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Witness: *Mark L. Oligschlaeger*
Sponsoring Party: *MoPSC Staff*
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Case No.: *ER-2004-0034*

Date Testimony Prepared: *December 9, 2003 as modified February 27, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

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

CASE NO. ER-2004-0034

Jefferson City, Missouri
December 2003

Denotes Highly Confidential Information

NP

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 general rate increase in electricity.	)))	Case No. ER-2004-0034

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the following direct testimony as modified on February 27, 2004, in question and answer form, consisting of 25 pages to be presented in the above case; that the answers in the following direct testimony as modified on February 27, 2004, 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.

Mark L. Oligschlaeger
Mark L. Oligschlaeger

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

Toni M. Charlton
Notary Public

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

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

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MARK L. OLIGSCHLAEGER

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DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

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

CASE NO. ER-2004-0034

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, MO, and received a Bachelor of Science degree in Business Administration with a major in Accounting in 1981. I have been employed by the Missouri Public Service Commission (Commission or MPSC) since September 1981 within the Auditing Department. In November 1981, I passed the Uniform Certified Public Accountant (CPA) examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission is given in Schedule 1, attached to this direct testimony. A listing of the issues I have addressed in filed testimony in dockets before the Commission since 1990 is provided in Schedule 2 to this testimony.

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

A. I have been employed by this Commission as a Regulatory Auditor for over 20 years, and have submitted testimony on ratemaking matters numerous times before the Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings numerous times. I have received training at in-house and outside seminars on technical ratemaking matters since I began my employment with the Commission.

Q. With reference to Case No. ER-2004-0034, the Application by Aquila, Inc. (Aquila/UtiliCorp or Company) d/b/a Aquila Networks - MPS (MPS) , to increase rates charged to their electric customers, have you examined the books and records of Aquila/UtiliCorp pertaining to MPS?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. Has Aquila, Inc. been known by other corporate names?

A. Yes. Prior to March 2002, Aquila was known as UtiliCorp United, Inc. In this testimony, to avoid confusion when referring to actions or events involving Aquila prior to or after March 2002, I will refer to the Company generically throughout its entire history as "Aquila/UtiliCorp." MPS are divisions of Aquila/UtiliCorp.

Q. What is the purpose of your direct testimony?

A. The purpose of this testimony is to sponsor the rationale for the Staff's adjustment to MPS's test year purchased power expenses to remove the portion of the Aries unit expenses above the actual cost of the capacity supplied to the MPS customers.

My testimony will describe Aquila/UtiliCorp's decision to have its MPS division acquire capacity from the Aries generating unit through a purchased power agreement (PPA, or Power Sales Agreement/PSA) with an affiliated entity to increase Aquila/UtiliCorp's overall profits.

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Q. How did the Staff obtain evidence to support its positions on the issues addressed in this testimony?

A. The Staff obtained the evidence to support its positions on the issues I address in this direct testimony through issuances of Staff data requests and interviews of Company employees, both during the course of this rate case audit and also in the Staff's audit of MPS' last Missouri electric rate proceeding, Case No. ER-2001-672. In the matter of the Aries unit issue, the Staff conducted an interview with Mr. Robert Holzwarth and Mr. Frank DeBacker on October 28, 2003, and an interview with Mr. Max Sherman on October 29, 2003. Mr. Holzwarth, Mr. DeBacker and Mr. Sherman are all current or former employees of Aquila. The Staff also interviewed Mr. Terry Hedrick, Aquila/UtiliCorp's Director of Generation Services, on November 14, 2003. After these interviews, through Staff data requests, the Staff submitted its notes of the meetings to Aquila for verification, which gave these interviewees the opportunity to revise the meeting notes so that the notes accurately reflect what was stated at these meetings.

ARIES UNIT

Q. Please describe the Aries generating unit.

A. The Aries unit is a 585 megawatt (MW) combined cycle generating unit located near Pleasant Hill, MO. The unit is effectively owned equally by Calpine Corporation (Calpine) and Aquila/UtiliCorp. Both Aquila/UtiliCorp's and Calpine's shares of the Aries plant are held by a jointly owned limited liability corporation named Merchant Energy Partners – Pleasant Hill (MEPPH). The Aries unit began providing power in simple-cycle mode in the summer of 2001, and started operating in combined-cycle mode in February 2002.

Q. Who owns the Aries unit?

A. Cass County, MO holds legal title to the Aries unit, but has no authority to operate the plant as a business. Cass County is leasing the plant to subsidiaries of Calpine and Aquila/UtiliCorp.

Q. Please discuss the ownership structure of the Aries unit.

A. The Aries unit is being leased by Cass County through two separate leases; a capital lease and an operating lease. According to the response to Staff Data Request No. 507 from Case No. ER-2001-672, the capital lease involves Cass County as the lessor and two banks (Union Bank of California and Bank One) as the lessees. According to the response to Staff Data Request No. 429 in Case No. ER-2001-672, the operating lease has Cass County as the lessor, with a fully owned subsidiary of Aquila/UtiliCorp and a fully owned subsidiary of Calpine, the two partners within MEPPH, as lessees. These lessees then convey power from the Aries unit through their affiliate, MEPPH, to MPS, the regulated entity.

Q. Why are two leases required for the Aries unit?

A. According to the response to Staff Data Request No. 511 from Case No. ER-2001-672, "the capital lease between Cass County and Lessors A & B supports the requirements of the Chapter 100 Bond financing required under Missouri statutes. The Operating Lease between Lessors A & B and MEPPH supports the financing of the plant."

Q. How has Cass County financed the construction of the Aries unit?

A. Cass County has issued one bond for the construction of this unit, which MEPPH purchased. Therefore, MEPPH's owners, Aquila/UtiliCorp and Calpine, have put up the money to finance 100% of the Aries unit.

Q. Is the Aries unit producing power for Missouri jurisdictional electric customers?

A. Yes. Aries began its production of electricity in the spring of 2001 when the unit operated two combustion turbines in simple cycle mode during its testing phase. The two units began operating in June 2001, and continued through the summer of 2001. During the fall of 2001 and early winter 2002, the Aries partners completed the combined cycle unit and start production of electricity in the test phase. The combined cycle unit began full production in late February 2002.

Q. Is there an agreement for the purchase of Aries power?

A. Yes. MPS and MEPPH have signed an agreement that reserves a portion of the power produced by the Aries unit for customers of MPS from 2001 through 2005. The power to be provided during the simple cycle phase of the unit's operation was 320 MW for the period of June September 2001. When the combined cycle unit became operational in early 2002, the agreement provided for a maximum of 500 MW over the peak periods in the remaining years 2002-2005 (April-September of each year), and a maximum of 200 MW during non-peak periods (October-March of each year).

Q. Why did MPS agree to take power from the Aries unit?

A. MPS did not make an independent decision to enter into the PPA. Aquila/UtiliCorp made the decision on behalf of its MPS division. MPS had need for increased capacity, both as a result of load growth and the expiration of several long-term PPAs it had entered into earlier with other regional utilities.

Q. When did Aquila/UtiliCorp decide to obtain power from its affiliated company, MEPPH, to supply the power needs for Aquila's MPS division?

A. Aquila/UtiliCorp signed a contract with its affiliate, MEPPH, in February 1999. The Aquila/UtiliCorp-MEPPH purchased power contract for the MPS division needs is an affiliated transaction as defined under the Commission's current rules. These rules define an "affiliated transaction" as:

> …any transaction for the provision, purchase or sale of any information, asset, product or service, or portion of any product or service, between a regulated electrical corporation and an affiliated entity, and shall include all transactions carried out between any unregulated business operation of a regulated electrical corporation and the regulated business operations of an electrical corporation. 4 CSR 240-20.015(1)(B)

MEPPH is an affiliated entity with MPS in that it is a corporate subsidiary of Aquila/UtiliCorp which, through an intermediary, is under common control with the regulated electrical corporation.

Q. How is MEPPH an affiliate of MPS?

A. Aquila/UtiliCorp wholly owns Aquila Merchant Services which in turn has, through its Capacity Services segment, a 50% ownership of MEPPH. Aquila/UtiliCorp owns all of the assets of MPS that operates as a division of

Aquila/UtiliCorp. When the original agreement was signed on February 22, 1999 with MEPPH to supply power to MPS starting in the summer of 2001, Aquila/UtiliCorp signed the PPA for MPS.

Q. What is the Staff's position on appropriate ratemaking treatment of affiliated transactions?

A. The Staff believes that affiliated transactions in which a regulated entity receives goods or services from an unregulated affiliate should be valued for ratemaking purposes at the lower of the fully distributed cost or market price of the goods and services. This has long been the position of the Staff, and recently this policy was codified in rules adopted by the Commission in 1999 concerning affiliated transactions, 4 CSR 240-20.015.

Q. Why is a "lower of fully distributed cost or market price" policy appropriate for goods and services obtained by utilities from affiliated entities?

A. This policy is appropriate in order to avoid affiliate abuse. Affiliate abuse is the phenomenon when a regulated utility makes a decision based not on the best interests of its customers, but on the best interests of an affiliated entity or the regulated utility's corporate parent. Another way of stating this is that affiliate abuse occurs when a regulated utility enters into a transaction with an affiliated entity that will maximize corporate profits at the expense of its customers when another course of action would have been more economical for its customers.

Q. Given Aquila Merchant/MEPPH's affiliation to Aquila/UtiliCorp's MPS division, does the Staff believe that Aquila/UtiliCorp's selection of MEPPH to supply the future power needs for its MPS division to be reasonable?

A. Yes, if the MPS division is charged a fair portion of the costs incurred to to serve its power needs. In early 1999, in Case No. EO-99-369, Aquila/UtiliCorp applied to the Commission for certain determinations required to be made by the Missouri PSC under Section 32(k) of the Public Utility Holding Company Act of 1935 (PUHCA) respecting its contract with MEPPH for supply of power from the Aries unit. As part of its analysis of the Case No. EO-99-369 application, the Staff reviewed the bidding process used by MPS as well as its decision to choose MEPPH as the supplier of power. Based upon that review, the Staff concluded that MEPPH's bid was a reasonable selection when compared to the other bids received.

Q. Why was the Commission asked to make certain determinations respecting the PPA between MPS and MEPPH in Case No. EO-99-369?

A. Certain determinations by the Commission were necessary because MEPPH is an affiliated exempt wholesale generator (EWG).

Q. What is an exempt wholesale generator?

A. An EWG is a non-regulated affiliate of a regulated electric utility that is exclusively in the business of owning or operating, or both owning and operating, all or part of an "eligible facility" and selling electric energy at wholesale. EWGs came into existence as a result of Section 711 of the Electric Policy Act (EPAct) of 1992 (Section 32 of PUHCA). Under EPAct, regulated electric utilities are allowed to enter into purchased power agreements with affiliated EWGs as long as certain determinations are made by their state regulatory commissions.

Aquila/UtiliCorp filed Case No. EO-99-369 to obtain the necessary determinations from the Missouri PSC regarding the PPA between MPS and MEPPH.

Q. Did the Commission make the requested determinations for Aquila/UtiliCorp in that proceeding?

A. Yes, it did. However, on page 4 of the Commission's April 22, 1999 Order Regarding Power Sales Agreement, in that case stated the following: "[t]his order is in no way binding on the Commission or any party regarding a future rate or earnings complaint case to contest the ratemaking treatment to be afforded the Power Sales Agreement." Thus, any and all ratemaking determinations concerning the Aries unit PPA were left to rate proceedings, such as this one. . The terms of the PPA was not deemed to be reasonable for purposes of determining the costs of this power to be included in the rates to be charged to the MPS's customers. This issue was deferred to the rate case in which Aquila/UtiliCorp sought to recover the costs for the capacity and energy from the Aries unit in the rates in charged to its customers.

Q. Did the Staff recommend that the Commission make the necessary determinations respecting the PPA?

A. Yes, with conditions that included that the costs for this power to be included in rates would be decided in a future rate case. The Staff did not support the inclusion in rates the costs developed by the PPA. The Staff would not have proposed that the Commission make the determinations required under Section 32(k) of PUHCA in order for the transaction to proceed forward if the Company had required, or otherwise made part of the application seeking this approval, that such an approval would have included a ratemaking decision to include the costs determined by the PPA in the rates charged to MPS division consumers. The Staff review of this Application was abbreviated since Aquila/UtiliCorp requested, and was granted, an expedited procedural schedule for processing of the Application.

Q. Did Aquila/UtiliCorp consider the option of allowing its MPS division to construct and operate a regulated generating unit to meet the MPS division power needs in the 2001-2005 period?

A. No. By 1998, Aquila/UtiliCorp was operating under a policy of not even considering the use of regulated generating units as an option for meeting the power supply needs of its regulated electrical divisions. As a result of this policy, Aquila/UtiliCorp decided to enter into a PPA to price power to its MPS division from the Aries unit at a cost greater than the cost to the MPS division of providing this power to itself. This practice has violated any appropriate policy governing pricing between affiliated interests.

Q. Why was the short-term nature of the Aries PPA not been in the best interests of the Company's customers?

A. The short term of the PPA (five years) exposes MPS customers to greater risks associated with future market based pricing of power than would be the situation if MPS owned the Aries unit.

Aquila/UtiliCorp's overall corporate strategy since at least the late 1990s has been to construct merchant generating units to capture the value of its expectation of increased electric power prices. This strategy was pursued both by selling power from merchant generating units to non-native load customers via opportunities available through electric restructuring initiatives, and also by selling power at higher prices to its native load customers in Missouri through non-regulated generating units. This strategy is not appropriate in relation to Aquila/UtiliCorp's obligation to its MPS division customers to make decisions that best protect their interests, and constitutes affiliate abuse.

Q. Is the MPS-MEPPH PPA an example of affiliate abuse?

A. Yes. The terms of the Aries unit PPA illustrates that Aquila/UtiliCorp did not act in the best interests of its MPS divisions in entering into this PPA. The terms of the Aries PPA was based upon a goal of maximizing profits for Aquila/UtiliCorp, its corporate parent. The Aries PPA terms resulted in charging the MPS division amounts far in excess of the costs to supply the power to the MPS division.

Q. What is the cost of Aries capacity supplied to the MPS division under the terms of the MPS-MEPPH PPA?

A. The annual payments due to Cass County, the owner of the Aries unit, under the operating lease with Aquila/UtiliCorp and Calpine, represent an appropriate starting point for determining the cost of the Aries capacity. The response to Staff Data Request No. 429 (amended response) from Case No. ER-2001-672, received December 3, 2001, provided a list of annual "total project" lease payments due to Cass County, the owner of the Aries unit, for the years 2002-2032. (This response is attached as Highly Confidential Schedule 3 to this direct testimony.) During the years 2002-2004 (the only full calendar years of the MPS-MEPPH PPA), the amounts to be paid to Cass County under the lease agreement and the amounts MPS must pay pursuant to the purchased power contract (from the Response to Staff Data Request No. 55 in Case No. ER-2001-672) are as follows:

Year	Payment to Cass Co.	MPS PPA Contract Payment
2002	** ___________ **	** ____________ **
2003	** ___________ **	** ____________ **
2004	** ___________ **	** ____________ **

On its face, in comparison to the Cass County annual lease payments, the capacity charges to be paid by MPS for power from the Aries unit do not appear to be reasonable. For example, Cass County was scheduled to receive a total of ** ___________ ** in capacity payments under its lease for the entire 585 megawatt unit in 2002, while MPS was contractually obligated to pay ** ____________ ** for an average of 350 MW throughout that year (200 MW for January-March, 500 MW for April-September, and 200 MW for October-December). The same general relationship between the capital lease payment and the MPS capacity payment exists for 2003 and 2004. Therefore, based upon this information, it appears that a regulated entity, MPS, is being required to pay for almost all of the costs of the Aries unit, even though it is not entitled to a proportional amount of the unit's capacity. Meanwhile, MPS will not receive any benefit from any power sales from Aries unit capacity above the contractual commitment to MPS. The proceeds of any sales made to other entities will go directly to the Aries partners and not to MPS. The MPS division is being charged costs related to the non-regulated sales of the Aries unit not committed to the MPS division under the PPA. The PPA is an example of affiliate abuse.

In short, MEPPH and Cass County are essentially recovering all of the capacity costs for the entire Aries unit from MPS, even though MPS has not contracted to receive the benefit of all of the Aries unit's capacity. Out of a total capacity of at least 585 MWs, MPS has contracted to receive 200 MWs year round, with another 300 MWs from April to September. A comparison of the amounts due to Cass County from MEPPH and the amounts MEPPH will receive from MPS suggest that MPS's required payments for capacity are far in excess of the cost of capacity from the Aries unit.

Q. Please explain.

A. It is reasonable to assume that the lease agreements allow Cass County to at least recover its fixed costs related to ownership of the Aries unit. That cost, between ** ____________** annually from 2002-2004 for a 585 MW generating unit, should be compared to the "market value" of Aries power to MPS of ** ____________ ** in the same time period for an average of 350 MW of unit capacity annually. On average, MPS has only contracted for approximately 60% of Aries unit capacity on an annual basis over the term of the PPA, yet it has contracted to pay essentially 100% of the capacity costs of the unit.

Q. Since MPS is only contracting for 350 MW of Aries capacity annually, on average, who receives the benefit of the Aries unit capacity in excess of 350 MW?

A. If MEPPH can sell power from the Aries unit in excess of amounts contracted for by MPS, MEPPH will essentially retain all of these sales proceeds. Again, this is because the payment MEPPH will receive from MPS essentially equals MEPPH's required payment to Cass County for all of the Aries unit capacity.

Q. Should the difference between the cost of Aries unit power and the "market" price charged MPS for that power be of concern to the Commission?

A. Yes, among other reasons, because of the affiliated nature of the MPS-MEPPH PPA.

Q. Is the actual cost of Aries power to MEPPH under the Cass County lease an appropriate valuation for cost under the "lower of cost or market" price position of the Staff?

A. Yes. Aquila/UtiliCorp could have entered into the same financial arrangements with Cass County for its MPS division that it did for its affiliated company MEPPH, and thereby achieve the same cost levels for this power that MEPPH received from these transactions. Even before its transformation into Aquila/UtiliCorp in the 1980s, MPS has a long history of constructing and financing power plants. The fact that unregulated affiliate companies of MPS handled the Aries unit project was not based upon MPS's inability to do so; rather, it was based upon a deliberate corporate policy of Aquila/UtiliCorp to no longer have its regulated electric utilities build and own generation. This policy provides an opportunity for Aquila/UtiliCorp to make additional profits through sales of power by nonregulated affiliates to regulated affiliates that would not be possible under traditional utility practices.

Q. Was MPS capable of negotiating the same deals with Cass County on the Aries unit that MEPPH did?

A. Yes. In fact, it is MPS that has the long history of plant operations in Cass County and Pleasant Hill, Missouri, not MEPPH, Aquila Merchant or Calpine. This relationship with Cass County predates the transformation of MPS from a stand-alone utility to a division of Aquila/UtiliCorp in the mid-1980s. MPS has been operating in Pleasant Hill and the surrounding communities in Cass County for many decades. MPS's first power production facility was located in Pleasant Hill at the site that continues to be used today for Ralph Green 3, a combustion turbine. The Aries Combined Cycle unit is built on land that bounds an MPS substation and land that was once owned by MPS. MPS sold part of the land in 1993 and Aquila/UtiliCorp reacquired the land to construct Aries. Clearly, the MPS division of Aquila/UtiliCorp has more of the name recognition in Cass County than do its affiliate companies, and that would be an advantage in obtaining the type of "special" financing arrangements that has been entered into for the construction of the Aries unit.

Q. How is the Aries PPA an example of affiliate abuse?

A. As previously stated, Aquila/UtiliCorp established the terms of the PPA transaction so that it, in essence, recovers the entire cost for capacity of the Aries unit from its captive MPS division customers. But, the MPS division has not contracted for all of the Aries capacity during the period of the PPA, MEPPH is free to sell the power not committed to MPS in the interchange market during the term of the PPA, and retain all of these profits for itself without the burden of the capacity costs for the power it sells. If Aquila/UtiliCorp had contracted directly with Cass County for the entire capacity output of Aries and entered into the same financial arrangements with Cass County for its MPS division that it did for the MEPPH affiliate, the MPS division would have the excess capacity and energy available to sell in the interchange market, with the proceeds of these off-system sales from Aries to other entities being used to offset the capacity costs MPS division is being charged under the PPA for capacity to serve MPS's native load customers when needed. But, if that course of action had been taken, the result would have been lower rates for MPS customers instead of greater profits for Aquila/UtiliCorp. Aquila/UtiliCorp having chosen a course of action respecting the Aries PPA that maximizes its profits at the expense of MPS electric customers makes the Aries unit PPA an excellent example of affiliate abuse. This is why the ratemaking terms of the PPA were not approved for ratemaking purposes in Case No. EO-99-369. These terms, if adopted for ratemaking, would not support a finding that PPA was in the best interests of consumers.

Q. Based on these facts, how does the Staff recommend that the Commission treat the Aries PPA for ratemaking purposes?

A. The Staff recommends that the Commission price capacity from the Aries unit on the basis of its cost, not the market value of capacity, since it is clear that the cost of Aries power is lower than the market value of that power. The Commission should consider the MEPPH capacity payments to Cass County as being a reasonable estimate of the cost of Aries power, and prorate that cost to represent the share of the Aries unit committed to MPS under the PPA.

Q. How did the Staff determine the appropriate portion of Aries unit costs to be associated with the portion of the Aries unit being used to serve MPS's customers?

A. The Staff used the 2002 MEPPH payment to Cass County as the applicable cost of all of the capacity of the 585 MW Aries unit. This payment was ** ____________ **. MPS receives an average of 350 MWs of capacity annually (500 MWs from April to September, 200 MWs from October to March) of the 585 MWs of capacity at the Aries unit. Staff developed a factor of 59.83% (derived by dividing 350 MWs by 585 MWs). This factor was applied to the ** ____________ ** of costs for the total Aries unit resulting in ** ____________ ** being associated with MPS annual power needs of the cost of Aries unit.

Q. Are there alternative ways of assigning the cost of Aries power to MPS?

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A. Yes. It can be argued that the additional power MPS purchases in the peak months under the MEPPH PPA is more valuable than the 200 MWs MPS purchases on a year round basis. Schedule 4 attached to this direct testimony represents an alternative valuation of the MPS Aries PPA that follows this approach. Basically, Schedule 4 assumes that the 385 MWs of Aries that MPS does not reserve from October to March of each year can be sold to other entities at ** _____ **/KW-month, the same price MPS pays for its 200 MW of power during this six-month off-peak period. Schedule 4 also assumes that the 85 MW of Aries capacity MPS does not reserve in the peak months can be sold to third parties at ** _____ **/KW-month from April to September, the same price MPS pays for capacity during the six-month peak period. Under this scenario, Schedule 4 shows that MPS should be responsible for 61.31% of the cost of Aries capacity. Applying this factor to ** ___________ **, the capacity payment to Cass County, the result would be an assignment of ** _____________ ** of capacity cost to MPS for ratemaking purposes.

Q. What amount does the Staff recommend that the Commission use for setting rates for the MPS division of Aquila/UtiliCorp in this proceeding?

A. To be conservative, the Staff recommends that the Commission utilize the valuation presented in Schedule 4 of this testimony: ** ______________ ** (total Company) on an annual basis.

Q. Are you sponsoring the Aries unit PPA adjustment to the income statement?

A. No. I provided these amounts to Staff Auditing witness Graham A. Vesely to incorporate into the Staff's overall adjustment to MPS' test year purchased power expense. However, I am responsible for defending the rationale for this Staff adjustment in this rate proceeding.

Q. Did the Staff propose a similar adjustment relating to the Aries PPA in the last MPS general rate proceeding in Missouri, Case No. ER-2001-672?

A. Yes, it did.

Q. Have their been significant changes in the financing and ownership structure of the Aries unit since that rate proceeding?

A. Yes, there have been several.

** ____
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______________________________ **.

** ____
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______________________________ **.

The Staff does not believe these two events change in any way the rationale for its proposed adjustment to MPS's test year purchased power costs under the Aries PPA.

____

Q. Does this conclude your direct testimony?
A. Yes, it does.

MARK L. OLIGSCHLAEGER

COMPANY	CASE NO.
Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14
Western Resources	GR-90-40 & GR-91-149
Missouri-American Water Company	WR-91-211
UtiliCorp United Inc. / Missouri Public Service	EO-91-358 & EO-91-360
Generic: Expanded Calling Scopes	TO-92-306
Generic: Energy Policy Act of 1992	EO-93-218
Western Resources, Inc./Southern Union Company	GM-94-40
St. Louis County Water Company	WR-95-145
Union Electric Company	EM-96-149
St. Louis County Water Company	WR-96-263
Missouri Gas Energy	GR-96-285
The Empire District Electric Company	ER-97-82
UtiliCorp United, Inc./Missouri Public Service	ER-97-394
Western Resources, Inc./Kansas City Power & Light Company	EM-97-515
United Water Missouri, Inc.	WA-98-187
Missouri-American Water Company	WM-2000-222

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COMPANY	CASE NO.
UtiliCorp United Inc. / St. Joseph Light & Power Company	EM-2000-292
UtiliCorp United Inc. / The Empire District Electric Company	EM-2000-369
Green Hills Telephone Corporation	TT-2001-115
IAMO Telephone Company	TT-2001-116
Ozark Telephone Company	TT-2001-117
Peace Valley Telephone Company, Inc.	TT-2001-118
Holway Telephone Company	TT-2001-119
KLM Telephone Company	TT-2001-120
Missouri Gas Energy	GR-2001-292
The Empire District Electric Company	ER-2001-299
Oregon Farmers Mutual Telephone Company	TT-2001-328
Ozark Telephone Company	TC-2001-402
Gateway Pipeline Company, Inc.	GM-2001-585
Missouri Public Service	ER-2001-672
Union Electric, d/b/a AmerenUE	EC-2002-1
Laclede Gas Company	GA-2002-429

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Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	AAO
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
Empire District Electric	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
Utilicorp United & Empire District Electric	EM-2000-369	Overall Recommendations
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy

Company Name	Case Number	Issues
Ozark Telephone Company	TT-2001-117	Policy
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2002-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
Empire District Electric	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Laclede Gas Company	GA-2002-429	AAO Request

SCHEDULES 3 AND 4

ARE

DEEMED

HIGHLY CONFIDENTIAL