

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF RONALD A. KLOTE  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)**

1 Q. Please state your name and business address.

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

4 Q. Are you the same Ronald A. Klote who sponsored direct and rebuttal testimony in this  
5 proceeding before the Missouri Public Service Commission (“Commission”) on behalf of  
6 Aquila, Inc. (“Aquila” or “Company”)?

7 A. Yes.

8 Q. What is the purpose of your surrebuttal testimony?

9 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by  
10 Commission Staff (“Staff”) witness Dana Eaves concerning the payroll annualization  
11 calculation adjustment.

12 **Payroll Annualization Calculation Adjustment**

13 Q. Please summarize your understanding of Staff witness Dana Eaves rebuttal testimony in  
14 which he proposes the disallowance of the 3% union wage increase for MPS union  
15 employees as of April 1, 2004.

16 A. Staff witness Dana Eaves alleges that the 3% MPS union wage increase is an “isolated”  
17 out of period adjustment. By including this adjustment he argues that Aquila would  
18 violate the “test year” matching concept. He states the matching concept is critical in

1 order “to maintain a consistent relationship between the revenues recognized by the  
2 Company with the expenses incurred to generate those revenues and rate base investment  
3 needed to serve a customer level at a point in time.”

4 Q. Does Aquila agree with the characterization of the 3% MPS union wage increase as an  
5 isolated out of period adjustment?

6 A. No. The 3% MPS union wage increase as of April 1, 2004 is not an isolated adjustment.

7 It is an expected known annual recurring event significant in nature and supported by a  
8 ratified union contract signed on July 12, 2003. The approval of the union increase was  
9 known before the end of September 30, 2003 test year update period in this case. Mr.  
10 Eaves focus is on the effective date of the increase, April 1, 2004. He thus concludes it is  
11 an isolated nonrecurring event.

12 Q. How do you respond?

13 A. Union wage increases are annual recurring events, not isolated events. The April 1, 2004  
14 MPS union increase of 3% will take place before the expected decision date in this rate  
15 case proceeding. As was stated in my rebuttal testimony, Aquila believes that every  
16 attempt to eliminate or significantly reduce regulatory lag in rate case proceedings should  
17 be pursued by the Commission.

18 Q. Does Aquila believe the inclusion of the 3% MPS union wage increase is a violation of  
19 the matching principle?

20 A. No. Aquila’s adjustment is a proper matching mechanism of ongoing revenues and  
21 expenses. In fact, Staff’s approach is a violation of the matching principle that it purports  
22 to endorse. If there were any significant offsetting revenue increases from a major

1 customer added to Aquila's system that were known and measurable at September 30,  
2 2003, Staff has taken this into account by including a revenue annualization adjustment to  
3 reflect revenue levels that will be in place at the time rates are set in this proceeding.

4 Aquila has followed this same approach. In other words, Aquila has included in the  
5 payroll annualization adjustment all known and measurable wage increases in effect at the  
6 time rates will be set in this proceeding to be matched against all known and measurable  
7 revenue amounts at September 30, 2003.

8 Q. How are wage increases that become known and measurable after September 30, 2003,  
9 but before rates go into effect for this proceeding handled in the payroll annualization  
10 adjustment?

11 A. Wage increases that become known and measurable after September 30, 2003, but before  
12 rates go in effect in this proceeding, have not been included in the payroll annualization  
13 adjustment. Although the wage increases are in effect before rates are set, they are not  
14 known and cannot be measured at September 30, 2003. This is similar to any revenue  
15 adjustments that occur after September 30, 2003. Any revenue adjustment that is known,  
16 certain to occur and that can be measured at September 30, 2003, is included in the rate  
17 case revenue adjustments. Any known and measurable amount discovered after  
18 September 30, 2003 is not considered in the revenue adjustments. Yet, Aquila believes it  
19 would be appropriate if a significant revenue or cost of service event became known and  
20 could be measured after the update period to be considered by the Commission and  
21 included in the rate case proceeding. This would ensure that every effort was made to

1 match revenues and expenses for all significant events to the period in which rates will go

2 into effect.

3 Q. Does this conclude your surrebuttal testimony?

4 A. Yes it does.