

Exhibit No.:

Issues: Emission Allowances,
Other Regulatory Assets,
Greenwood Lease
Expense & Subsidy For
Steam Customers

Witness: Susan K. Braun

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Susan K. Braun

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF SUSAN K. BRAUN
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Susan K. Braun 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 employed by Aquila, Inc. (“Aquila” or “Company”) as a Senior Regulatory Analyst
6 in the Regulatory Services department.

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 background and professional experience.

12 A. I graduated from Friends University in December 1989 with a Bachelors of Science
13 Degree in Business Administration with a major in Accounting. Prior to employment
14 with Aquila, I held the position of Senior Accountant with Sunflower Electric Power
15 Corporation and as Accountant with IBP, Inc.

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

17 A. The purpose of my testimony is to present certain schedules and to sponsor working
18 capital, rate base and cost of service accounting adjustments made to Aquila Networks –
19 MPS (“MPS”) and Aquila Networks – L&P (“L&P”).

1 Q. What schedules are you sponsoring in this proceeding?

2 A. I am responsible for the coordination, development and presentation of schedules SKB-1
3 through 4.

4 Q. Please identify the adjustments that you are sponsoring.

5 A. I am sponsoring the following working capital adjustment:

6 • WC-40 Emission Allowances (MPS & L&P)

7 In addition, I am sponsoring the following rate base adjustment:

8 • RB – 40 Other Regulatory Assets (L&P Only)

9 In addition to the above-mentioned items, I am sponsoring the following cost of service
10 (operations) adjustments.

11 • CS – 20 Greenwood Lease Expense (MPS Only)

12 • CS – 27 Emission Allowances (L&P Only)

13 Q. Are you sponsoring all of the adjustments on Schedule SKB-4?

14 A. No. There will be several other Aquila witnesses sponsoring various income statement
15 adjustments.

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

17 A. Yes.

18 Q. Please describe Schedule SKB-1.

19 A. Schedule SKB-1 represents the revenue deficiency calculated with a return on equity of
20 12.25%. The amount of the deficiency is approximately \$14.6 million.

21 Q. What information is included on Schedule SKB-2?

22 A. This Schedule illustrates the detailed components of rate base. Rate base is Aquila's
23 investment to provide safe and reliable service to customers in the L&P service territory.

1 Q. Please describe Schedule SKB-3.

2 A. Schedule SKB-3 is the adjusted income statement, which reflects the net income
3 available after all known and measurable changes have been made.

4 **EMISSION ALLOWANCES (MPS & L&P)**

5 Q. What are emission allowances?

6 A. Emission allowances are held by utilities with generating plants classified by the
7 Environmental Protection Agency (“EPA”) as Phase I or Phase II electric generating
8 plants, and pertain to the sulfur dioxide (“SO₂”) emissions from coal-fired units. The
9 Missouri Public Service Commission (“Commission”) has also considered SO₂
10 allowances public utility property. They are recorded in Federal Energy Regulatory
11 Commission (“FERC”) Account 158.1 and are considered by MPS and L&P as
12 inventory. This balance is amortized in FERC Account 509, Allowances, based on the
13 tons of SO₂ emissions each month.

14 Q. How was the rate case amount for emission allowances computed in this filing?

15 A. For emission allowances, the monthly balances of FERC Account 158.1 were averaged
16 for the months of December 2001 through 2002. This account pertains 100% to electric
17 operations.

18 Q. Please explain why a thirteen-month average calculation was selected.

19 A. The use of a thirteen-month average is a better measurement than any one single month-
20 end since monthly amounts fluctuate and no one-month is representative. The
21 application of thirteen-month averaging has been utilized by both MPS and L&P.

1 **OTHER REGULATORY ASSETS (L&P ONLY)**

2 Q. Please explain the purpose of rate base Adjustment No. RB-40 Other Regulatory Assets
3 (Arch Coal Costs and AM/FM Costs) for Aquila Networks – (“L&P”).

4 A. This rate base item represents unamortized balances of amounts prepaid in conjunction
5 with a renegotiated coal contract (“Arch Coal Contract”) at the jointly owned Iatan plant.
6 The December 31, 2002 balance was used as an addition to rate base. Also, the
7 December 31, 2002 balance was used to calculate the balance of the deferred Automated
8 Mapping/Facility Management (“AM/FM”) charges used as part of rate base.

9 Q. Have these same adjustments been made in previous L&P rate cases?

10 A. Yes. Both L&P and Commission staff have included these same adjustments in St.
11 Joseph Light & Power Case Number ER-99-247.

12 **GREENWOOD LEASE EXPENSE (MPS ONLY)**

13 Q. Please explain Adjustment No. CS-20 made to Aquila Networks – MPS electric
14 operations.

15 A. This adjustment eliminates 100% of the Greenwood Lease expense recorded to FERC
16 account 550 during the test year. Adjustment RB-50 includes the transfer of Greenwood
17 Generating Station Units 1, 2, 3, & 4 into MPS’ plant in service balance. Testimony
18 regarding Adjustment RB-50 in further detail, can be found in the testimony of Aquila
19 witness Stephanie A. Murphy.

20 **EMISSION ALLOWANCES (L&P ONLY)**

21 Q. What is the purpose of Adjustment No. CS-27 made to Aquila Networks – L&P’ cost of
22 service?

1 A. This adjustment annualizes the emission allowances recorded to FERC account 509
2 during the test year. Emission allowances for Iatan and Lake Road power plants have
3 been annualized in the fuel model and are accounted for in Adjustment FPP-10 made to
4 Fuel and Purchased Power Energy. The allowances for these two power plants have been
5 loaded in the fuel costs used in the fuel dispatch model which is the basis for calculating
6 FPP-10. The inputs used in this model will be further addressed in the direct testimony
7 of Company witness Jerry Boehm. However, the test year allowances for Nebraska
8 Public Power District (“NPPD”) were not included in the fuel costs, therefore
9 Adjustment No. CS-27 is necessary to ensure that the allowances for the NPPD
10 obligations for 2002 have been accounted for in the rate proceeding.

11 **SUBSIDY FOR STEAM CUSTOMERS (L&P ONLY)**

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

13 A. Yes.

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

15 A. L&P produces steam as a joint product from its Lake Road electric power plant. The
16 steam is sold to six steam customers. L&P has separate steam tariffs for these customers.

17 Q. Are you proposing a rate increase for these steam customers?

18 A. Yes. In a separate docket we have filed for a rate increase of approximately 18.6%.

19 Q. What is a subsidy?

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

22 Q. Are subsidies typically appropriate?

23 A. No, unless special circumstances apply.

1 Q. Is this a special circumstance?

2 A. Yes.

3 Q. Please explain?

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

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

10 A. The amount of the subsidy to the electric business is approximately \$1.8 million.

11 Q. By what percent are L&P rates increased as a result of this subsidy?

12 A. A \$1.8 million subsidy results about 2.0% increase in L&P electric revenue requirement.

13

14 Q. Has an electric subsidy been proposed in previous rate cases?

15 A. Yes, this method has been implemented in Case No.'s EM-2000-292, ER-99-247 and
16 HR-99-245.

17 Q. Does this conclude your testimony?

18 A. Yes.

Aquila Networks - L&P
Case No. ER-
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)	\$ 197,243,352	\$ 197,243,352	\$ 197,243,352
2 Rate of Return	9.727%	9.846%	9.964%
3 Net Operating Income Requirement	\$ 19,185,466	\$ 19,419,791	\$ 19,653,919
4 Net Income Available (Sch 7)	\$ 11,509,529	\$ 11,509,529	\$ 11,509,529
5 Additional NOIBT Needed	7,675,937	7,910,262	8,144,390
6 Additional Current Tax Required	\$ 4,782,876	\$ 4,928,884	\$ 5,074,769
7 Required Deferred ITC			
8 Test Year Deferred ITC			
9 Additional Deferred ITC Required	\$ -	\$ -	\$ -
10 Total Additional Tax Required	4,782,876	4,928,884	5,074,769
11 Gross Revenue Requirement	12,458,813	12,839,146	13,219,159
12 Steam Subsidy	1,800,000	1,800,000	1,800,000
13 Adjusted Revenue Requirement	14,258,813	14,639,146	15,019,159

Schedule SKB-1

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

Income Statement

Line No.	Description	Total Electric	Adjustment	Jurisdictional As Adjusted
	(A)	(B)	(C)	(D)
1	Operating Revenue	95,126,264	(857,160)	94,269,104
2	Operating Expenses:			
3	Production	45,171,147	(352,444)	44,818,703
4	Transmission	4,191,744	421,562	4,613,306
5	Distribution	5,070,549	(120,702)	4,949,847
6	Customer Accounting	1,997,393	(183,381)	1,814,012
7	Customer Services	255,315	(24,832)	230,483
8	Sales	259,362	(31,270)	228,092
9	A & G Expenses	6,258,711	4,696	6,263,407
10	Total O & M Expenses	63,204,221	(286,371)	62,917,850
11	Depreciation Expense	12,763,743	120,706	12,884,449
12	Amortization Expense	51,566	-	51,566
13	Taxes other than Income Tax	4,544,492	(97,894)	4,446,598
14	Net Operating Income before Tax	14,562,242	(593,601)	13,968,641
15	Income Taxes	3,101,391	(167,405)	2,933,986
16	Income Taxes Deferred	(1,376,090)	1,295,080	(81,010)
17	Investment Tax Credit	(393,864)	-	(393,864)
18	Total Taxes	1,331,437	1,127,675	2,459,112
19	Total Net Operating Income	13,230,805	(1,721,276)	11,509,529

Aquila Networks - L&P
Case No. ER-
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)	\$ 336,369,840
1a	Total Plant in Service-SJLP' Share of UCU (Sch 3a)	17,713,154
	Total Plant	<u>354,082,993</u>
Subtract from Total Plant:		
2	Depr Reserve-SJLP Share (Sch 5)	178,794,379
	Total Depreciation Reserve	<u>178,794,379</u>
3	Net Plant in Service	<u>\$ 175,288,614</u>
Add to Net Plant in Service		
4	Cash Working Capital	(1,496,271)
5	Materials and Supplies	6,165,141
6	Prepayments	36,352,489
7	Emissions Allowances	124,847
8	Other Regulatory Assets - AM/FM System	53,419
9	Other Regulatory Assets - Arch Coal Contract	469,136
10	Fuel Inventory - Coal	2,397,005
11	Fuel Inventory - Oil	563,491
12	Subtract from Net Plant:	
13	Customer Deposits	352,795
14	Deferred Income Taxes - Depreciation	22,321,725
15	Total Rate Base	<u><u>\$ 197,243,352</u></u>

**AQUILA NETWORKS - L&P
CASE NUMBER ER-
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-10	Customer & Weather Adj This adjusts test period revenues to reflect normal cooling and heating degree days and annualizes revenues for 2002 customer level. Operating Revenues	E. Watkins	\$ (636,965)
R-20	Unbilled Revenue This adjusts revenues to a billed basis. Operating Revenues	R. Clayburn	\$ (220,195)
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	\$ (3,159,274)
FPP-20	Purchased Power Demand Charge This adjustment annualizes the demand component of purchased power for changes in capacity effective September 30, 2003. Purchased Power	L. Starkebaum	\$ 1,727,200
FPP-30	Synergies from Joint Dispatch This adjustment annualizes the synergies resulting from joint dispatching. Steam Power/Other Power Generation - Fuel Purchased Power	L. Starkebaum	\$ 1,056,661
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	\$ 382,363
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	\$ (358,115)
CS-6	Incentive This adjustment annualizes incentive expenses to be paid at target levels. Production Transmission Distribution Customer Accounting Customer Service	R. Klote	\$ 172,064

	Sales			
	Administrative & General			
	Total			
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	\$	(320,885)
CS-11	Employee Benefits This adjustment annualizes the L&P portion of the employee benefits made on behalf of its employees. Administrative and General	S. Murphy	\$	2,099,674
CS-16	ESF/IBU Adjustments This adjustment updates the ESF and IBU corporate allocation factors to January 2003 drivers. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative and General Total	B. Agut	\$	(514,638)
CS-26	Electric_Steam Adjustment This adjustment corrects per books between electric and steam.	R. Erickson	\$	(365,960)
CS-27	Elimination of Emission Allowances This adjustment annualizes of the emission allowances for the test year. Allowances	S. Braun	\$	(225,176)
CS-30	Injuries and Damages Expense This adjusts Injuries and Damages to an annualized level based on a three year average. Administrative and General	R. Klote	\$	(527,284)
CS-35	Bad Debt Expense This adjusts bad debt expense to an annualized level based on a three year average rate times annualized revenue. Customer Accounting Expense	R. Erickson	\$	(205,096)
CS-40	PSC Assessment This adjustment annualizes the PSC assessment to the most current assessment received. Administrative and General	R. Erickson	\$	(52,657)
CS-45	Customer Deposit Interest This entry annualized the interest expense related to customer deposits. Customer Accounting Expense	R. Erickson	\$	21,168

CS-50	<p>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</p>	R. Clayburn	\$	65,375
CS-53	<p>Miscellaneous Per Books Adjustment This adjustment includes purchased power costs associated with intercompany sales to WPK to properly match intercompany revenues with intercompany purchased power expense. Purchased Power - Off-System</p>	L. Starkebaum	\$	263,714
CS-56	<p>Elimination of TransUCU This adjustment eliminates test year transportation related expenses allocated to L&P from TransUCU. Office Supplies and Expenses</p>	L. Starkebaum	\$	(219,264)
CS-57	<p>Transmission Expense This adjustment annualizes test year transmission expense per the terms of the NPPD contract. Transmission of Electricity by Others</p>	L. Starkebaum	\$	163,800
CS-60	<p>Dues and Donations This adjustment eliminates all dues and donations except EEI and Power Pool dues. Administrative and General</p>	R. Erickson	\$	(71,158)
CS-65	<p>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</p>	R. Erickson	\$	(55,891)
CS-76	<p>MISO This adjustment annualizes the on-going level of MISO transmission membership dues. Transmission of Electricity by Others</p>	L. Starkebaum	\$	276,084
CS-81	<p>Homeland Security This adjustment annualizes Homeland Security costs not included in the test year. Office Supplies and Expenses</p>	S. Murphy	\$	27,464
CS-83	<p>Write-off Pre-2002 Misc. Payroll Expenses This adjustment eliminates miscellaneous payroll costs written off in December 2002 associated with time periods prior to 2002 that are included in test year expenses. Office Supplies and Expenses</p>	R. Klote	\$	(459,399)
CS-85	<p>Payroll Taxes This adjustment annualizes FICA and Medicare tax expense. Taxes Other Than Income Tax</p>	R. Klote	\$	(49,842)
CS-90	<p>Ad Valorem Taxes This adjustment annualizes Property taxes based on plant in service adjusted in this case.</p>	S. Murphy	\$	(55,193)

Taxes Other Than Income Tax

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	\$	120,706
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	\$	(167,405)
TAX-10A	Deferred Taxes This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences. Deferred Income Taxes	R. Klote	\$	1,295,080

