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Service Commission

Exhibit No.:

Issues: Revenue,
Rate Base, Employee
Benefits, Homeland
Security, Property
Taxes, Depreciation
& Subsidy
Adjustment

Witness: Stephanie A. Murphy

Sponsoring Party: Aquila Networks-L&P

Case No.: HR-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Stephanie A. Murphy

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEPHANIE A. MURPHY
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS- L&P
CASE NO. HR- _____**

1 Q. Please state your name and business address.

2 A. My name is Stephanie A. Murphy and my business address is 10700 East 350 Highway,
3 Kansas, City, Missouri.

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

5 A. I am presently employed by Aquila, Inc. ("Aquila" or "Company") as a Senior Regulatory
6 Analyst.

7 Q. Please briefly describe your duties and responsibilities as a Senior Regulatory Analyst for
8 Aquila.

9 A. I am responsible for the preparation of financial and other data in connection with filings
10 before regulatory bodies having jurisdiction over Aquila's operations.

11 Q. Please describe your educational and employment history.

12 A. I hold a Bachelors of Science degree in Finance with a minor in Accounting, from
13 Wichita State University, awarded in 1995. I have been employed by Aquila, Inc. since
14 November of 1998 primarily in the regulatory services department. Prior to my
15 employment at Aquila, I held positions with Sprint PCS as a Financial Analyst and
16 Agripro Seeds, Inc. as their Cost Accountant.

17 Q. What is the purpose of your testimony in this proceeding?

18 A. The purpose of my testimony is to develop and support schedules SAM-1 through 5.

19 Q. Please identify the schedules and any adjustments that you are sponsoring.

1 A. I am sponsoring the following revenue adjustment:

- 2 • R-30 Steam Revenue Annualization

3 I am sponsoring the following items in rate base:

- 4 • Plant in Service
5 • Accumulated Reserve for Depreciation

6 Additionally, I am sponsoring the following adjustments to the above rate base items:

- 7 • RB-10, RB-15, RB-20, RB-25 Projected Plant and Reserve at September 30,
8 2003
9 • RB-60 Office Building Adjustment
10 • RB-65 Office Building Adjustment - Reserve
11 • RB-80 Corporate Assets - Depreciation Reserve

12 I am also sponsoring the following adjustments to cost of service:

- 13 • CS-12 Medical and Dental Benefits
14 • CS-13 Pensions
15 • CS-14 Other Post Retirement Benefits ("OPEB")
16 • CS-15 401(k) Adjustment
17 • CS-15.5 Employee Stock Contribution Plan ("ESOP")
18 • CS-81 Homeland Security
19 • CS-90 Property Taxes
20 • CS-95 Depreciation Annualization

21 Q. Are you sponsoring all of the adjustments on Schedule SAM-4?

1 A. No. There will be several other Aquila witnesses that are sponsoring various
2 adjustments.

3 Q. Were these schedules prepared by you or under your direct supervision?

4 A. Yes.

5 Q. Please describe Schedule SAM-1.

6 A. Schedule SAM-1 represents the revenue deficiency calculated based on a return on equity
7 (“ROE”) of 12.25%. The amount of the deficiency is approximately \$1.3 million.

8 Q. What information is included on Schedule SAM-2?

9 A. This Schedule depicts the detailed components of rate base. Rate base is Aquila’s
10 investment to provide service to the steam customers in the L&P service territory.

11 Q. Please describe Schedule SAM-3.

12 A. Schedule SAM-3 is the adjusted income statement, which reflects the net income
13 available, after all known and measurable changes have been reflected.

14 Q. What does Schedule SAM-4 represent?

15 A. Schedule SAM-4 gives a short description of the adjustments made to the income
16 statement in this case involving Aquila Networks – SJLP Steam.

17 Q. Please describe Schedule SAM-5.

18 A. Schedule SAM-5 details the cost of service adjustment related to certain employee
19 benefits for the L&P division. This schedule and the actual adjustment are discussed later
20 in my testimony.

21 REVENUE

22 R-30 Steam Revenue Annualization

23 Q. Please explain the steam revenue annualization adjustment.

1 A. L&P and steam customer Ag Processing (“AGP”) were parties to a special tariff
2 agreement that expired in September of 2002. Adjustment R-30 annualizes AGP’s 2002
3 revenues based upon volume of steam consumed in 2002 multiplied by the new tariff
4 rates in effect after September 2002.

5 Q. Was AGP the only customer with a tariff change in 2002?

6 A. Yes.

7 Q. What is the amount of the revenue adjustment for L&P steam operations?

8 A. L&P’s steam revenue per books increased \$327,789.

9 **RATE BASE**

10 **Plant in Service**

11 Q. Please explain how Plant in Service was derived.

12 A. L&P direct plant in service starts with per book balances. These balances are derived
13 from the fixed asset system, which details asset records at Aquila.

14 Q. Explain what you mean by direct plant in service.

15 A. Direct plant in service represents assets that specifically relate to L&P’s steam operations
16 and provide usefulness in the effort to serve customers with industrial steam utility
17 operations. Direct plant is inclusive of specific generation assets used to produce steam,
18 transmission assets, and distribution facilities. It also includes an allocated portion of
19 direct electric utility plant for items used in producing both steam and electric products.
20 Examples of these items include, boilers, land & land rights, accessory equipment, and
21 other structures and improvements.

22 Q. Are there other components of electric assets allocated to steam operations?

1 A. Yes, a portion of electric general assets are allocated to steam operations. These assets
2 include items such as, vehicles, certain computer hardware and software, and tools and
3 shop equipment.

4 Q. How are the direct electric and general electric assets allocated to steam plant?

5 A. Testimony of Aquila Company witness Beverlee Agut discusses the methodology
6 employed in allocating plant in service to steam operations.

7 Q. How is common plant derived for steam operations?

8 A. L&P's allocated common plant in service starts with per book balances. Once again, the
9 balances are derived from the Aquila fixed asset system, which details the asset records of
10 Aquila.

11 Q. Explain what is meant by allocated common plant in service.

12 A. Allocated common plant in service assets include assets that support Aquila's overall
13 infrastructure. These assets include items such as Aquila's general ledger system, its
14 billing system, and the headquarters office at 20 West Ninth Street. These assets serve to
15 benefit all operations of Aquila and are subsequently allocated to operating units and
16 divisions within the Aquila corporate umbrella in accordance with the Aquila corporate
17 allocations policy.

18 Q. What is the direct and allocated steam plant in service for L&P filed in this rate case?

19 A. Direct gross steam plant in service balance at September 30, 2003 including the
20 adjustments detailed in my testimony below is estimated at \$10,889,262, the allocated
21 gross steam plant in service at September 30, 2003 is estimated at \$148,987, for a total
22 L&P gross steam plant in service balance of \$11,038,249.

1 RB-10, RB 15, RB-20,& RB-25 –Projected Plant and Reserve at 9/30/2003

2 Q. Please explain these adjustments.

3 A. These adjustments are to project plant and reserve at September 30, 2003.

4 Q. Please explain the methodology.

5 A. For adjustments RB-10 direct construction work in progress (“CWIP”) and RB-20

6 allocated CWIP, a study was done from the project cost accounting system to identify all

7 open L&P direct and any Aquila common capital projects with the following

8 characteristics:

9 1) A balance of greater than \$50,000 at the completion of test year December 31,

10 2002

11 2) An estimated in service date on or before September 30, 2003.

12 The UCU common activities were then allocated to the L&P division. The activities

13 were assigned a FERC utility plant account based on a combination of activity description

14 and discussions with project management, and utility class allocation factors were applied

15 to arrive at a steam adjustment.

16 Q. What is the purpose of this adjustment?

17 A. The purpose of this adjustment is to identify and adjust plant in service for any capital

18 project that is expected to be in service and the assets qualify as being used and useful at

19 September 30, 2003.

20 Q. What is the adjustment made for L&P steam operations?

21 A. The L&P steam direct and allocated adjustment totals \$165,131.

22 Q. Please explain RB-15 and RB-25.

1 A. These adjustments are to determine the depreciation reserve at September 30, 2003. The
2 same method was used for the depreciation reserve portion that was used for the plant
3 adjustments above. The adjustment for direct allocated reserve for depreciation at
4 September 30, 2003 is \$7,670.

5 **RB-60/65 Office Building Retirement**

6 Q. Please explain this adjustment.

7 A. Adjustment RB-60 includes the retirement of the office building and contents located at
8 520 Francis, St. Joseph, MO 64506. This office building was sold on January 2, 2003.
9 An adjustment to gross electric plant in service was made for \$31, 853.

10 Q. Did you also make an entry to the accumulated reserve?

11 A. Yes, adjustment RB-65 is the reserve associated with the retirement of the L&P office
12 building which is \$30,203.

13 **RB-80 Corporate Assets – Depreciation Reserve**

14 Q. Please explain this adjustment.

15 A. This adjustment is to reflect the depreciation reserve for the corporate depreciation
16 adjustment as explained further in Company witness Davis Rooney's testimony. The
17 corporate depreciation rates are higher than the Missouri ordered rates; this has caused the
18 corporate allocated reserve to be overstated. An adjustment of \$13,897 was made to
19 bring the corporate reserve balances allocated to L&P steam in synchronization with the
20 depreciation rates ordered by the Commission.

21 **Accumulated Reserve for Depreciation**

22 Q. Please explain how the accumulated reserve for depreciation was derived.

1 A. L&P's direct accumulated reserve for depreciation begins with per book balances derived
2 from Aquila's fixed asset ledger system.

3 Q. Does the accumulated reserve for depreciation follow the same reporting methodology as
4 the gross plant in service?

5 A. Yes.

6 Q. Does the reserve also follow the utility allocation methods used in deriving gross plant in
7 service?

8 A. Yes.

9 Q. What is the direct and allocated accumulated reserve for depreciation for L&P steam
10 operations?

11 A. The direct and allocated accumulated reserve for depreciation at September 30, 2003
12 including the adjustments detailed in my testimony above is \$5,666,353.

13 **COST OF SERVICE**

14 **Benefits**

15 Q. What does Schedule SAM-5 "CS-11 Benefits Lead Schedule – L&P" include?

16 A. This schedule includes:

- 17 • CS-12 Medical, dental, and vision
- 18 • CS-13 Pensions
- 19 • CS-14 SFAS 106 Other Post Employment Benefits ("OPEB")
- 20 • CS-15 401(k)
- 21 • CS-15.5 Employee Stock Option Plan ("ESOP")

22 Q. Please explain the adjustment made to the CS-12 medical, dental and vision benefits?

1 A. The amount per books at December 31, 2002 was adjusted by the employee base for 2003
2 and known health, dental and vision plans priced at 2003 rates.

3 Q. Where were the 2003 rates obtained?

4 A. The rates for 2003 were provided by the Human Resources Department of Aquila. The
5 rates are per Aquila's contracts with its insurance service providers.

6 Q. What was the method used to adjust health, dental and vision benefits?

7 A. The benefit elections data by employee number, supplied by the Human Resources
8 Department of Aquila as of January 3, 2003, was used to determine the existing coverage
9 election, coverage level, and corresponding dollar amount of benefits coverage for each
10 employee utilizing 2003 rates.

11 Q. Did this employee data include any active employees on January 3, 2003 that were under
12 a severance agreement?

13 A. No.

14 Q. Please continue your testimony.

15 A. This data was then summarized by department, and multiplied by an appropriate
16 allocation factor for the L&P operating unit. The employer portion of health, dental and
17 vision coverage cost was then totaled and compared to the per book level. The next step
18 was to multiply this difference by a capitalization factor to adjust figures for any benefit
19 costs that might be capitalized. The adjustment amount was then allocated to the steam
20 utility class.

21 Q. What was the amount of the adjustment for L&P steam operations?

22 A. The steam operations adjustment for L&P is an expense decrease of \$507.

23 Q. How was the CS-13 employer pension plan adjustment calculated?

1 A. The employer pension share was calculated using the latest available Northern Trust
2 Retirement Consulting, L.L.C. ("Northern Trust") study with fiscal 2002 data. Aquila
3 employs Northern Trust as its actuarial consultant for computing pensions and SFAS 106
4 liabilities and expenses. The adjustment was calculated by taking the "2003 Total
5 Allocated Net Periodic Pension Cost" per the Northern Trust study, less the amount per
6 books at December 31, 2002. This adjustment was then multiplied by a capitalization
7 factor to exclude the capital component. This adjustment was allocated to steam utility
8 class following the product split per books for the employee pensions and benefits
9 account.

10 Q. What are the components of SFAS 106 adjustment?

11 A. The annual OPEB expense under SFAS 106 includes the employee service costs, which
12 are the estimated cost of benefits paid in the future, discounted to the present year. The
13 interest cost is the increase in the projected benefit obligation due to the passage of time.
14 Differences between the actuarial assumptions and actual experience, the gains/losses, are
15 amortized over five years. The expected return on assets represents the increase in funds
16 from interest, dividends, realized and unrealized changes in the fair market value of the
17 plan in the year. Another component of the OPEB adjustment is the transition obligation,
18 which is the unfunded and unrecognized accumulated postretirement benefit obligation
19 for all plan participants at the date SFAS 106 is adopted. The prior service cost
20 component results from amendments to the pension plan.

21 Q. What is the amount of the pension adjustment for L&P steam?

22 A. The steam adjustment for the L&P pension expense is an increase of \$63,282.

23 Q. How were the components used in calculating the OPEB adjustment?

1 A. The following components were added together; service cost, interest cost, amortization
2 of transition amount, amortization of gain/loss, and amortization of prior service cost.
3 The expected return on assets was then subtracted out of this calculation to derive the
4 estimated OPEB expense. The direct and allocated portions of this expense were totaled
5 to arrive at a 2003 annualized OPEB amount L&P. The difference between the 2003
6 annualized OPEB amount and the amount recorded on the books as of December 31,
7 2002 was used to calculate the adjustment. The adjustment was then multiplied by a
8 capitalization factor to eliminate any OPEB costs that would be capitalized.

9 Q. After this step what remains?

10 A. At this stage the OPEB expense adjustment was allocated by utility class. This allocation
11 was based on per book split between utility classes for the employee pension and benefit
12 account.

13 Q. What is the adjustment amount for SFAS 106 for L&P steam operations?

14 A. The L&P steam operations SFAS 106 adjustment is an expense decrease of \$323.

15 Q. Please describe Aquila's 401(k) plan?

16 A. Aquila provides its employees with an optional benefit known as the 401(k) plan. The
17 plan is administered by J.P. Morgan / American Century Retirement Plan Services. The
18 401(k) plan is a retirement savings program that allows employees to invest a percentage
19 of their salary for retirement.

20 Q. Is there a portion that is matched by Aquila?

21 A. Yes. Aquila matches a portion of the funds invested by employees up to 6% of base
22 salary and wages.

23 Q. Describe the adjustment made to cost of service on adjustment CS-15 401 (k) expense?

1 A. The 6% matched portion, called 401(k) Employer Share, was calculated by taking the
2 401(k) balance, for test year end December 31, 2002, and dividing it by the per books
3 base pay, excluding incentives, for the same period to arrive at a percentage of base pay
4 being matched by Aquila. This ratio was then multiplied by the annualized net base pay
5 as calculated on adjustment CS-5 to come up with an annualized 401(k) amount.

6 Q. Why is the percentage not simply 6% of base salaries and wages?

7 A. Certain employees choose not to participate to the full 6% match for various reasons; this
8 has the effect of drawing the percentage slightly lower.

9 Q. What is the adjustment for L&P steam operations?

10 A. The L&P steam expense adjustment is a decrease of \$477.

11 Q. How was adjustment CS-15.5, the ESOP portion of the adjustment calculated?

12 A. The ESOP portion was calculated in the same manner. The ESOP amount per books for
13 the test year-end, December 31, 2002, was divided by the base salaries and wages per
14 books for the same time period. This ratio was then multiplied by the 2003 annualized
15 base salaries and wages as calculated in CS-5 to arrive at the adjusted ESOP level in total
16 for 2003. Next, a capitalization ratio was applied, and then the adjustment was allocated
17 by utility class on the same basis as discussed above in the 401(k) adjustment.

18 Q. What is the amount of the ESOP adjustment for L&P steam operations?

19 A. The L&P steam expense adjustment is a decrease of \$171.

20 **CS-81 Homeland Security**

21 Q. Please describe adjustment CS-81 for Homeland Security ("HS").

22 A. On October 8, 2001 President Bush established the Office of Homeland Security within
23 the White House and authorized it to produce the first National Strategy for Homeland

1 Security. This National Strategy for Homeland Security outlines the mobilization of the
2 United States in an effort to thwart future terrorist attacks. Within this strategy are
3 critical mission areas, one of which is protecting critical infrastructure and key assets,
4 such as agriculture, food, water, banking and finance, telecommunications, and energy
5 assets among others. Subsequently, in complying with this federally legislated
6 requirement O&M expenditures to upgrade security at many generation facilities,
7 substations, and office facilities have increased. This adjustment calculates the increased
8 cost of homeland security for inclusion in rate recovery.

9 Q. How was the increased cost calculated?

10 A. The Aquila Security Department in response to the Homeland Security Legislation
11 performed an audit of Aquila's facility and network security, as an outcome of this audit,
12 key initiatives were identified and subsequently budgeted based upon cost estimates to
13 implement security measures consistent with HS mandates.

14 Q. What did the initiatives consist of?

15 A. Key initiatives consisted of Capital and O&M expenditures. The capital expenditure
16 items are included in the rate base adjustment RB 10 & RB 20, which updates plant levels
17 to September 30, 2003. The O&M expenditure items are discussed within this section of
18 testimony and included as a cost of service adjustment.

19 Q. Please continue with your testimony on O&M expenditures.

20 A. The O&M expenditures adjustment for Homeland Security first, does not include the
21 normal historical cost of security at Aquila; this figure would already be recovered per
22 book cost of service. Only the increased (incremental) costs as an outcome of the new
23 Homeland Security standards are included in this estimate. These costs are comprised of

1 mainly two items, the Network and Information Technology Operating and Maintenance
2 costs associated with the HS efforts, and second, any increase in contracted security staff
3 or contracts associated with the actual monitoring of Aquila facilities.

4 Q. What is the amount of the Homeland Security O&M adjustment?

5 A. The O&M adjustment for L&P steam operations is an expense increase of \$791.

6 CS-90 Property Taxes

7 Q. Please explain the property tax adjustment.

8 A. This adjustment annualizes property tax expense, for the test year ending December 31,
9 2002.

10 Q. Please explain the method used for annualizing property taxes.

11 A. The method employed took the level of property taxes actually paid in the test year
12 ending December 31, 2002 but assessed in the year ending December 31, 2001, as stated
13 by the Aquila Corporate Tax Department and divided by the corresponding level of asset
14 base from which this tax was generated. The asset base is composed of the following
15 items, all of which were pulled from the December 31, 2001 FERC Form 1 L&P, direct
16 and allocated common plant in service, fuel stock, fuel stock expense undistributed, plant
17 materials and supplies, stores expense undistributed, and gas stored underground.

18 Q. Please continue your testimony.

19 A. The aforementioned ratio is then multiplied by the annualized level of direct and allocated
20 plant in service, materials and supplies, fuel stock, and gas stored underground to
21 calculate an annualized level of property taxes. This number was then compared to the
22 per book property tax expense at December 31, 2002, to calculate an adjusted level of
23 expense.

1 Q. Has this method been employed in prior rate cases?

2 A. Yes, the Commission has accepted this method in prior rate proceedings.

3 Q. What is the adjustment for L&P steam operations property taxes?

4 A. The L&P steam operations property tax expense adjustment is a decrease of \$57,785.

5 **CS-95 Depreciation**

6 Q. Please explain the depreciation adjustment.

7 A. This adjustment computes the annualized depreciation expense on plant in service for
8 both direct and allocated plant at the known and measurable date of September 30, 2003.

9 Earlier in my testimony, I discussed the definition of direct and allocated plant.

10 Q. How was the plant-in-service computed for the depreciation calculation?

11 A. The plant-in-service for the depreciation calculation is calculated using the ending
12 balance of gross plant, both direct and allocated, on the known and measurable date of
13 September 30, 2003.

14 Q. What depreciation rates are used in your depreciation calculation?

15 A. The rates used for the depreciation annualization calculation L&P direct plant are from
16 depreciation study performed by Foster Associates, Inc. using actual plant data at
17 December 31, 2001. A separate depreciation study was performed by Foster Associates,
18 Inc. for Aquila's corporate assets using plant data forecasted through December 31, 2002.

19 This separate study and corresponding rates are applied to all allocated corporate plant.
20 Aquila witness Ron White of Foster Associates, Inc. has filed testimony on the actual
21 rates and the methodology applied in calculating these rates.

22 Q. Why was a separate study used to annualize the depreciation expense for allocated assets
23 versus direct assets?

1 A. Very simply, the most current depreciation rate data was incorporated into the
2 depreciation calculation.

3 Q. Are there any adjustments to depreciation expense?

4 A. Yes. There is an adjustment to eliminate from the computed annualized depreciation
5 expense the costs associated with the depreciation of transportation equipment charged to
6 capital projects.

7 Q. What is the amount of the depreciation expense adjustment for L&P steam operations?

8 A. The L&P steam depreciation expense adjustment is an increase of \$342,140.

9 **Subsidy For Electric Customers**

10 Q. Are you proposing that the electric business for L&P subsidize the steam business?

11 A. Yes.

12 Q. Please explain the steam business at L&P.

13 A. L&P simultaneously produces steam and electricity at its Lake Road electric power plant.

14 The steam is sold to six steam customers. L&P has separate steam tariffs for these
15 customers.

16 Q. What is a subsidy?

17 A. In the utility business it is when a set of customers are not paying for their actual cost of
18 service.

19 Q. Are subsidies typically appropriate?

20 A. No, unless special circumstances apply.

21 Q. Is this a special circumstance?

22 A. Yes.

23 Q. Please explain?

1 A. Without the subsidy, steam rates would increase more than forty percent (40%). Such a
2 significant increase could result in a strong likelihood that steam customers would exit
3 the system and move operations. That would result in a negative impact on the electric
4 customers who would then have to pick up 100% of the costs that are currently being
5 absorbed by steam customers.

6 Q. How much of a subsidy are you proposing?

7 A. The amount of the subsidy from the electric business is \$1.8 million.

8 Q. Has a subsidy adjustment been proposed in previous rate cases?

9 A. Yes, this method has been used and implemented by the Staff in Case No.'s EM-2000-
10 292, ER-99-247 and HR-99-245.

11 Q. Does this conclude your testimony?

12 A. Yes.

**Aquila Networks - L&P
Case No. HR-
Twelve Months Ended December 31, 2002**

Revenue Requirement

| Line | Low 9.727% Return | Mid 9.846% Return | High 9.964% Return |
|--------------------------------------|-------------------------|-------------------------|--------------------------|
| (a) | (b) | (c) | (d) |
| 1 Net Orig Cost of Rate Base (Sch 2) | \$ 6,473,435 | \$ 6,473,435 | \$ 6,473,435 |
| 2 Rate of Return | 9.727% | 9.846% | 9.964% |
| 3 Net Operating Income Requirement | \$ 629,658 | \$ 637,349 | \$ 645,033 |
| 4 Net Income Available (Sch 7) | \$ (1,298,429) | \$ (1,298,429) | \$ (1,298,429) |
| 5 Additional NOIBT Needed | 1,928,087 | 1,935,777 | 1,943,461 |
| 6 Additional Current Tax Required | \$ 1,201,391 | \$ 1,206,183 | \$ 1,210,971 |
| 7 Gross Revenue Requirement | <u>3,129,478</u> | <u>3,141,960</u> | <u>3,154,432</u> |
| 8 Electric Subsidy | <u>(1,800,000)</u> | <u>(1,800,000)</u> | <u>(1,800,000)</u> |
| 9 Adjusted Revenue Requirement | <u>1,329,478</u> | <u>1,341,960</u> | <u>1,354,432</u> |

Schedule SAM-1

Aquila Networks - L&P
Case No. HR-
Twelve Months Ended December 31, 2002

Rate Base

| Line No. | Line Description (A) | Amount (B) |
|------------------------------------|--|---------------------|
| Total Plant : | | |
| 1 | Total Plant in Service-SJLP Only (Sch 3) | \$ 10,889,262 |
| 1a | Total Plant in Service-SJLP' Share of UCU (Sch 3a) | 148,987 |
| | Total Plant | 11,038,249 |
| Subtract from Total Plant: | | |
| 2 | Depr Reserve-SJLP Share (Sch 5) | 5,666,353 |
| | Total Depreciation Reserve | 5,666,353 |
| 3 | Net Plant in Service | \$ 5,371,896 |
| Add to Net Plant in Service | | |
| 4 | Cash Working Capital | (27,856) |
| 5 | Materials and Supplies | 141,316 |
| 6 | Prepayments | 1,064,206 |
| 7 | Fuel Inventory - Coal | 122,572 |
| 8 | Fuel Inventory - Oil | 445,835 |
| Subtract from Net Plant: | | |
| 9 | Deferred income Taxes - Depreciation | 644,534 |
| 10 | Total Rate Base | \$ 6,473,435 |

Aquila Networks - L&P
Case No. HR-
Twelve Months Ended December 31, 2002

Income Statement

| Line No. | Description (A) | Total Electric (B) | Adjustment (C) | Jurisdictional As Adjusted (D) |
|----------|-------------------------------------|-----------------------|-------------------|-----------------------------------|
| 1 | Operating Revenue | 6,649,013 | 327,789 | 6,976,802 |
| 2 | Operating and Maintenance Expenses: | | | |
| 3 | Production | 3,918,086 | 2,797,005 | 6,715,091 |
| 4 | Other Operating | 878,926 | (81,484) | 797,442 |
| 5 | Other Maintenance | 63,800 | 447,444 | 511,244 |
| 6 | A & G Expenses | 166,802 | 37,097 | 203,899 |
| 7 | Total O & M Expenses | 5,027,614 | 3,200,062 | 8,227,676 |
| 8 | Depreciation Expense | 294,204 | 342,140 | 636,344 |
| 9 | Taxes other than Income Tax | 196,756 | (58,752) | 138,004 |
| 10 | Net Operating Income before Tax | 1,130,439 | (3,155,661) | (2,025,222) |
| 11 | Income Taxes | 295,819 | (991,553) | (695,734) |
| 12 | Income Taxes Deferred | (3,408) | (27,651) | (31,059) |
| 13 | Total Taxes | 292,411 | (1,019,204) | (726,793) |
| 14 | Total Net Operating Income | 838,028 | (2,136,457) | (1,298,429) |

Schedule SAM-3

AQUILA NETWORKS - L&P
CASE NUMBER HR-
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

| Adj No. | Description of Adjustment (A) | Witness (B) | Increase (Decrease) (C) |
|------------|---|----------------|-------------------------------|
| R-30 | Annualization of Steam Revenue Annualize AGP's 2002 revenues due to tariff change in 2002. | S. Murphy | \$ 327,789 |
| FPP-10 | Fuel and Purchased Power Energy This adjustment annualizes the test year fuel expense. Steam Power/Other Power Generation - Fuel Purchased Power | L. Starkebaum | \$ 2,417,714 |
| FPP-40 | Gas Cost Cap Adjustment This adjustment annualizes gas costs at \$.50 above the base cost of fuel included in this case. Other Power Generation - Fuel | L. Starkebaum | \$ 379,291 |
| CS-5 | Payroll This adjustment annualizes payroll expense for the test year. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative & General Total | R. Klote | \$ (1,983) |
| CS-6 | Incentive This adjustment annualizes incentive expenses for the test year. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative & General Total | R. Klote | \$ (1,789) |
| CS-10 | Restructuring This adjustment amortizes restructuring related expenses during the test year over three years. Production Transmission Distribution Administrative & General Taxes Other Than Income Taxes Total | R. Klote | \$ (4,550) |
| CS-11 | Employee Benefits This adjustment annualizes the L&P portion of the employee benefits | S. Murphy | \$ 61,803 |

AQUILA NETWORKS - L&P
CASE NUMBER HR-
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

| Adj No. | Description of Adjustment (A) | Witness (B) | Increase (Decrease) (C) |
|------------|--|----------------|-------------------------------|
| | made on behalf of its employees. Administrative and General | | |
| CS-16 | ESF/IBU Adjustments This adjustment updates the ESF and IBU corporate allocation factors to January 2003 drivers. Administrative and General | B. Agut | \$ (14,314) |
| CS-26 | Electric Steam Adjustment This adjustment corrects per books between electric and steam. | R. Erickson | \$ 365,960 |
| CS-40 | PSC Assessment This adjustment annualizes the PSC assessment to the most current assessment received. Administrative and General | R. Erickson | \$ 3,437 |
| CS-50 | Rate Case Expense This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 3 years. Administrative and General | R. Clayburn | \$ 13,826 |
| CS-56 | Elimination of TransUCU This adjustment eliminates test year transportation related expenses allocated to L&P from TransUCU. Office Supplies and Expenses | L. Starkebaum | \$ (5,597) |
| CS-60 | Dues and Donations This adjustment eliminates all dues and donations except EEI and Power Pool dues. Administrative and General | R. Erickson | \$ (1,756) |
| CS-65 | Advertising Expense This adjustment eliminates all advertising except safety and informational. Production Distribution Customer Accounts Customer Service and Informational Expense Sales Expense Administrative & General Total | R. Erickson | \$ (2) |
| CS-81 | Homeland Security This adjustment annualizes Homeland Security costs not included in the test year. Office Supplies and Expenses | S. Murphy | \$ 791 |
| CS-83 | Write-off Pre-2002 Misc. Payroll Expenses This adjustment eliminates miscellaneous payroll costs written off in | R. Klote | \$ (11,727) |

**AQUILA NETWORKS - L&P
CASE NUMBER HR-
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002**

| Adj No. | Description of Adjustment (A) | Witness (B) | Increase (Decrease) (C) |
|------------|---|----------------|-------------------------------|
| | December 2002 associated with time periods prior to 2002 that are included in test year expenses. Office Supplies and Expenses | | |
| CS-85 | Payroll Taxes This adjustment annualizes FICA and Medicare tax expense. Taxes Other Than Income Tax | R. Klote | \$ (2,009) |
| CS-90 | Ad Valorem Taxes This adjustment annualizes Property taxes based on plant in service adjusted in this case. Taxes Other Than Income Tax | S. Murphy | \$ (57,785) |
| CS-95 | Depreciation This adjustment annualizes depreciation expense for plant additions through the known and measurable test period September 30, 2003. Depreciation Expense | S. Murphy | \$ 342,140 |
| TAX-10A | Current Income Taxes Expense This adjustment annualizes the current income tax based on adjusted net operating income. Income Taxes, Operating Income | R. Klote | \$ (991,553) |
| TAX-10A | Deferred Taxes & ITC This adjustment annualizes deferred income tax associated with book vs. tax timing differences. Deferred Income Taxes | R. Klote | \$ (27,651) |

L&P Benefits Summary Schedule

| Description of Adjustment | Adjustment Number | Resource | Total Steam Adjustment |
|---|----------------------|----------|------------------------------|
| Benefits - Health and Dental | CS-12 | 1715 | (507) |
| Benefits - Pension Employer Share | CS-13 | 1710 | 63,282 |
| Benefits - OPEB SFAS 106 | CS-14 | 1719 | (323) |
| Benefits - 401(k) | CS-15 | 1709 | (477) |
| Benefits - ESOP Contribution | CS-15.5 | 1711 | (171) |
| Total Benefits Adjustment (FERC 926) | | | 61,803 |

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of Aquila, Inc. d/b/a Aquila)
Networks-L&P, for authority to file tariffs)
Increasing steam rates for the service provided)
To customers in the Aquila Networks-L&P area)

Case No. HR-_____

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF STEPHANIE A. MURPHY

Stephanie A. Murphy, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Stephanie A. Murphy;" that said testimony was prepared by her and under her direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge, information, and belief.

Stephanie A. Murphy
Stephanie A. Murphy

Subscribed and sworn to before me this 26th day of June, 2003.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission expires:

8-20-2004

