Exhibit No.:	
Issues:	*Cash Working Capital*
Witness:	*Lesley R. Preston*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case Nos.:	*ER-2004-0034 and HR-2004-0024 (Consolidated)*
Date Testimony Prepared:	*February 13, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

LESLEY R. PRESTON

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

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

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 L&P and Aquila Networks MPS to implement a general rate increase in electricity.	))))	Case No. ER-2004-0034
In the matter of Aquila, Inc. d/b/a Aquila Networks L&P to implement a general rate increase in Steam Rates.	)))	Case No. HR-2004-0024

AFFIDAVIT OF LESLEY R. PRESTON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lesley R. Preston, of lawful age, on her oath states: that she has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following surrebuttal 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.

Lesley R. Preston

Lesley R. Preston

Subscribed and sworn to before me this 11th day of February 2004.

D SUZIE MANKIN
Notary Public - Notary Seal
STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

D Suzie Mankin

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(Consolidated)

Q. Please state your name and business address.

A. My name is Lesley R. Preston, 3675 Noland Road Suite 110, Independence, Missouri 64055.

Q. Are you the same Lesley R. Preston who previously filed direct testimony in this case?

A. Yes. I filed direct testimony on December 9, 2003.

Q. What is the purpose of your surrebuttal testimony?

A. This testimony will address the rebuttal testimony of Aquila, Inc (Aquila or Company) d/b/a Aquila Networks-MPS (MPS) and Aquila Networks-L&P (L&P) witness Dennis R. Williams on the issue of cash working capital.

<u>CASH WORKING CAPITAL</u>

Q. Have you reviewed the rebuttal testimony of Mr. Dennis R. Williams?

A. Yes, I have.

Q. What does Mr. Williams disagree with?

A. Mr. Williams' disagreement lies within the Staff's inclusion of the accounts receivable program (Program) to calculate the collection lag portion of the revenue lag.

Q. Does an account receivable program exist?

A. No, not at this time.

Q. Please explain why the Staff has included the Program.

A. As addressed in my direct testimony, the Staff has included the Program in order to isolate the customer from costs associated with Aquila's non-regulated financial problems.

Q. On page 7 of Mr. Williams's rebuttal testimony he states "Aquila has no accounts receivable program in place and no plans to reinstate it." Do you have any comments on this statement?

A. Yes. His statement appears to be contrary to a data request response. In Data Request No. 421, answered by Richard O. Clayburn, Jr., the Staff asked for "a description of Aquila's expectation about using the AR Program in the future." Aquila's response was "Aquila is in the early stages of negotiations and expects to have a new program with a different provider in place by year-end 2003 and its use would be dependent upon the terms of the facility and the Company's need for liquidity."

Q. Mr. Williams states, on pages 8 and 9 of his rebuttal testimony that the Staff has never imputed an accounts receivable sales program for the other regulated utilities in Missouri. Can you explain why the Staff has never imputed an accounts receivable sales program?

A. Yes. Staff has never imputed a Program for any other regulated utility because no other utility has participated in such a Program to the Staff's knowledge. The Staff's examination has been focused on Aquila and its activities, not other regulated utilities in Missouri.

Q. Mr. Williams states on page 9 of his rebuttal testimony that it "only makes sense to set rates based upon existing, traditional activities." In past rate cases, did the Company include the costs associated with the sale of the accounts receivable in its cost of service?

A. Yes. The Program has been in place since the late 1980s, and had become an traditional source of funding at Aquila, until the Company's credit rating fell below investment grade, terminating the Program.

Q. On page 8 of Mr. Williams's rebuttal testimony he states that an account receivable program is a "non-traditional funding mechanism." Do you agree with this statement?

A. No. Mr. Williams argues that the Program is non-traditional because other regulated companies do not use such financing. An accounts receivable program may be a unique, non-traditional form of financing for other companies, but is traditional for Aquila.

Mr. Rick Dobson, Senior Vice President and Chief Financial Officer, in his direct testimony, from Case No. EF-2003-0465, on page 2, discusses Aquila, (then UtiliCorp United, Inc) and the strategy of "domestic utility" expansion occurring from 1984-1993. It is during this same time period that the accounts receivable program was implemented at the corporate level, while the focus was still on domestic utility operations and acquisitions.

While the Program may be a non-traditional form of financing to other companies, it is traditional to Aquila because it has been used for not only a long period of time, but also when Aquila's strategy was on domestic utility operations.

Q. Mr. Williams, on page 9 of his rebuttal testimony, states "all parties appear to agree that customers should be insulated from Aquila's past non-traditional activities, it only makes sense to set rates based upon existing, traditional activities." Please comment.

A. The Staff has attempted to isolate costs associated with the financial condition arising from Aquila's non-regulated ventures. Several Company witnesses in the current case and in Case No. EF-2003-0465 have also asserted that the Company would attempt to isolate the impact of Aquila's financial condition. Mr. Keith G. Stamm, Aquila Vice President and Chief Operating Officer, states on page 2 line 19 though page 3 line 3 of his direct testimony:

> …There is likely to be a presumption on the part of some of our constituents that this is an attempt to take advantage of our customers and restore financial viability that has been threatened as a result of our investments outside of the utility sector.
>
> However, this is simply not the case. This request for rate relief stands on the merits of the need of Missouri regulated operations alone, isolated and insulated from the impacts of our non-regulated activities.

Mr. Dobson, in his direct testimony in Case No. EF-2003-0465, states "First, we had to continue to maintain a focus on providing service to our utility customers, and ensure that the steps we take to restore Aquila's financial stability would not have any adverse impact on the utility business or its customers."

In addition to this statement, Mr. Jon R. Empson, Senior Vice President of Regulated Operations, in his rebuttal testimony for the current case posed the following question and answer:

> Q. When Aquila prepared the rate cases that were filed with the Commission, what guidance did you give the regulatory team?
> A. There were two basic principles that we made a concerted effort to apply to a review of our rate case filing.
> First, our utility customers should not bear any of the costs associated with Aquila's exiting or winding down of our non-regulated and international businesses. In other words, as stated by Aquila witness Beverlee Agut in her direct testimony, our intention and desire was to

> insulate the customer from these activities and not include these costs in the cost of service in this case…

Mr. Empson has also made similar comments in Case No. EF-2003-0465, when he states, "However, while Aquila accepts full responsibility for its past strategy, Aquila is also taking full responsibility for restoring financial stability without adversely impacting the customer."

Since the late 1980's Aquila has sold the utility accounts receivable for financial purposes and reaped the benefits of having access to the funds more rapidly than if the account receivables were processed internally. Due to the recent financial troubles the Company is experiencing, it can no longer sell the accounts receivable. In the past, the Staff took a portion of the benefits and passed those benefits onto ratepayers through the reduction to the collection lag. Now that Aquila is in financial distress and can no longer sell the receivables and receive the corporate benefit, the Company wants to pass the increased costs of financing back to the ratepayer. This is detrimental to the ratepayers; the same ratepayers the Company witnesses have sworn would be protected from the Company's financial downturn.

The accounts receivable program is unique in its nature. Both the Company and ratepayer have been able to receive the benefit of the Program for over 10 years. The ratepayer should not have to bear the cost associated with the discontinued Program. Since the ratepayer has been able to benefit for over 10 years, to stop the Program ultimately results in an increased cost that will have to be borne by the ratepayer.

Line 1 of the schedule below lists the impact that the shorter collection lag has on the electric divisions. Line 2 is the revenue requirement impact of the interest expense calculated and included that is associated with the Program. The net effect of Line 1 and Line 2 is illustrated in Line 3. The number of customers in Line 4 includes the annualized customer levels included in this case, and Line 5 demonstrates the cost impact per customer if the Program was not in place.

		MPS	L&P
1	Revenue Requirement Impact of CWC	($1,975,017)	($493,736)
2	Program Interest Expense	$ 686,495	$ 202,802
3	Net Affect	($1,288,522)	($290,934)
4	Number of Customers	223,702	64,319
5	Cost Per Year Per Customer	$ 5.76	$ 4.52

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.