

Exhibit No.:

Issues: Accounts Receivable  
Program, Fuel Cost  
Recovery, and AAO

Witness: Dennis R. Williams

Sponsoring Party: Aquila Networks-MPS  
And L&P

Case No.: ER-2005-0436

Before the Public Service Commission  
of the State of Missouri

Rebuttal Testimony

of

Dennis R. Williams

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AQUILA, INC. D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
REBUTTAL TESTIMONY OF DENNIS R. WILLIAMS  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

1 Q. Please state your name and business address.

2 A. My name is Dennis R. Williams. My business address is 10700 East 350 Highway,  
3 Kansas City, Missouri 64138.

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

5 A. I am employed by Aquila, Inc. ("Aquila" or "Company") as Vice President– Electric  
6 Regulatory Services.

7 Q. Briefly describe your education and work experience.

8 A. I graduated in 1974 from Central Missouri State University, receiving a Bachelor of  
9 Science in Business Administration degree, with majors in accounting and finance. After  
10 graduation, I was licensed in Missouri as a Certified Public Accountant and employed as  
11 an auditor in the regulated industries division of Arthur Andersen & Company. After  
12 leaving Arthur Andersen, I was employed for five years with a regulatory consulting firm.  
13 Since 1986, I have been employed by Aquila in various capacities.

14 Q. What is the purpose of the rebuttal testimony you are submitting in this case before the  
15 Missouri Public Service Commission ("Commission")?

1 A. I will be addressing two issues: 1) the impact on cash working capital of Staff's  
2 treatment of Aquila's accounts receivable financing program and 2) the propriety of a fuel  
3 recovery mechanism in the context of this rate proceeding.

4 **CASH WORKING CAPITAL**

5 Q. In regard to the cash working capital issue, what is your area of concern?

6 A. I do not agree with the determination of a 4.38 day revenue collection lag utilized by Staff  
7 witness Scott D. Clark in his determination of cash working capital. This is in  
8 comparison to a 20.51 day collection lag determined by Aquila. Mr. Clark's direct  
9 testimony indicates that he relied upon the testimony of Staff witness Phillip K. Williams  
10 for the revenue collection lag. Although I can find no reference to a revenue collection  
11 lag in the testimony of Mr. Williams, he has filed testimony pertaining to the cash flow  
12 impacts of an accounts receivable sales program. During Aquila's 2001 rate case,  
13 utilizing test year ending June 30, 2004 data, Staff derived a 4.38 day revenue collection  
14 lag. I have assumed that Staff witness Williams simply utilized the collection lag of 4.38  
15 days that Staff developed during the 2001 rate case. Aquila's collection lag of 20.51 days  
16 was based on 2004 test year data.

17 Q. Why do you believe there is such a large discrepancy between the two collection lags?

18 A. Aside from the relatively insignificant difference that occurs due to using collection data  
19 that is several years old, the primary difference appears to be that the Staff calculation  
20 improperly imputes benefits from Aquila's accounts receivable financing program.

21 Q. Why do you believe that Staff's approach is inappropriate?

1 A. By utilizing the 2001 revenue collection lag, Staff Witness Williams has effectively  
2 assumed that Aquila has an accounts receivable sales program in place and that it was  
3 utilized for financing purposes during the test year. Both of these assumptions are  
4 incorrect. Due to changes in the banking industry, the type of accounts receivable sales  
5 program that was in place in 2001 is no longer available to any company. Aquila has  
6 replaced its original accounts receivable sales program with an alternative receivable  
7 financing program so that associated short-term financings can be made if necessary;  
8 however, there has been no need during or subsequent to the test year to draw upon this  
9 short term credit mechanism.

10 Q. When you refer to an accounts receivable sales program, what do you mean?

11 A. An accounts receivable sales program is typically a mechanism whereby a company sells  
12 its receivables at a discount to a financial institution. Accounts receivable may be  
13 monetized either through a sale program or a loan secured by the receivables. Either  
14 arrangement effectively serves as a short-term borrowing mechanism with, in the case of  
15 a sales program, the discounts and program facility fees, reflecting the cost of the short-  
16 term borrowing. I believe it is clearer and more accurate to refer more generically to  
17 accounts receivable financing programs.

18 Q. Does Aquila currently participate in an accounts receivable sales program?

19 A. No. In Aquila's former accounts receivable sales program with Citibank, Aquila sold its  
20 receivables directly into the funding conduit. Citibank no longer offers this one-step  
21 structure irrespective of the seller's credit rating. It is also my understanding that other  
22 lending institutions do not utilize this type of structure. To participate in a receivable

1 sales program today would require the creation of a special purpose lending vehicle to  
2 which a utility would sell its receivables; the special purpose vehicle would then, in turn,  
3 contract with the financial institution. This arrangement creates additional legal and  
4 structural requirements which make the selling of receivables more costly as a means of  
5 short-term financing. Instead, Aquila has secured a short-term financing arrangement  
6 whereby a \$150 million line of credit is available, as needed, against which accounts  
7 receivables are pledged. The effect of the program – the availability of a low cost, short-  
8 term credit facility – is essentially the same, except for the fact that receivables are  
9 pledged as collateral, rather than sold outright.

10 Q. What are the advantages of an accounts receivable program over more conventional  
11 short-term financing?

12 A. Although receivable financing programs of this type can be difficult and time-consuming  
13 to establish, they generally carry lower costs than other forms of short-term financing due  
14 to the self-liquidity nature of the asset (in terms of a sale program) or collateral (in terms  
15 of a loan). For example, our accounts receivable program carries an unused facility fee of  
16 37.5 to 50 basis points and an interest rate of 137.5 basis points over LIBOR for any  
17 borrowings under this credit facility. (LIBOR is currently about 4.3%.) In comparison,  
18 Aquila has a separate \$110 million short-term revolving credit agreement with Credit  
19 Suisse, a more conventional utility financing mechanism, which carries a rate of between  
20 9 and 10 percent.

21 Q. Has Staff witness Williams criticized the existence of Aquila's accounts receivable  
22 financing program?

1 A. I do not believe so. Instead it appears that Mr. Williams is concerned that the accounts  
2 receivable sales program was discontinued and, for a period of time after November  
3 2002, accounts receivable financing was not available to Aquila. At page 23 of his  
4 testimony he states the following:

5 A. Aquila experienced a severe decline in its credit rating to non-investment  
6 grade. Ciesco was no longer able to fund the Program because of the  
7 inability to issue commercial paper.

8 Q. How has the Staff treated the accounts receivable program?

9 A. The Staff has included the Program and treated it as though it was still  
10 available to Aquila. The termination of the accounts receivable program  
11 was the direct result of Aquila's poor financial condition and has caused a  
12 detriment to MPS, L&P and their customers. The loss of the sale of the  
13 accounts receivables resulted directly from the problems that Aquila has  
14 faced in its non-regulated ventures.

15 It appears that Staff witness Williams believes that the loss of the accounts  
16 receivable sales program has resulted in a detriment to Aquila and its  
17 customers.

18 Q. Is Mr. Williams' concern valid?

19 A. No. Mr. Williams' implication that the accounts receivable financing program is not  
20 available to Aquila is somewhat confusing. As I explained earlier, while the accounts  
21 receivable program has changed to some degree in structure, the benefits of the current  
22 program remain the same as the program that was discontinued in 2002. Mr. Williams'

1 adjustment would penalize Aquila for re-instituting an accounts receivable financing  
2 program that it was previously criticized for discontinuing.

3 Q. How does the Staff's adjustment penalize Aquila?

4 A. Staff witness Williams' adjustment has the effect of ascribing the accounts receivable  
5 sales program as a permanent source of financing. He assumes that the entire short-term  
6 line of receivable related financing was outstanding for the entirety of the test year and  
7 will continue to be outstanding in the future. That is an incorrect assumption. Cash  
8 balances were sufficient so that the accounts receivable related line of credit was not  
9 required to be drawn upon during the test year. The purpose of short-term credit  
10 facilities is to bridge the period between permanent financings or to meet seasonal cash  
11 needs, such as higher cash requirements in winter to meet gas procurement requirements.  
12 Staff's adjustment pretends that the accounts receivable credit line is drawn down  
13 completely at all times. This imputation is both inaccurate and inconsistent.

14 Q. You mentioned earlier that Aquila has in place a short-term revolving credit agreement  
15 with Credit Suisse. Was this credit line drawn upon during the test year?

16 A. No.

17 Q. Did Staff impute any borrowings associated with the Credit Suisse line of credit?

18 A. No.

19 Q. Why did Staff treat the two short term financing commitments differently in their rate  
20 proposal?

1 A. I do not know. It is my opinion that the treatment of both lines of short-term credit  
2 should be treated consistently, and that since neither line was drawn upon during the test  
3 period that imputation of any cash working capital impact is inappropriate.

4 Q. If the accounts receivable program had not changed from a sale to a collateralization  
5 program, would there have been any impact on cash working capital requirements in this  
6 case?

7 A. No. As I explained earlier, the structures of the two programs may be different but their  
8 purpose and application is the same. Even if the exact same accounts receivable sales  
9 program that was discontinued in 2002 was still in place today, no borrowings would  
10 have taken place under that program during the current test year. Imputation of short-  
11 term borrowings that did not take place is clearly inappropriate.

12 Q. Is an accounts receivable financing program a traditional source of funding for utilities?

13 A. No. While not unheard of in the utility industry, accounts receivable financing carries  
14 with it some transactional difficulties and is not the norm within the utility industry. I  
15 have made inquiries of a number of electric and gas utilities operating in Missouri and  
16 other states and have found few instances of accounts receivable financing programs. In  
17 part, Aquila re-established its accounts receivable program not only because of its cost  
18 benefit, but also because of prior Staff criticism that the former program had expired. To  
19 penalize Aquila for re-instatement of the program is not appropriate.

20 Q. Specifically, what companies did you contact in Missouri?

21 A. I discussed this matter with representatives from Ameren Corp., Missouri Gas Energy,  
22 LaClede Gas, Kansas City Power & Light Company ("KCPL") and The Empire District

1 Electric Company (“Empire”). Of these companies, only KCPL indicated that they  
2 participate in an accounts receivable financing program.

3 Q. Has the Staff ever imputed an accounts receivable financing program into the  
4 determination of the revenue collection lag for Ameren Corporation?

5 A. Not to my knowledge.

6 Q. Has the Staff ever imputed an accounts receivable sales program into the determination of  
7 the revenue collection lag for Empire?

8 A. The Staff has never proposed such an adjustment of which I am aware.

9 **FUEL RECOVERY MECHANISMS**

10 Q. Have you read the direct testimony of Staff Witness Cary G. Featherstone concerning the  
11 topic “Fuel Mechanism – SB 179”?

12 A. Yes. That testimony appears on pages 42-44 of Mr. Featherstone’s direct testimony.

13 Q. Based on that testimony, what is your understanding of Mr. Featherstone’s opinion with  
14 regard to the applicability of the provisions of SB 179 in this rate case, Case No. ER-  
15 2005-0436?

16 A. It is my understanding that Mr. Featherstone is of the opinion that SB 179 should have no  
17 application to the current Aquila rate case. In other words, he apparently believes the fuel  
18 adjustment mechanism authorized by that legislation may not be utilized by Aquila in this  
19 case.

1 Q. Does Aquila agree with Mr. Featherstone's opinion on this topic?

2 A. No.

3 Q. Please explain.

4 A. Based on the advice of counsel, Aquila is of the opinion that the Commission may  
5 authorize Aquila to implement a fuel adjustment mechanism in this case. Alternatively,  
6 the Commission may authorize Aquila to implement an interim energy charge ("IEC").

7 Q. Please describe your understanding of a fuel adjustment mechanism.

8 A. Generally, a fuel adjustment mechanism is a rate or charge that is adjusted on a regular  
9 basis, either upward or downward, to reflect fuel price variations experienced by an  
10 electric utility. It usually has no fixed term, but instead is ongoing.

11 Q. Please describe an IEC.

12 A. The IEC, as it has been authorized by this Commission, is a fixed rate or surcharge that  
13 exists for a fixed period of time. It is not adjusted to reflect fuel price variations. The  
14 IEC fixed rate surcharge is added to base rates at a level that is intended to compensate  
15 the utility for prudently incurred fuel costs. Overcollections are generally refunded to  
16 customers with interest. Undercollections are absorbed by the utility.

1 Q. Does Aquila have a preference as to whether or not it should be authorized to implement  
2 a fuel adjustment mechanism or an IEC?

3 A. Properly constructed, either a fuel adjustment mechanism or an IEC can effectively pass  
4 on to customers those fuel costs which are prudently incurred. There are, however, some  
5 basic differences between a fuel adjustment mechanism and an IEC. Because of these  
6 differences, Aquila prefers that it be authorized to implement a fuel adjustment  
7 mechanism.

8 Q. Please explain.

9 A. Since fuel costs have been consistently increasing over the past several years, a properly  
10 constructed IEC fixed rate surcharge must be set high enough to account for expected  
11 continued increases over the life of the IEC. Also, with a properly constructed IEC, a  
12 procedure must be in place in order to “true-up” the actual incurred costs of fuel over the  
13 period of time the IEC is in effect. Then the utility must refund over-collections to  
14 customers. Because the IEC is a fixed rate, however, the utility has no opportunity to be  
15 compensated for under-collected fuel costs. The only way to insure that the utility  
16 recovers all of its prudently incurred fuel costs is to set the surcharge high enough to  
17 compensate for all potential occurrences in the energy markets. A properly designed fuel

1 adjustment mechanism, on the other hand, sends more current price signals and avoids a  
2 good deal of the potential for large correction adjustments. It also avoids the inequity of  
3 the utility not being able to recover all of its prudently incurred fuel costs.

4 Q. What fuel adjustment mechanism would Aquila have the Commission authorize as a  
5 result of this proceeding?

6 A. At the time this case was filed, the legislation authorizing a fuel adjustment mechanism  
7 had not been signed by the Governor. In anticipation that SB 179 might become law,  
8 however, Aquila filed tariff sheet 124 (Fuel Adjustment Rider Electric) as a placeholder.

9 Q. Now that the bill has been signed by the Governor and will be effective January 1, 2006,  
10 what is Aquila's proposed fuel adjustment mechanism.

11 A. Aquila will utilize the form of the fuel adjustment mechanism as contained in the rules  
12 proposed by the Commission Staff in connection with SB 179. Once the new rules are in  
13 place Aquila will update its tariff sheet 124 to match the approved rule and will follow all  
14 filing requirements set out in the final rules. The base fuel costs as determined by the  
15 Commission in this rate case will be utilized in setting the fuel adjustment mechanism  
16 starting point.

1 Q. If the Commission decides not to allow Aquila to implement a fuel adjustment  
2 mechanism in this case, is Aquila willing to utilize an IEC?

3 A. Yes, if properly constructed.

4 Q. Is Aquila currently utilizing an IEC?

5 A. Yes.

6 Q. Has Aquila experienced problems with its existing IEC?

7 A. Yes.

8 Q. Please describe those problems.

9 A. One of the inherent weaknesses in the current IEC is that future fuel costs must be  
10 estimated for the life of the IEC. Aquila's current IEC is in place for two years. The  
11 approximate top end of that estimate was used to establish the IEC surcharge rate which  
12 remains in place during the entirety of the refund period. Using the high end of the  
13 estimated costs during a period of increasing costs generally would be expected to result  
14 in current customers being charged somewhat excessively during the period of the IEC if  
15 average expectations are achieved. Of course, overcharges are refunded with interest at  
16 the end of the IEC period. However, due to extreme price volatility and unexpected fuel  
17 price increases, the price of fuel has far exceeded the established surcharge. With no

1       prescribed method within the existing IEC for the utility to be made whole, Aquila has  
2       borne tens of millions of dollars of negative earnings impact during the term of the  
3       existing IEC.

4   Q.   Has the Staff proposed an IEC in its direct testimony in this proceeding?

5   A.   Yes. The Staff's IEC proposal is contained in the direct testimony of Staff witness  
6       Featherstone at pages 25-27.

7   Q.   Please describe your understanding of the Staff's proposed IEC.

8   A.   It generally follows the same approach as exists with the current IEC, but has a higher cap  
9       to reflect higher current fuel prices.

10  Q.   Do problems exist with respect to the Staff's IEC proposal?

11  A.   Yes. The same problems exist with the Staff proposal as exist with Aquila's current IEC.

12  Q.   Please describe the IEC that Aquila would request the Commission to authorize in this  
13       case, if the Commission does not authorize a fuel adjustment mechanism.

14  A.   Aquila would propose a two-year IEC. Similar to the current IEC, Aquila would include  
15       variable costs of fuel and purchased power energy recorded in FERC account numbers  
16       501, 547, 555. Aquila would also include other fuel related costs such as SO<sub>2</sub> and net  
17       gains/losses from hedging that are recorded in FERC accounts 509, 421 and 426.5 in the

1 IEC. Aquila would propose to use a delivered gas cost of \$7.00/mcf for its base fuel or  
2 floor price and \$10.00/mcf for the ceiling price. The average purchased power energy  
3 costs that would be utilized is \$50/mwh in the base and \$80/mwh for the ceiling. The  
4 SO2 costs in base rates should be \$1,000 with a ceiling price of \$1,200.

5 Q. Mr. Featherstone stated that the coal prices from the C.W. Mining contract that was  
6 cancelled by C.W. Mining should be used as the base fuel costs of an IEC. Do you agree?

7 A. No. Aquila is not currently paying the C.W. Mining rates for its high BTU coal. Aquila  
8 is under a new contract with Consol mining company. The issue regarding the coal  
9 contact is described in detail in the rebuttal testimony of Company witness Andrew Klote.

10 If the C.W. Mining rates are used as the base rates for the IEC then Aquila would be  
11 immediately under-recovered in the IEC by approximately \$8 million. Aquila would  
12 include a provision in the IEC that if any dollars collected in the pending lawsuit against  
13 C.W. Mining would be flowed back to the customers in this IEC or deferred and credited  
14 to the customers in its next general rate case.

15 Q. What coal price does Aquila propose to use in an IEC?

16 A. Aquila would use the current contracted prices for all its coal in both the floor and ceiling  
17 in calculating an IEC.

1 Q. What changes to the current IEC does Aquila think are necessary?

2 A. For protection against extreme volatility in the market for natural gas, purchased power  
3 and SO2 allowances, Aquila proposes that all prudently incurred fuel costs that are un-  
4 recovered at the end of the IEC term (fuel costs above the ceiling) be recorded in a  
5 deferred account and be allowed for rate recovery in the Company's next general rate case  
6 using a two-year amortization period.

7 Q. Why does Aquila need this change in the IEC as proposed by the Staff?

8 A. The benefit of this IEC proposal is that the utility is protected from extreme price  
9 increases outside its control, but those price increases are deferred and amortized in rates  
10 so that customers receive the benefit of spreading any unanticipated increases over a  
11 period of time.

12 **MPS ACCOUNTING AUTHORITY ORDERS**

13 Q. What is an accounting authority order ("AAO") and what is its purpose?

14 A. An AAO is an order issued by the Commission that permits the requesting utility to defer  
15 certain costs on its books (outside of a rate case) with the opportunity to subsequently  
16 recover these costs through rates, as opposed to being required to expense these costs in  
17 the current period. The deferral of expenses lessens the impact of regulatory lag, or the  
18 time between expensing the costs and the recovery of those costs in rates.

1 Q. Please discuss the AAO's issued to MPS.

2 A. In Commission Case Nos. EO-90-114 and EO-91-358, MPS requested and was granted  
3 AAO's for the Sibley Rebuild Program and Sibley Western Coal Conversion Project,  
4 respectively. The Sibley Rebuild Program extended the life of the three Sibley generating  
5 units by 20 years, eliminating the need to build another power plant or find alternative  
6 sources of energy. The Sibley Western Coal Conversion Project allowed MPS to achieve  
7 significant reductions in sulfur dioxide ("SO<sub>2</sub>") emissions at the Sibley Generating  
8 Station, allowing MPS to meet environmental guidelines in accordance with the Clean  
9 Air Act Amendments.

10 Q. What is MPS' proposed ratemaking treatment of the unamortized deferred AAO  
11 balances?

12 A. For purposes of this rate proceeding, MPS has included the unamortized deferred AAO  
13 balances at June 30, 2005 in rate base for the Sibley Rebuild Program, Western Coal  
14 Conversion.

15 Q. Please describe the unamortized AAO balances that Staff has included in rate base.

16 A. Just as Aquila has done, Staff has included in rate base the unamortized balances at June  
17 30, 2005 for the AAO deferrals associated with the Sibley Rebuild Program and the  
18 Sibley Western Coal Conversion, as authorized by the Commission in Case Nos. EO-90-  
19 114 and EO-91-358, respectively.

20 Q. What is the position of OPC witness Ted Robertson regarding MPS' Accounting  
21 Authority Orders?

1 A. The OPC recommends that the annual amortization costs of MPS' AAO's be included in  
2 the Company's cost of service, allowing a return of the actual expenses incurred from the  
3 Sibley Rebuild Program and Western Coal Conversion project. However, OPC  
4 recommends the disallowance of the unamortized deferred AAO balances from the  
5 determination of MPS' rate base (see page 14, lines 6-9 of Ted Robertson's direct  
6 testimony).

7 Q. Please explain MPS' understanding of OPC's rationale for excluding from rate base the  
8 unamortized deferred AAO balances.

9 A. Based on the direct testimony of witness Ted Robertson, (page 16, lines 6-12) OPC  
10 indicates that because MPS is being given a guaranteed "return of" the deferred expenses  
11 related to the Sibley Rebuild and Western Coal Conversion AAO's, the Company should  
12 not be provided with a "return on" those same amounts. OPC also says that the  
13 Commission's authorization of AAO treatment has the potential to insulate MPS  
14 shareholders from risks associated with regulatory lag (page 17, line 20 through page 18,  
15 line 17).

16 Q. Does MPS agree with the recommended ratemaking treatment proposed by OPC  
17 regarding unamortized deferred AAO balances?

18 A. No. Neither of those arguments are valid.

19 Q. Please explain.

20 A. First the promised return of an investment is not a compelling reason for receiving no  
21 return of that investment. I know of no one who would put money in a savings account  
22 that paid no interest just because the savings account was guaranteed by the government.

1 Yet, Mr. Robertson suggests that because the Commission is guaranteeing return of our  
2 investors' money, they should be happy earning no return on that investment. Second, the  
3 AAO obviously does not insulate our shareholders from all regulatory lag. Cash funds  
4 were expended in several years before there was any opportunity to recover those costs.  
5 The rebuild program and Western coal conversions were started three years before they  
6 were in-service. Our shareholders have already experienced three years of regulatory lag,  
7 receiving no return of or on their investment during that period of time.

8 Q. Please explain.

9 A. The Commission ordered recovery of both the unamortized balance and related  
10 amortization expense in Case Nos. ER-90-101 and ER-93-37. In the past five rate  
11 proceedings involving MPS, Case Nos. ER-90-101, ER-93-37, ER-97-394, ER-2001-672  
12 and ER-2004-0034, Staff has recommended the recovery of both the unamortized balance  
13 of AAO's and related amortization expense. This issue was part of the total settlement  
14 agreement in MPS' past three rate proceedings.

15 Q. Does Mr. Robertson make reference to any cases in his testimony where the Commission  
16 has ruled against the inclusion of unamortized AAO balances in rate base?

17 A. Yes. Mr. Robertson cites one specific non-MPS rate case in his testimony where the  
18 Commission has denied the inclusion in rate base of the unamortized deferred balances  
19 associated with an AAO. The case that Mr. Robertson cited is Missouri Gas Energy  
20 ("MGE"), Case No. GR-98-140. In that case, MGE included the unamortized balance of  
21 the Safety Line Replacement Program ("SLRP") deferrals authorized by the Commission  
22 that consisted of mains and service line replacement expenses incurred by MGE. Mr.

1 Robertson uses this case example as justification to disallow MPS AAO rate base  
2 treatment.

3 Q. What has been the Commission's position on deferral of expenses with respect to  
4 lessening the effect of regulatory lag?

5 A. As the Commission stated in MPS Case Nos. EO-91-358 and EO-91-360, "lessening  
6 regulatory lag by deferring costs is not a reasonable goal unless the costs are associated  
7 with an extraordinary event". As Mr. Robertson notes on page 18, lines 23-32 of his  
8 direct testimony, the Commission has granted AAO accounting treatment for one-time  
9 outlays of capital caused by unpredictable events outside the control of the utility.

10 Q. Do you agree with Mr. Robertson's conclusion on page 20 lines 4-12 of his direct  
11 testimony where he states "The purpose of the accounting variance is to protect MPS  
12 from adverse financial impact, caused by regulatory lag, by providing it with a vehicle  
13 that allows it the opportunity to capture and recover costs it normally would not have had  
14 the opportunity to recover. The accounting variance should not be used to place the  
15 Company in a better position than it would have been if plant investment and rate  
16 synchronization been achieved. Just as it would be unfair to deny MPS recovery of its  
17 reasonable and prudent investment due to regulatory delays which the Company could not  
18 control, it would be unfair if MPS were allowed to reap a windfall, at the ratepayers  
19 expense, due to a regulatory delay that ratepayers could not control"?

20 A. No I do not. The Company is not asking for any treatment that would result in a  
21 "windfall" to the Company as Mr. Robertson portends. In fact, Mr. Robertson is  
22 proposing exactly what he states would be unfair.

1 Q. Please explain.

2 A. MPS would be denied its ability to recover its reasonable and prudent investment due to  
3 regulatory delays that help keep costs down and potential out of a rate case until the  
4 projects were completed. The Company made efforts to spread the investment in both the  
5 Sibley Rebuild and Western Coal conversion over several years so most of the work  
6 could be completed during the normal fall and spring outages. This lessened the impact  
7 of obtaining potential expensive purchased power during summer and winter months.  
8 The Company sacrificed regulatory lag to keep operating costs down and stay out of  
9 potential rate cases during the construction period.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS and Aquila Networks-L&P area

County of Jackson            )  
                                       )          ss  
State of Missouri            )

Dennis R. Williams, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Dennis R. Williams;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to before me this 18th day of November, 2005.

My Commission expires:

A circular notary seal for the State of Missouri. The outer ring contains the text "Notary Public" at the top and "State of Missouri" at the bottom, separated by two small stars. The center of the seal contains the word "Notary" above the word "Seal".

**TERRY D. LUTES**  
Jackson County  
My Commission Expires  
**August 20, 2008**