

Exhibit No.:
Issues: *Materials and Supplies,*
Prepayments,
Customer Deposits,
Customer Advances,
Mo PSC Assessments,
Rate Case Expenses, and
Customer Deposit Interest
Witness: *“Kofi” Agyenim Boateng*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *ER-2005-0436*
Date Testimony Prepared: *October 14, 2005*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

“KOFI” AGYENIM BOATENG

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

AND AQUILA NETWORKS – L&P ELECTRIC

CASE NO. ER-2005-0436

Jefferson City, Missouri
October 2005

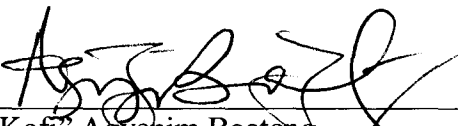
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Aquila, Inc.,)	
to Implement a General Rate Increase for)	Case No. ER-2005-0436
Retail Electric Service Provided to Customers)	Tariff No. YE-2005-1045
in Its MPS and L&P Missouri Service Areas.)	

AFFIDAVIT OF "KOFI" AGYENIM BOATENG

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

"Kofi" Agyenim Boateng, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the following Direct Testimony 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.


"Kofi" Agyenim Boateng

Subscribed and sworn to before me this 12th day of October 2005.


Notary



TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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DIRECT TESTIMONY

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

AND AQUILA NETWORKS – L&P ELECTRIC

CASE NO. ER-2005-0436

Q. Please state your name and business address.

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

EDUCATIONAL BACKGROUND AND EXPERIENCE

A. I graduated from the Ho Polytechnic, Ho, Ghana. I received a Higher National Diploma (HND) in Accountancy (September 2000) and a Master's of Business Administration with emphasis in Accounting at Lincoln University, Jefferson City, Missouri (May 2004). In September of 2004, I commenced employment with the Commission Staff (Staff) in my current position of Utility Regulatory Auditor. Prior to employment with the Commission, I held the position of Accountant with the Controller & Accountant General's Dept., Ghana; Accountant with ACS-BPS (Ghana) Limited; Payroll Account Technician with Scholastic Book Club, Inc., Jefferson City; and Account Officer II with the Missouri Department of Revenue, Jefferson City.

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

1 A. It is my responsibility to assist with audits and examinations of the books and
2 records of utility companies operating within the state of Missouri.

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

5 A. Yes. I have been assigned to a number of small informal rate cases.

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

8 A. I have extensively reviewed other utility rate cases related to the issues I am
9 sponsoring to ensure that the consistency of the Staff's method and procedures are
10 maintained. My prior academic education has also prepared me to successfully sponsor the
11 ratemaking areas I have been assigned in this case. I have received certificates of training
12 from the National Association of Regulatory Utility Commissioners-sponsored seminars in
13 water, gas and the electric utility cost of service and regulation. Further, I have attended in-
14 house training seminars at the Commission specifically designed for continuing education and
15 training in the areas of regulatory issues. I have also worked closely with Senior Staff
16 members familiar within my areas of responsibility.

17 **EXECUTIVE SUMMARY**

18 Q. Please give a brief summary of your direct testimony pertaining to this case.

19 A. The purpose of this direct testimony is to address the rate base additions of
20 materials and supplies and prepayments, as well as rate base deductions of customer deposits
21 and customer advances for Aquila's MPS and L&P divisions in rate Case No. ER-2005-0436.
22 I also discuss the income statement adjustments of customer deposit interest expense, rate
23 case expense and annualization of PSC assessment in this testimony.

1 The components classified as rate base additions represent funds expended by Aquila
2 to maintain effective and efficient operations in the provision of reliable service to rate payers.
3 In this instance, the Company is allowed a return on its investment. Conversely, the rate base
4 deduction items represent funds contributed by ratepayers to a utility company, and in the
5 case of customer deposits and customer advances, ratepayers are allowed to earn a return on
6 their contributed funds. In this direct testimony, all computations were based on the test year
7 and updated through June 30, 2005. The Staff used a 13-month average or the end of update
8 period balance given the extent of fluctuations or trends that was recognized during the test
9 year and/or the update period for the particular item.

10 The PSC assessment represents the most recent Commission assessment in effect for
11 the fiscal year July 1, 2005. The rate case expense is the total amount of this expense actually
12 incurred by Aquila through June 30, 2005, the end of the update period. The Commission has
13 authorized a true-up in this case so any additional expenses associated with the processing of
14 this rate filing by Aquila will be examined during the true-up period of October 31, 2005 to
15 determine their appropriateness for inclusion in this case.

16 **PURPOSE OF TESTIMONY**

17 Q. With reference to Case No. ER-2005-0436, have you made an examination of
18 the books and records of the Aquila Networks, Inc. (MPS and L&P)?

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

20 Q. Please describe your responsibilities in this case.

21 A. I am responsible for the rate base components of materials and supplies,
22 prepayments, customer advances and customer deposits. I am also responsible for the Income

1 Statement adjustments to interest on customer deposits, rate case expense, and the
2 annualization of the PSC assessment.

3 Q. Please identify the Adjustments that you are sponsoring in this case.

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

5 Customer Deposit Interest Expense: MPS-S-69.20,
6 L&P-S-67.20
7

8 Rate Case Expense: MPS-S-86.1
9 L&P-S-85.2
10

11 PSC Assessment: MPS-S-86.2
12 L&P-S-85.1

13 **MATERIALS AND SUPPLIES/PREPAYMENTS**

14 Q. Please describe the Staff's treatment of materials and supplies, and
15 prepayments.

16 A. Materials and supplies, and prepayments are represented in the Staff's rate
17 base by thirteen (13)-month averages for the period ending June 30, 2005, the end of the
18 update period in this case. Because there are fluctuations for these two items in the test year
19 and update period, 13-month averages are developed to smooth out seasonal variations.

20 Q. What are materials and supplies?

21 A. Materials and supplies are miscellaneous items that are stored by the Company
22 in inventory for use in day-to-day routine maintenance and operational projects. These items
23 are also stored in inventory for the Company's construction projects. Items typically found in
24 material and supplies inventory for electric utility operations are cable poles, electrical wire
25 and cable, conduit, meters, transformers and breakers, etc.

26 Q. What are prepayments?

1 A. Prepayments relate to items that the Company "prepaid" so that the services
2 will be on-hand during the normal course of the utility's operations. These types of items
3 include the prepayment of insurance, software licenses, etc. that are paid in advance of
4 coverage. Staff Auditing witness Steve M. Traxler will address prepayments relating to
5 pensions in his direct testimony.

6 Q. Were any of the prepayments not calculated using a 13-month average?

7 A. Yes. The corporate prepaid software costs that are allocated between MPS and
8 L&P demonstrated a downward trend during the test year and update period. The ending
9 account balances at June 30, 2005 were used instead of a 13-month average.

10 Q. Why would an ending balance be more appropriate to use instead of a
11 13-month average?

12 A. In some instances, depending on the circumstances, the inventory account
13 balances show a discernable trend, either increasing or decreasing, where an end of period
14 balance would be more appropriate than would an averaging method. Where account
15 balances fluctuate from one period to another, showing no discernable trend, an averaging
16 method is more appropriate to reflect as a rate base investment. The appropriate levels of
17 inventories are included in rate base, allowing investors to earn a return on monies invested
18 for material and supplies and prepayments.

19 **CUSTOMER DEPOSITS**

20 Q. Please describe the customer deposits amount that is deducted from rate base.

21 A. Customer deposits generally represent funds received from customers as
22 security against potential loss arising from failure to pay for service. Customer deposits are
23 required by companies to establish credit for customers. The deposit represents a liability to

1 repay the funds received after a specified period or upon satisfaction of certain requirements.
2 Since customer deposits are, in effect, an interest-free loan to the Company, a representative
3 level is included as an offset to the rate base investment. This treatment allows customers to
4 receive a "return" on the customer deposit amounts maintained by the Company. The
5 customer deposits represent the ending balance at June 30, 2005 for both Aquila's MPS and
6 L&P divisions. A review of the customer deposits for the test year and up through to the
7 update period demonstrated an upward trend for MPS and L&P. A 13-month average of
8 historical data that was used in the previous case involving this Company would not be
9 representative of balances on which to set future rates because the ending period levels are
10 increasing upward developing a trend. If a 13-month average is used for increasing customer
11 deposit balances, then these deposits would be understated.

12 **CUSTOMER ADVANCES**

13 Q. Please describe this rate base reduction item.

14 A. Like customer deposits, the customer advances are represented in rate base by
15 the update period balance of June 30, 2005. Customer advances are funds provided by
16 customers of the Company to assist in the costs of the provision of electric service. These
17 funds, like customer deposits, represent interest-free money to the Company. Therefore, it is
18 appropriate to include these funds as an offset to rate base. However, unlike customer
19 deposits, no interest is paid to these customers for the use of the money.

20 Q. Is the use of an ending balance amount consistent with the method used by
21 Staff in the previous Aquila rate case?

22 A. No. In the previous case involving Aquila, Staff used a 13-month average in
23 its computation given the fluctuations that occurred during the test year. In this case, the

1 amount of customer deposits on hand for MPS and L&P was used because of an upward trend
2 in this item during the test year and update period.

3 **CUSTOMER DEPOSIT INTEREST EXPENSE**

4 Q. Please explain income statement adjustment S-69.20 for MPS and adjustment
5 S-67.20 for L&P.

6 A. The Staff's adjustments annualize interest expense related to customer
7 deposits. Customer deposits are interest bearing, so the liability is deducted from rate base
8 with the associated interest included as a cost of service. To calculate this adjustment, a
9 7.25% interest rate (prime + 1%) (Source: H.15 Selected Interest Rate, Board of Governors of
10 the Federal Reserve System) was multiplied by the balance in customer deposits discussed
11 earlier in my direct testimony.

12 Q. Why did you use this interest rate (prime + 1%)?

13 A. The use of this method to determine the customer deposit interest rate is
14 consistent with the Staff's approach in the last Aquila rate case. The prime rate is considered
15 to be the interest rate charged to a bank's most credit-worthy corporate customers for
16 short-term loans. In this case, the bank prime loan rate of 6.25% at June 30, 2005 was used.

17 **RATE CASE EXPENSE**

18 Q. Please describe adjustment MPS-S-86.1 and adjustment L&P-Electric S-85.2.

19 A. These adjustments normalize rate case expense over a three-year period. The
20 Staff selected three years to recognize the company's selected amortization period for this
21 item of three years.

22 Q. How was the rate case expense adjusted for Case No. ER-2005-0436?

1 A. The total amount of actual rate case expense incurred by MPS and L&P
2 through June 30, 2005, the end of the update period is being allowed at this time. Any
3 additional rate case expense that is reasonably incurred will be considered for inclusion later
4 in the case. This will allow costs such as consulting fees, employee travel expenditures and
5 legal representation, which are directly associated with the length of the case through the
6 prehearing and hearing process to be properly included in this case. The Staff will work with
7 the Company to establish an ongoing normalized level of rate case expense for inclusion in
8 rates.

9 The Commission has authorized a true-up in this case so any additional expenses
10 associated with the processing of this rate filing by Aquila will be examined during this true-
11 up period of October 31, 2005 to determine their appropriateness for inclusion in this case.

12 **PSC ASSESSMENT**

13 Q. Please discuss adjustments MPS—S-86.2, L&P—S-85.1 to annualize the PSC
14 Assessment.

15 A. These adjustments represent the difference between the Staff's annualized PSC
16 Assessment and the test year recorded assessment expense. The most recent PSC
17 Assessment, in effect for the fiscal year July 1, 2005 to June 30, 2006, was used in the Staff's
18 annualization.

19 Q. Does this conclude your direct testimony?

20 A. Yes, it does.