

Exhibit No.:
Issues: *AAO Ice Storm Unamortized
Balance-MPS; Dues and Donations-
EEI dues-MPS and L&P*
Witness: *Trisha D. Miller*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case Nos.: *ER-2004-0034 and HR-2004-0024
(Consolidated)*
Date Testimony Prepared: *January 26, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

TRISHA D. MILLER

**AQUILA, INC.
d/b/a AQUILA NETWORKS-MPS (Electric)
AND AQUILA NETWORKS-L&P (Electric & Steam)**

**CASE NOS. ER-2004-0034 and HR-2004-0024
(CONSOLIDATED)**

*Jefferson City, Missouri
January 2004*

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

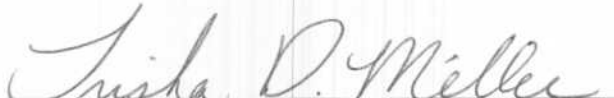
In the matter of Aquila, Inc. d/b/a Aquila Networks)
L&P and Aquila Networks MPS to implement a) Case No. ER-2004-0034
general rate increase in electricity.)
)

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.)
)

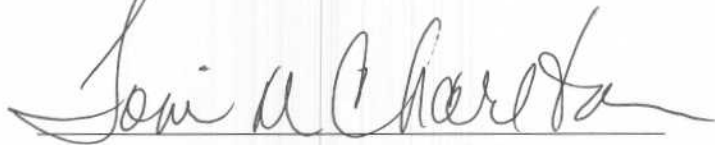
AFFIDAVIT OF TRISHA D. MILLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Trisha D. Miller, 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 9 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 23rd day of January 2004.





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

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REBUTTAL TESTIMONY OF

TRISHA D. MILLER

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

AND AQUILA NETWORKS – L&P (ELECTRIC & STEAM)

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

(Consolidated)

Q. Please state your name and business address.

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

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

A. Yes, I am.

Q. What is the purpose of this rebuttal testimony?

A. The purpose of this testimony is to address the direct testimony filed by Aquila Networks - MPS (“MPS”) electric operations and Aquila Networks - L&P electric and steam operations (“L&P”) witness Lisa A. Starkebaum on the issue of inclusion of the unamortized portion of the Ice Storm Accounting Authority Order (AAO) in rate base, as well as the direct testimony of MPS and L&P witness Randall D. Erickson on the issues of dues and donations; specifically, the treatment of Edison Electric Institute (EEI) membership dues.

ICE STORM ACCOUNTING AUTHORITY ORDER (AAO)

Q. Please describe the 2002 ice storm.

A. As described in the Report and Order for Case No. EU-2002-1053, a severe ice storm began in Aquila’s MPS service territory on January 30, 2002. (Aquila’s L&P

1 service territory was not affected by the storm.) The storm produced accumulation of ice up
2 to two inches resulting in disrupted service to approximately 40 percent of MPS customers
3 and other electric utility systems in the area. The storm has been noted as being a severe one
4 of historical proportions.

5 Q. What amount of damage was done to the MPS electrical system relating to the
6 2002 ice storm?

7 A. The total amount of dollars spent to restore the MPS transmission and
8 distribution system was approximately \$14,280,355. This dollar amount included
9 \$8,244,993 for extraordinary maintenance expenditures, \$1,664,984 in normal maintenance
10 operating expenses, \$3,801,048 in asset replacements, and \$569,330 in retirement expenses
11 due to damaged assets.

12 Q. Did the Company seek an Accounting Authority Order (AAO) from the
13 Commission to defer the repair costs associated with the ice storm?

14 A. Yes. An AAO was granted by the Commission in Case No. EU-2002-1053.

15 Q. Please describe Staff's rate treatment of the costs of the ice storm.

16 A. Staff has included \$1,648,979 in extraordinary maintenance expenses per year
17 associated with the incremental costs of the storm. That amount is one fifth of MPS's
18 incremental cost related to the storm. The extraordinary maintenance expenditures resulting
19 from the storm are being amortized over a five year period as ordered in the Commission's
20 Report and Order, Case No. EU-2002-1053, on April 24, 2002. The unamortized balance of
21 the Ice Storm AAO is excluded from rate base treatment.

22 Q. Please describe the Company's proposed treatment of the Ice Storm AAO.

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1 A. As stated in Ms. Starkebaum's testimony "MPS is amortizing a total of
2 \$8,244,893 in operating expense related to the ice storm that are being amortized over a 5-
3 year period." The Company is proposing an adjustment to include the unamortized balance
4 of the Ice Storm AAO in rate base, based on the past treatments of the Sibley Rebuild
5 Program AAO, issued in Case No. EO-90-114, and the Sibley Western Coal Conversion
6 Project AAO, issued in Case Nos. EO-90-114 and EO-91-358. The unamortized balances of
7 these deferrals were given rate base treatment in MPS rate case Nos. ER-90-101, ER-93-37,
8 ER-97-394 and ER-2001-672.

9 Q. What is the Commission's past treatment of AAOs associated with natural
10 disasters?

11 A. Extraordinary maintenance expenditures associated with "acts of God," such
12 as the ice storm in this case, have been shared between shareholders and ratepayers. These
13 expenses are shared between shareholders and ratepayers by allowing cost of service
14 recovery (amortization) of the extraordinary maintenance costs but denying rate base
15 treatment for the unamortized balance. By denying rate base treatment, the shareholders do
16 not recover the time value of the monies expended, and thus share business risk with the
17 ratepayer. While the Company is permitted to recover through rates a return "of" amounts
18 spent to restore the MPS system, by not rate basing the unamortized balance the Company
19 will not receive a return "on" the expenditures.

20 Q. Define return "of" and return "on".

21 A. Return "of" in this case represents the Company receiving a cost of service
22 adjustment for the amortization of the ice storm. As stated earlier this amount per year
23 would represent \$1,648,979. Return "on" occurs when an asset is placed in service, and

1 subsequently receives rate base treatment in a rate case. Through this approach, the
2 shareholder is given a return on their investment.

3 Q. Please identify the Commission's past precedence for this treatment.

4 A. In Case No. WR-95-145, St. Louis County Water Company sought rate base
5 treatment for the unamortized balance of a flood deferral ordered in Case No. WO-94-195.
6 All parties in the rate case recognized a five year amortization of the abnormal maintenance
7 costs resulting from the flood. Staff proposed denying rate base treatment for the
8 unamortized balance of the flood deferral AAO. The Commission agreed with Staff, stating
9 in Case No. WR-95-145 in the Report and Order that:

10 County Water may not capitalize an item in rate base and at the same
11 time recover the item as an expense from the ratepayers, particularly
12 where the item claimed is retrospective in nature such as flood
13 expense. In addition, inclusion of the unamortized expense would
14 serve to shield the shareholders from the risk of such a natural disaster
15 while imposing such a risk entirely on ratepayers. The cost incurred as
16 a result of the flood of 1993 was a natural disaster, an "act of God",
17 and the expenditures were not intended to produce any benefit other
18 than restoring the system to its pre-flood operating condition. The
19 burden of "acts of God" should not have to be borne solely by the
20 ratepayers. In the case of a natural disaster, the shareholders should
21 not be completely shielded from the risk, but should share in the cost
22 with the ratepayer. Allowing County Water to recover the cost
23 through amortization, without the inclusion of the unamortized balance
24 in rate base, achieves that sharing.

25 Q. To your knowledge is St. Louis County Water Case. No. WR-95-145 the first
26 case to be litigated in front of the Commission where the Company sought rate base
27 treatment for the unamortized balance of an AAO sought for a natural disaster?

28 A. Yes. The Staff's Initial Brief in WR-95-145 stated "While never addressed by
29 the Missouri Public Service Commission, the issue of including an unamortized balance of a
30 flood damage deferral in rate base has been addressed by other Commissions and Courts."

1 Q. How does the Ice Storm AAO differ from the AAOs for the Sibley Rebuild
2 Program and the Sibley Western Coal Conversion Project?

3 A. The Ice Storm AAO, the Sibley Rebuild Program and the Sibley Western Coal
4 Conversion Project are projects or events the Commission believed to be extraordinary in
5 nature. However, the Ice Storm AAO is distinguishable from the Sibley Rebuild Program
6 and the Sibley Western Coal Conversion Project in four ways. First, the ice storm was a
7 natural disaster and beyond the control of the Company. In contrast, the Sibley Rebuild
8 Program and the Sibley Western Coal Conversion Project were planned projects fully under
9 the control of the Company. Second, the expenditures for the Sibley Rebuild Program were
10 capitalized plant additions for three generating units that extended their useful life. The
11 Sibley Western Coal Conversion Project resulted in MPS's closer compliance with the Clean
12 Air Act standards. The Ice Storm AAO expenditures were different in that they represented
13 extraordinary maintenance expenditures required to restore service under emergency
14 conditions to normal operating conditions. Third, the Sibley Rebuild Program and the Sibley
15 Western Coal Conversion Project were extraordinary construction projects undertaken by the
16 Company to provide a continuation of adequate service. These projects represent major
17 capital additions to plant in service as opposed to extraordinary maintenance expenditures
18 resulting from an extraordinary occurrence like the ice storm. Last, the Sibley Rebuild
19 Program AAO and the Sibley Western Coal Conversion AAO were ordered by the
20 Commission to be amortized over a twenty year period consistent with the life extension of
21 the generating units. The twenty year amortization period relates the expected remaining life
22 of the Sibley plant at the time of the life extension program. The capital expenditures and the
23 related AAO authorized by the Commission for the life extension of Sibley can be thought in

1 the same way as any other capital expenditure in that they are given rate base treatment as
2 well as a recovery of the related costs.

3 The amounts being amortized in the Ice Storm AAO are not capital dollars like those
4 relating to the Sibley life extension. The Ice Storm AAO is being amortized over a period of
5 five years as ordered by the Commission. The five year amortization period is arbitrary but
6 intended to allow recovery of extraordinary maintenance expenditures over a reasonable
7 period of time.

8 Q. Were capital dollars spent to restore the MPS system relating to the ice storm?

9 A. Yes. In most natural disasters, where damage is done to the electric
10 transmission and distribution systems, a certain amount of plant replacements are necessary.
11 These replacements are capital in nature, and thus, capitalized like any other plant
12 investment. These amounts will be reflected in rate base and the Company will be allowed to
13 earn a return “on” and return “of” on their investment.

14 Q. Please define an extraordinary maintenance expense and a major capital
15 addition.

16 A. An extraordinary maintenance expense is one not commonly incurred during
17 the normal course of business, and in the case of the ice storm was incurred only to restore
18 the system to its pre-ice storm operating condition. A major capital addition is an
19 expenditure that extends the useable life of an asset and occurs irregularly in the business
20 environment. The Sibley Rebuild Program and the Sibley Western Coal Conversion Project
21 are major capital additions.

1 Q. Describe the prior rate case treatment of the Sibley Rebuild Program AAO
2 and the Sibley Western Coal Conversion Project AAO in MPS Case Nos. ER-90-101,
3 ER-93-37, ER-97-394, and ER-2001-672.

4 A. As stated in Ms. Starkebaum's testimony, MPS has been allowed recovery of
5 both the unamortized balance of AAOs and related amortization expense. The Report and
6 Order in Case No. ER-90-101 stated the following:

7 The Commission determines that these costs should be amortized over
8 20 years which is the approximate extended life of the plant. The
9 Commission finds that this approach matches the payments of the
10 costs by the ratepayer for the rebuilding with their enjoyment of its
11 benefits. The Commission further determines that the unamortized
12 costs should be reflected in rate base. This is the usual practice when
13 capital costs are amortized.

14 **EDISON ELECTRIC INSTITUTE (EEI)**

15 Q. Is EEI a voluntary association of investor-owned electric utility companies?

16 A. Yes. EEI is a voluntary association of investor owned electric utility
17 companies. EEI's mission as stated on http://.eei.org/about_eei/index.htm is to ensure
18 members success by: advocating public policy, expanding market opportunities, and
19 providing strategic business information. From EEI's mission statement it is clear that EEI is
20 mainly involved in lobbying activities.

21 Q. Does the Staff agree with the inclusion of EEI dues in cost of service?

22 A. No. The Staff believes it is inappropriate to include EEI dues in cost of
23 service in this case.

24 Q. Why is Staff disallowing EEI membership dues?

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1 A. The Company was not able to show direct benefit relating to the participation
2 of EEI. Also, EEI engages in lobbying activities for the electric industry. These lobbying
3 costs have traditionally not been included in rates.

4 Q. Does Staff believe that EEI is a lobbying organization?

5 A. Yes.

6 Q. Has the Commission allowed EEI dues in cost of service in the past?

7 A. No. The Commission has stated “The rule has always been that dues to
8 organizations may be allowed as operating expenses where a direct benefit can be shown to
9 accrue to the ratepayers of the company . . . The question is one of benefit or lack of benefit
10 to the ratepayers.”

11 [Re Kansas City Power and Light Co., Case No. ER-81-42, Report and Order,
12 24 Mo.P.S.C.N.S. 400 (1981).]

13 Q. Has the Commission required an analysis of EEI membership benefits
14 allocated between ratepayers and shareholders in past cases?

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

19 [Re Kansas City Power and Light Co., Case No. ER-82-66, Report and Order,
20 25 Mo.P.S.C.N.S. 245 (1982).]

21 Q. Did the Company provide such an analysis of EEI membership benefits?

22 A. No. In Data Request No. 77.1, Staff requested the Company to list all benefits
23 from EEI and allocate benefits to shareholders or customers. The Company’s response

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1 included a reference to Randall D. Erickson's direct testimony and the EEI website
2 specifically under the section heading "About EEI>organizational profile."

3 Q. Did Staff request additional information from the Company to obtain its
4 beliefs concerning benefits that ratepayers receive from the Company's membership in EEI?

5 A. Yes. Data Request No. 77.2 requested the benefits the Company believes it
6 receives by being a member of EEI, and not what EEI itself promotes as the benefits of being
7 a member. Data Request No. 342 requested EEI Value Reports for January 2000 through
8 September 2003. Data Request No. 541 requested employee participation in EEI meetings,
9 conferences and activities from January 2002 to November 2003.

10 Q. Did the requested information in Staff Data Request Nos. 77.2, 342 and 541
11 provide allocation of benefits received from EEI membership between the Company and
12 ratepayers?

13 A. No. The responses to Staff Data Request Nos. 77.2, 342 and 541 provided
14 some of the benefits the Company believes it receives from its membership in EEI.
15 However, the Company failed to allocate these benefits between the ratepayers and the
16 shareholders.

17 Q. Does this conclude your rebuttal testimony?

18 A. Yes, it does.