO treatment for the Sibley rebuild project and the Sibley western coal
6 conversion:

7 Lessening the effect of regulatory lag by deferring costs is beneficial
8 to a company but not particularly beneficial to ratepayers. Companies
9 do not propose to defer profits to subsequent rate cases to lessen the
10 effects of regulatory lag, but insist it is a benefit to defer costs.
11 Regulatory lag is a part of the regulatory process and can be a benefit
12 as well as a detriment. Lessening regulatory lag by deferring costs is
13 not a reasonable goal unless the costs are associated with an
14 extraordinary event.

15 Maintaining the financial integrity of a utility is also a reasonable goal.
16 The deferral of costs to maintain current financial integrity, though, is
17 of questionable benefit. If a utility's financial integrity is threatened
18 by high costs so that its ability to provide service is threatened, then it
19 should seek interim rate relief. If maintaining financial integrity
20 means sustaining a specific return on equity, this is not the purpose of
21 regulation. It is not reasonable to defer costs to insulate shareholders
22 from any risks. ...

23 Mr. Robertson did not continue with the rest of the Commission's statement as quoted
24 below, describing the Commission's intent to provide deferrals for events that are not
25 considered extraordinary in nature:

26 If costs are such that a utility considers its return on equity
27 unreasonably low, the proper approach is to file a rate case so that a
28 new revenue requirement can be developed which allows the company
29 the opportunity to earn its authorized rate of return. Deferral of costs
30 just to support the current financial picture distorts the balancing
31 process used by the Commission to establish just and reasonable rates.
32 Rates are set to recover ongoing operating expenses plus a reasonable
33 return on investment. Only when an extraordinary event occurs should
34 this balance be adjusted and costs deferred for consideration in a later
35 period.

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1 Public Counsel would have the Commission impose a strict standard
2 for determination of what is an extraordinary event. Public Counsel
3 recommends that the Commission only allow deferral of costs
4 associated with acts of God or when the integrity of the service to
5 customers is threatened. The Commission agrees that when these
6 circumstances occur they very possibly would be extraordinary events.
7 However, to limit extraordinary events to these situations is too
8 restrictive. **There may be instances which occur that are neither**
9 **acts of God nor threaten the provision of service but that are**
10 **nonetheless unusual, unique and nonrecurring, where deferral**
11 **would be justified and reasonable.** (Emphasis added by the Staff)

12 Q. Please describe why the Staff does not agree with Mr. Robertson's argument
13 as stated on page 26, lines 2 thru 4 of his rebuttal testimony, that the Commission has
14 "recently refined how an extraordinary event is identified when it stated on page thirteen of
15 the Report and Order in St. Louis County Water Company, Case No. WR-96-263."

16 A. In the case mentioned above, St. Louis County Water Company was applying
17 for AAO treatment associated with main incident\repair expense. The Commission denied
18 AAO treatment to St. Louis County Water because they found the expenditures to not be
19 extraordinary, unusual, or unpredictable. This case does not reflect a capital improvement
20 that was denied AAO treatment based on Mr. Robertson's definition of "extraordinary." The
21 Commission denied AAO recovery in this case because the expenditures were found to occur
22 in the normal course of business. However, the Commission did state in the Report and
23 Order cited by Mr. Robertson that capital additions or improvements have been and can be
24 granted AAO treatment if they are found to be unpredictable and not addressed within the
25 normal course of business. As stated in the Report and Order for Case No. WR-96-263:

26 The Commission has periodically granted AAOs and subsequent
27 ratemaking treatment for various unusual occurrences such as flood-
28 related costs, changes in accounting standards, and other matters
29 which are unpredictable and cannot adequately or appropriately be
30 addressed within normal budgeting parameters. This is not the case
31 with County Water's main expense. Evidence presented by the Staff,
32 OPC and County Water all reflect an annual trend in main incidents.

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1 The record does not, however, support the contention that the monthly
2 peaks during the winter months are anything other than seasonal high
3 points in this overall annual trend. As both the Staff and OPC
4 evidence shows, this trend is amenable to reasonably accurate
5 prediction on an annual basis. Therefore, for purposes of ratemaking,
6 the normalization as proposed by the Staff and OPC is the most
7 appropriate method of accurately reflecting main repair expense in
8 rates.

9 Q. Please describe the case Mr. Robertson is referring to on pages 26 thru 27,
10 “where the Commission denied the inclusion in rate base of unamortized deferred balances
11 associated with an accounting authority order.”

12 A. Mr. Robertson is referring to the Missouri Gas Energy (MGE) natural gas rate
13 case, Case No. GR-98-140. Prior to this case the Commission had allowed MGE as well as
14 its predecessor company Western Resources, Inc. (WRI), both a return “of” and return “on”
15 its Service Line Replacement Program (SLRP) deferrals in rates over 20 years. In the MGE
16 case, the Commission determined that rate base treatment of the unamortized balance of
17 SLRP deferrals was no longer appropriate, since it was accelerating the amortization period
18 from the original 20-year period to 10 years. The Commission stated in its Report and Order,
19 at page 20: “Given that the Company will recover the amortized amount of the SLRP
20 deferral at the AFUDC rate in ten years, instead of the previous 20 years’ amortization
21 period, it is proper for the ratepayers and shareholders to share the effect of regulatory lag by
22 allowing the Company to earn a return of the SLRP deferred balance but not a return on the
23 SLRP deferred balance.”

24 Q. Define return “of” and return “on.”

25 A. Return “of” in this case represents the Company receiving a cost of service
26 adjustment for the amortization of the SLRP deferred balance. Return “on” occurs when an
27 asset is placed in service, and subsequently receives rate base treatment in a rate case.

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1 Through this approach, the shareholder is given a return on their investment; the treatment
2 plant in service receives in rate recovery.

3 Q. Did the Company (MGE) propose less than a 20-year amortization period in
4 Case No. GR-98-140?

5 A. Yes. MGE proposed a ten-year amortization period for the SLRP deferrals.
6 In the previous MGE rate case, Case No. GR-96-285, MGE proposed a three-year
7 amortization period for the unrecovered amortization relating to the SLRP deferrals.

8 Q. Is MPS proposing a different amortization period than ordered in prior rate
9 cases for the gas safety line project AAOs?

10 A. No. The Company is proposing the same amortization period of 20 years for
11 the gas safety line project AAOs as first determined in MPS' rate case, Case No. GR-90-198,
12 and then continued in subsequent rate cases.

13 Q. Please summarize the Staff's position relating to OPC's regarding rate base
14 treatment for the gas safety line project AAOs.

15 A. The Staff is proposing the traditional amortization period and rate base
16 treatment for the unamortized balances as set in past MPS and L&P proceedings before the
17 Commission. By this time, the gas safety line project AAO, Case No. GO-91-359 and the
18 major gas safety program AAO, Case No. GO-90-115, have both been amortized over more
19 than half of their designated amortization period of 20 years. These projects represent major
20 capital additions to plant in service, as opposed to extraordinary maintenance expenditures
21 resulting from an extraordinary natural disaster or "acts of God."

22 Q. How does a natural disaster AAO differ from the gas safety project AAOs?

1 A. The gas safety project AAOs and natural disaster AAOs, such as MPS's ice
2 storm AAO, in Case No. ER-2004-0034, are projects or events the Commission believed to
3 be extraordinary in nature. However, the Ice Storm AAO is distinguishable from the gas
4 safety project AAOs in four ways. First, the ice storm was a natural disaster and beyond the
5 control of the Company. In contrast, the gas safety project AAOs were planned projects fully
6 under the control of the Company. Second, the expenditures for the gas safety projects were
7 capitalized plant replacements and additions for service line that extended the useful life.
8 The Ice Storm AAO expenditures were different in that they represented extraordinary
9 maintenance expenditures required to restore service under emergency conditions to normal
10 operating conditions. Third, the gas safety line projects were extraordinary construction
11 projects undertaken by the Company to provide a continuation of adequate service. These
12 projects represent major capital additions to plant in service as opposed to extraordinary
13 maintenance expenditures resulting from an extraordinary occurrence like the ice storm.
14 Last, the gas safety line project AAOs were ordered by the Commission to be amortized over
15 a 20-year period consistent with the life extension of the lines. The 20-year amortization
16 period relates to the expected remaining life of the gas safety lines at the time of the projects.
17 The capital expenditures and the related AAO authorized by the Commission for the gas
18 safety line projects can be thought in the same way as any other capital expenditure in that
19 they are given rate base treatment as well as a recovery of the related costs.

20 The amounts being amortized in the Ice Storm AAO are not capital dollars like those
21 relating to the gas safety line projects. The Ice Storm AAO is being amortized over a period
22 of five years as ordered by the Commission. The five-year amortization period is arbitrary

1 but intended to allow recovery of extraordinary maintenance expenditures over a reasonable
2 period of time.

3 **AMERICAN GAS ASSOCIATION (AGA) DUES**

4 Q. Is American Gas Association (AGA) a voluntary association of investor-
5 owned natural gas utility companies?

6 A. Yes. AGA is a voluntary association of investor owned natural gas utility
7 companies. AGA's vision as stated on <http://aga.org> is to be the most effective and
8 influential energy trade association in the United States while providing clear value to its
9 membership. From AGA's vision statement it is clear that AGA is mainly involved in
10 influential activities, such as lobbying.

11 Q. Does the Staff agree with the inclusion of AGA dues in cost of service?

12 A. No. The Staff believes it is inappropriate to include AGA dues in cost of
13 service in this case.

14 Q. Why is The Staff disallowing AGA membership dues?

15 A. The Company was not able to show direct benefit relating to the participation
16 of AGA. Also, AGA engages in lobbying activities for the natural gas industry. These
17 lobbying costs have traditionally not been included in rates.

18 Q. Does the Staff believe that AGA is a lobbying organization?

19 A. Yes.

20 Q. Please describe the Staff's reasoning for disallowing AGA dues in this case.

21 A. The Staff is questioning the direct benefit of AGA dues to ratepayers based on
22 the Commission's past practice of excluding Edison Electric Institute (EEI) dues, a trade
23 organization for the electric industry from rates. The Commission has stated "The rule has

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1 always been that dues to organizations may be allowed as operating expenses where a direct
2 benefit can be shown to accrue to the ratepayers of the company . . . The question is one of
3 benefit or lack of benefit to the ratepayers.”

4 [Re Kansas City Power and Light Co., Case No. ER-81-42, Report and Order,
5 24 Mo.P.S.C.(N.S.) 400 (1981).]

6 Q. Has the Commission required an analysis of trade organization membership
7 benefits allocated between ratepayers and shareholders in past cases?

8 A. Yes. In prior rate cases and specifically in Case No. ER-83-40 the
9 Commission stated “the Company needs to develop some method of allocating expenses
10 between its shareholders and the ratepayers once the benefits and activities leading thereto
11 have been adequately quantified.”

12 [Re Kansas City Power and Light Co., Case No. ER-82-66, Report and Order,
13 25 Mo.P.S.C.N.S. 245 (1982).]

14 Q. Did the Company provide such an analysis of AGA membership benefits?

15 A. No. In Data Request No. 90, the Staff requested the Company to list all
16 benefits from AGA and allocate benefits to shareholders or customers. The Company’s
17 response stated “An allocation of benefits between shareholders and ratepayers would require
18 a numerous assumptions, making any conclusions speculative.”

19 Q. Did the Staff request additional information from the Company to obtain its
20 beliefs concerning benefits that ratepayers receive from the Company’s membership in
21 AGA?

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1 A. Yes. Data Request No. 91 requested annual reports provided to Aquila from
2 AGA for the past three years. Data Request No. 117 requested employee participation in
3 AGA meetings, conferences and activities from January 2002 to November 2003.

4 Q. Did the requested information in the Staff Data Request Nos. 91 and 117
5 provide allocation of benefits received from AGA membership between the Company and
6 ratepayers?

7 A. No. The responses to the Staff Data Request Nos. 91 and 117 provided some
8 of the benefits the Company believes it receives from its membership in AGA, but the
9 responses mainly consisted of benefits AGA believes its members receive. However, the
10 Company failed to allocate these benefits between the ratepayers and the shareholders.

11 Q. Does this conclude your rebuttal testimony?

12 A. Yes, it does.