

Exhibit No.:

Issues: Accounting Orders,  
Fuel & Purchase Power,  
Joint Dispatch Savings,  
Transmission Expense &  
Miscellaneous  
Adjustments

Witness: Lisa A. Starkebaum

Sponsoring Party: Aquila Networks-MPS  
& L&P

Case No.: ER-

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Lisa A. Starkebaum

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF LISA A. STARKEBAUM  
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 Lisa A. Starkebaum 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  
6 Analyst.

7 Q. Please state your educational background and experience.

8 A. I attended Northwest Missouri State University in Maryville, Missouri, where I received  
9 a Bachelor of Science Degree with a major in Finance. In 1995, I began working for  
10 Cerner Corporation as an Accountant in the Finance Department. In July 1997, I joined  
11 Aquila, Inc., (formerly UtiliCorp United Inc.) where I worked in the Financial and  
12 Regulatory Reporting group as an Accountant, until joining Regulatory Accounting  
13 Services as a Regulatory Analyst in late 1999.

14 Q. Have you previously testified before any regulatory bodies?

15 A. Yes. I have testified before the Kansas Corporation Commission, the Missouri Public  
16 Service Commission and the Public Utilities Commission of Colorado.

17 Q. What is the purpose of your testimony in this proceeding involving Aquila Networks –  
18 MPS (“MPS”) and Aquila Networks – L&P (“L&P”)?

1 A. The purpose of my testimony is to present to the Missouri Public Service Commission  
2 (“Commission”) certain schedules in support of the revised tariffs filed by Aquila in this  
3 case as well as to explain and support various rate base items and cost of service  
4 (operations) adjustments.

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

6 A. Attached Schedules LAS-1 through 4, generally consist of financial and other  
7 information which supports MPS’s revenue requirement. I am also sponsoring the  
8 following rate base items.

- 9 • Accounting Authority Orders (MPS Only)
- 10 • Fuel Inventories (MPS and L&P)

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

- 13 • Fuel and Purchased Power Energy (MPS & L&P)
- 14 • Purchased Power Capacity (MPS & L&P)
- 15 • Synergies from Joint Dispatch (MPS & L&P)
- 16 • Gas Cost Cap Adjustment (MPS & L&P)
- 17 • Elimination of Emission Allowances (MPS Only)
- 18 • Elimination of Trans UCU Expenses (MPS & L&P)
- 19 • Transmission Expense (MPS & L&P)
- 20 • MISO (MPS & L&P)
- 21 • Annualization of Ice Storm AAO Amortization (MPS Only)
- 22 • Miscellaneous Per Books Adjustment (MPS & L&P)

1           • JEC Employee Expense (MPS Only)

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

3 A.       Yes.

4 Q.       Please describe Schedule LAS-1.

5 A.       Schedule LAS-1 represents the revenue deficiency calculated with a return on equity of  
6           12.25%.

7 Q.       What information is included on Schedule LAS-2?

8 A.       This Schedule depicts the detailed components of rate base. Rate base is Aquila's  
9           investment to provide service to customers in the MPS service territory.

10 Q.      Please describe Schedule LAS-3.

11 A.      Schedule LAS-3 is the adjusted income statement which reflects the net income available  
12          after all known and measurable changes have been made.

13 Q.      What does Schedule LAS-4 represent?

14 A.      Schedule LAS-4 gives a short description of the adjustments made to the income  
15          statement in this case involving Aquila Networks – MPS.

16 Q.      Are you sponsoring all of the adjustments on Schedule LAS-4?

17 A.      No. There will be several other Aquila witnesses sponsoring various income statement  
18          adjustments.

19   **ACCOUNTING AUTHORITY ORDERS**

20 Q.      What is the purpose of your discussion of accounting authority orders ("AAO")?

21 A.      The purpose is to explain the necessity of rate case recovery of costs deferred by the  
22          AAOs issued to MPS by the Commission in Case Nos. EO-90-114, EO-91-358 and EU-

1 2002-1053, in connection with MPS' Sibley Rebuild Program, the Sibley Western Coal  
2 Conversion Project and the Ice Storm Damage from 2002.

3 Q. What is an AAO and what is its purpose?

4 A. An AAO is an order issued by the Commission which permits the requesting utility to  
5 defer certain costs on its books (outside of a rate case) with the opportunity to  
6 subsequently recover these costs through rates as opposed to being required to expense  
7 these costs in the current period. This treatment spreads the effect of an event over a  
8 period of time, thereby reducing the impact on customers, and can lessen the effect of  
9 regulatory lag, or the time between incurring costs and the recovery of those costs in  
10 rates.

11 Q. Please discuss the AAOs issued to MPS.

12 A. In Case Nos. EO-90-114 and EO-91-358, MPS requested and was granted AAOs for the  
13 previously mentioned Sibley Rebuild Program and Sibley Western Coal Conversion  
14 Project.

15 Q. Please discuss these projects.

16 A. Both projects were and are critical to MPS' ability to continue to provide reliable electric  
17 service to its customers at a reasonable cost. Briefly, the Sibley Rebuild Program  
18 extended the life of its three generating units by 20 years. Without this rebuild program,  
19 MPS would have had to find alternative sources of energy before Sibley Units 1 and 2  
20 were retired from use in 1990 and Sibley Unit 3 by the mid-1990's. The Sibley Western  
21 Coal Conversion Project allowed MPS to achieve significant reductions in sulfur dioxide  
22 ("SO2") emissions at the Sibley Generating Station. This project allowed MPS to stay in  
23 compliance with the Clean Air Act Amendments and to protect the environment.

1 Q. What costs are being deferred by MPS in rate base Adjustment No. RB-40?

2 A. MPS' AAO addition to rate base includes deferred depreciation and carrying costs  
3 (interest) associated with the plant-in-service resulting from the previously discussed  
4 Sibley projects at December 31, 2002. A jurisdictional factor was applied to each AAO  
5 to ensure only the portion affecting MPS' electric jurisdictional operations was included  
6 in rate base.

7 Q. What has been the treatment of the unamortized balance of the Sibley-related AAOs and  
8 amortization expense in past rate proceedings involving MPS?

9 A. In the past four rate proceedings involving MPS, Case Nos. ER-90-101, ER-93-37, ER-  
10 97-394 and ER-2001-672, MPS has been allowed recovery of both the unamortized  
11 balance of AAOs and related amortization expense.

12 Q. Did MPS secure an additional AAO as a result of the 2002 Ice Storm?

13 A. Yes. In addition to the Sibley-related AAOs, Aquila filed an application for an AAO in  
14 April 2002 with respect to incremental expenses incurred due to a severe ice storm in  
15 January 2002. Aquila requested that the Commission grant an order authorizing it to  
16 defer and record the incremental operating expenses incurred as the result of the ice  
17 storm. Both the Staff of the Commission and Public Counsel agreed that the AAO should  
18 be issued and the Commission granted the request, effective July 7, 2002.

19 Q. What is the total amount of operating expenses being deferred pursuant to the ice storm  
20 AAO?

21 A. MPS is amortizing a total of \$8,244,893 in operating expenses related to the ice storm  
22 that are being amortized over a 5-year period.

**FUEL INVENTORIES**

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Q. Please explain the purpose of working capital Adjustment No. WC-30 for fuel inventory for Aquila Networks – MPS and L&P.

A. Fuel inventories are properly includable in the working capital computation. A utility must carry the appropriate level of fuel stock to ensure that customer service is not interrupted. As a result of maintaining minimum levels of fuel stock, the utility incurs carrying costs. By including fuel stock in rate base, the utility is able to earn a return on those fuel inventory levels.

**MPS:**

Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in rate base?

A. MPS’ recommendation in this case for coal inventory levels at Sibley and the Jeffrey Energy Center (“JEC”) is equivalent to a 61-day and 72-day burn, respectively. These duration burns are equivalent to 250,242 tons of blended coal (65% PRB, 35% bituminous) at Sibley and 108,949 tons (75% Tier 1, 25% Tier 2) at JEC. First, the annualized fuel price and price per ton of coal for the annualized test period were obtained from the MPS fuel run for both Sibley and JEC and were used to calculate the quantity of coal consumed in tons. After quantifying the tons of coal burned for the 61-day and 72-day inventory levels recommended at Sibley and JEC, the quantity of coal burned for the inventory levels mentioned above was multiplied by the annualized price per ton of coal to arrive at the annualized amount of fuel inventory to include in rate base for Sibley and JEC. The annualized level of coal inventory that has been included in rate base for Sibley and JEC coal amount to \$6,075,548 and \$2,315,709, respectively.



1 Q. Please explain why a 61-day supply of coal for Sibley and a 72-day supply of coal for  
2 JEC was chosen as the target level of coal inventory to include in rate base.

3 A. The 61-day and 72-day target inventory levels for Sibley and JEC was used in MPS' last  
4 rate proceeding, Case No. ER-01-672 by both Aquila and the Staff.

5 Q. Has there been any policy change in the targeted levels?

6 A. No.

7 Q. How much No. 2 oil inventory is being included in rate base for the Greenwood and  
8 Nevada plants?

9 A. No. 2 oil inventory has been included in rate base for Greenwood and Nevada using a  
10 thirteen-month average. The monthly balances were averaged for the months of  
11 December 2001 through December 2002.

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

13 A. Generally, a thirteen-month average is used to smooth out the month-to-month volatility  
14 in fuel inventory balances.

15 Q. What is the annualized level of No. 2 oil inventory that has been included in rate base?

16 A. The annualized level of No. 2 oil inventory that has been included in rate base for  
17 Greenwood and Nevada is \$1,088,824 and \$387,250, respectively.

18 Q. What level of fuel inventory has MPS included in rate base for purposes of this rate  
19 proceeding?

20 A. In total, MPS has included \$9,867,331 in fuel inventory related to its electric operations.

21 **L&P:**

22 Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in rate  
23 base?

1 A: Aquila Networks – L&P utilized the same method as MPS in determining the level of fuel  
2 inventory to include in rate base for coal. L&P’s recommendation in this case for coal  
3 inventory levels at Iatan and Lake Road is equivalent to a 49-day and 75-day burn,  
4 respectively. These duration burns are equivalent to 40,173 tons at Iatan and 71,652 tons  
5 (65% PRB, 35% bituminous) at Lake Road. The level of coal inventory included in rate  
6 base for Iatan and Lake Road total \$525,468 and \$1,871,537, respectively.

7 Q. Please explain why a 49-day supply of coal for Iatan and a 75-day supply of coal for  
8 Lake Road was chosen as the target level of coal inventory to include in rate base.

9 A. L&P is a joint owner of Iatan. The operator, Kansas City Power & Light Company,  
10 manages the coal inventory levels at the plant and has selected a 49-day supply of coal as the  
11 target inventory level. A 75-day supply was used for Lake Road coal which is representative  
12 of current day inventory levels. This quantity has proven to be adequate but not excessive  
13 for the risks assessed for the Lake Road facility to ensure that customers are protected  
14 against disruption of service.

15 Q. How much No. 2 oil inventory is being included in rate base for the Iatan and Lake Road  
16 units?

17 A. Similar to the calculation for MPS, L&P employed a thirteen-month average for Iatan oil  
18 resulting in No. 2 oil inventory of \$25,119. The monthly balances were averaged for the  
19 months of December 2001 through December 2002. However, the method used to calculate  
20 the No. 2 oil inventory for the Lake Road units differed from a thirteen-month average.  
21 First, the annualized level of fuel consumed in gallons was determined for Lake Road  
22 combustion turbines 5, 6 and 7 and Lake Road 900 lb System. Second, the number of  
23 gallons were multiplied by an annualized price per unit of \$1.10 obtained from the fuel

1 dispatch model. This resulted in oil inventory of \$415,800 and \$122,572 for the Lake Road  
2 combustion turbines and Lake Road 900 lb System, respectively.

3 Q. Please explain why a different method was used to calculate the oil inventory levels for the  
4 Lake Road units.

5 A. A different method was necessary to assign the No. 2 oil inventory between Aquila  
6 Networks – L&P’s electric and steam operations. Since L&P has both electric and industrial  
7 steam operations, allocation factors have been developed internally to determine the No. 2  
8 oil inventory attributable to electric and steam operations. Based on these allocations, the  
9 first 9,000 barrels of No. 2 oil in inventory are allocated 100% to electric. All barrels over  
10 9,000 are allocated 50% to electric and 50% to steam.

11 Q. What is the rationale behind the allocation of No. 2 oil inventory described above?

12 A. Prior to December 1998, No. 2 oil inventory was 100% electric because it could only be  
13 used in Units 5, 6 and 7. In the past, 9,000 barrels was the established minimum oil  
14 inventory for Units 5 through 7. This level is still considered the minimum year-round level  
15 required for these units. Starting in December 1998, No. 2 oil was used as an emergency  
16 fuel for Boilers 1, 2 and 4. These Boilers supply steam for L&P’s electric and steam  
17 operations. Both electric and steam are dependent upon the remaining inventory of No. 2  
18 oil, or emergency stock, in the event of natural gas curtailment at the plant. For example, gas  
19 curtailment is likely during severe cold winter months, which would result in a winter peak  
20 scenario for L&P’s electric and steam operations. In this scenario, Boilers 1, 2 and 4 would  
21 be vitally important to L&P’s steam operations, since these boilers provide the only source  
22 of steam for its steam customers. Consequently, these Boilers would also be critical to the  
23 electric system as generation would most likely be needed from Lake Road Turbines 1, 2 and

1 3 which provide the auxiliary steam necessary for the operation of Unit 4/6, a critically  
2 important unit during a winter peak scenario. Therefore, the remaining barrels of No. 2 oil  
3 over 9,000 barrels are allocated appropriately 50% to electric and 50% to steam.

4 Q. What level of fuel inventory has L&P included in rate base for purposes of this proceeding?

5 A. In total, L&P has included \$2,960,496 in fuel inventory related to its electric operations.

6 **FUEL AND PURCHASED POWER ENERGY**

7 Q. What is the purpose of cost of service Adjustment No. FPP-10 made to Aquila Networks –  
8 MPS and L&P's electric operations?

9 A. The purpose of Adjustment No. FPP-10 is to annualize fuel and purchased power energy  
10 expense, net of off-system and demand charges, and to compare the annualized level to  
11 actual expenses for test year ended December 31, 2002.

12 Q. Please explain how Adjustment No. FPP-10 was calculated for both Aquila Networks –  
13 MPS and L&P?

14 **MPS:**

15 A. The recommended annualized level of fuel and purchased power energy expense for MPS is  
16 \$107,648,106, of which \$49,390,444 is for electric fuel and \$58,257,662 is for purchased  
17 energy. The annualized level of fuel and purchased power energy expense was obtained  
18 from the MPS fuel run utilizing the Fuel and Purchased Power Dispatch Model. The inputs  
19 used in this model will be further addressed in the direct testimony of Company witness  
20 Jerry Boehm.

21 Q. How do the annualized expenses compare to actual expenses for the test year?

22 A. Actual energy costs for MPS for the twelve months ended December 31, 2002 total  
23 \$98,075,573, of which \$51,640,640 is for electric fuel and \$46,434,933 is for purchased

1 power energy. Adjustment No. FPP-10 increases fuel and purchased power energy expense  
2 for MPS' electric operations by \$9,521,041.

3 **L&P:**

4 A. L&P employed the same method for calculating the annualized level of fuel and purchased  
5 power energy expense as MPS. The recommended annualized level of expenses for L&P,  
6 obtained from the L&P fuel run, is \$23,461,224. Of this amount, \$14,997,579 relates to  
7 electric fuel and \$8,463,645 to purchased power energy.

8 Q. How do the annualized expenses compare to actual expenses for the test year?

9 A. Actual energy costs for L&P for the twelve months ended December 31, 2002 total  
10 \$26,620,498, of which \$15,953,717 is electric fuel and \$10,666,780 is for purchased power  
11 energy. Adjustment No. FPP-10 decreased fuel and purchased power energy expense for  
12 L&P resulting in a credit adjustment of \$3,159,274.

13 **PURCHASED POWER CAPACITY**

14 Q. Please explain the purpose of cost of service Adjustment No. FPP-20 for both Aquila  
15 Networks – MPS and L&P.

16 A. Adjustment No. FPP-20 annualizes purchased power capacity expense to reflect the known  
17 and measurable changes in capacity charges in MPS' and L&P's purchased power contracts  
18 commencing in contract year 2003. This adjustment is necessary to properly reflect the on-  
19 going level of purchased power capacity costs used to determine the future rates of Aquila  
20 Networks – MPS and L&P.

21 Q. Are the aforementioned contracts included in this filing?

22 A. No. These contracts are confidential and proprietary. They will be made available to the  
23 appropriate parties to this case, pursuant to the Commission's Protective Order.

1 Q. Please explain how Adjustment No. FPP-20 was calculated for MPS and L&P?

2 **MPS:**

3 A. Adjustment No. FPP-20 annualizes two purchased power capacity contracts for 2003:  
4 Sunflower Electric Power Corporation (“SEPC”) and MEP Pleasant Hill (“MEPPH”). The  
5 annualized level of capacity costs include 40 MW of capacity purchased from Sunflower,  
6 effective June 2003. In addition, the MEPPH capacity contract includes purchases of 200  
7 MW for base load and an additional 300 MW for peak load for months April – September,  
8 effective January 1, 2003. The annualized level of expense was calculated by multiplying  
9 the 2003 MW capacity purchases per month for twelve months by the contract price/KW-  
10 month. In addition to the two purchased power capacity contracts mentioned above, demand  
11 charges of \$120,682 were included in MPS’ annualized level of capacity expense for MPS’  
12 border customers. MPS’ annualized capacity contracts amounting to \$34,850,169 was  
13 compared to actual per books expense at December 31, 2002 of \$33,216,044. This results in  
14 an adjustment of \$1,625,339.

15 **L&P:**

16 A. Adjustment No. FPP-20 for Aquila Network – L&P also annualizes two purchased power  
17 capacity contracts for 2003: Sunflower Electric Power Corporation (“SEPC”) and Nebraska  
18 Public Power District (“NPPD”). The annualized level of capacity purchases include 10  
19 MW of capacity from Sunflower and 90 MW from NPPD, both effective June 2003. The  
20 same process was used for L&P as for MPS to calculate the annualized capacity expense.  
21 L&P’s annualized capacity contracts in the amount of \$8,779,200 was compared to per  
22 books expense at December 31, 2002 of \$7,052,000. This results in an increase to expense  
23 of \$1,727,200.

1                                   **SYNERGIES FROM JOINT DISPATCH**

2     Q.     Please explain the purpose of Adjustment No. FPP-30 made to Aquila Networks – MPS and  
3             L&P’s cost of service.

4     A.     Adjustment No. FPP-30 annualizes the savings created through the joint dispatch of  
5             generation plants between MPS and L&P.

6     Q.     Please explain how this adjustment was calculated.

7     A.     The savings calculated for MPS and L&P in Adjustment No. FPP-30 represent the difference  
8             between the individual standalone dispatch models for MPS and L&P in comparison to the  
9             combined, or joint dispatch model. The difference between the standalone dispatch models  
10            for MPS and L&P and the combined joint dispatch model total \$7,973,768. Adjustment No.  
11            FPP-30 increases MPS and L&P’s cost of service by \$2,914,460 and \$1,056,662,  
12            respectively which represents 50% of the total merger-created savings. The merger savings  
13            and 50% sharing mechanism with customers are discussed in further detail in the direct  
14            testimony provided by Company witness Vern J. Siemek.

15                                   **GAS COST CAP ADJUSTMENT**

16    Q.     Please explain Adjustment No. FPP-40 made to Aquila Networks – MPS and L&P?

17    A.     Adjustment No. FPP-40 annualizes gas costs at \$.50 above base fuel costs of \$5.14 per Mcf  
18            included in Adjustment No. FPP-10 for both MPS and L&P. Adjustment No. FPP-40  
19            increases MPS’ and L&P’s cost of service by \$4,879,660 and \$382,363, respectively. This  
20            differential relates to the gas cost recovery mechanism and is discussed further in the direct  
21            testimony of Company witness Keith Stamm.

22                                   **ELIMINATION OF EMISSION ALLOWANCES**

1 Q. What is the purpose of Adjustment No. CS-27 made to Aquila Networks – MPS’ cost of  
2 service?

3 A. This adjustment eliminates 100% of the emission allowances recorded to Federal Energy  
4 Regulatory Commission (“FERC”) account 509 during the test year. Emission allowances  
5 have been annualized in the fuel model and are accounted for in Adjustment No. FPP-10  
6 made to Fuel and Purchased Power Energy. Therefore, this adjustment is necessary to  
7 ensure that the allowances have not been accounted for twice during this rate proceeding.

8 **ELIMINATION OF TRANS UCU EXPENSES**

9 Q. What are Trans UCU expenses?

10 A. Trans UCU expenses are an allocation of expenses to Aquila Networks divisions such as  
11 MPS and L&P from Aquila Corporate. The Trans UCU department 4499 housed  
12 corporate flight and other miscellaneous transportation related expenses. In addition to  
13 department 4499, some Trans UCU expenses were directly charged to department 6130,  
14 UED Headquarters, during the test year. Since both Aquila Networks – MPS and L&P  
15 receives an allocation of the expenses charged to department 6130, this department was  
16 also included in the elimination of Trans UCU expenses.

17 Q. Where were these expenses recorded during the test year?

18 A. Trans UCU expenses related to MPS’ and L&P’s electric operations, in the amount of  
19 \$722,083 and \$219,264 respectively, were recorded during the test year in FERC  
20 Account 921, office supplies and expenses.

21 Q. How were these expenses treated in this proceeding?

22 A. These expenses were eliminated in total from the test year due to the elimination of the  
23 corporate aircraft as part of the overall restructuring efforts at Aquila.



**TRANSMISSION EXPENSE**

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Q. What is the purpose of the transmission expense Adjustment No. CS-57 made to Aquila Networks – MPS?

A. The purpose of this adjustment is to annualize the firm transmission provided by Sunflower and MAPP to Aquila Networks - MPS under the purchased power contract beginning June 2003.

Q. How was the annualized level of Sunflower and MAPP transmission expense calculated?

A. The annualized level of transmission expense was computed by multiplying the contract price of \$1,300 per MW-month by the contract transmission capacity of 40 MW for the months of June through September 2003, as outlined in the purchased power contract with Sunflower. Similarly, the annualized level of MAPP transmission expense was calculated by multiplying the contract price of \$110 per MW-month by the contract transmission capacity of 40 MW. The annualized level of expense was then compared to actual transmission expense for the test year, resulting in an adjustment of \$154,530 to MPS’ cost of service.

Q. What is the purpose of the transmission expense Adjustment No. CS-57 made to Aquila Networks – L&P?

A. The purpose of this adjustment is to annualize the increase in MW of firm transmission effective June 2003 per the terms of the purchased power capacity contract with NPPD.

Q. How was the annualized level of NPPD transmission expense calculated?

A. The annualized level of transmission expense was computed by multiplying the contract

1 price of \$1,510 per MW-month by the contract transmission capacity of 90 MW. The  
2 annualized level of expense was then compared to actual transmission expense for the  
3 test year, resulting in an adjustment of \$163,800 to L&P' cost of service.

4 **MISO**

5 Q. Please explain the purpose of Cost of Service Adjustment No. CS-76 for both Aquila  
6 Networks – MPS and L&P.

7 A. Adjustment No. CS-76 involves expenses associated with the Midwest Independent  
8 Transmission System Operator (“MISO”), a Regional Transmission Organization  
9 (“RTO”) whose main objective is to monitor the electric transmission system to ensure  
10 equal access by all electric industry participants and to maintain or improve electric  
11 system reliability in the Midwest region. Adjustment No. CS-76 annualizes the impact of  
12 a full year of transmission membership dues as a result of joining the RTO that is  
13 expected in January 2004. The membership dues in the amount of \$845,708, represents  
14 the on-going level of expense that Aquila Networks – MPS will incur as a participant of  
15 the RTO. Similarly, Aquila Networks – L&P's annualized level of expense as a member  
16 of the RTO is \$276,084.

17 **2002 ICE STORM AAO AMORTIZATION**

18 Q. What is the purpose of Adjustment No. CS-100 made to amortization expense?

19 A. The purpose of this adjustment is to annualize a full year of amortization expense during  
20 the test period for expenses incurred by Aquila Networks – MPS due to damage from the  
21 2002 Missouri ice storm.

22 Q. Please explain.

1 A. Amortization of expenses directly related to the ice storm began in February 2002.  
2 Therefore, only eleven months of amortization expense was recorded to test year per  
3 books. As such, CS-100 adjusts amortization expense to reflect a full year of expense.  
4 The adjustment amount for CS-100 totals \$139,016.

5 **MISCELLANEOUS PER BOOKS ADJUSTMENT**

6 Q. Please explain Adjustment No. CS-53 made to Aquila Networks – MPS and L&P’s  
7 electric operations.

8 A. Adjustment No. CS-53 made to both Aquila Networks – MPS and Aquila Networks –  
9 L&P includes purchased power costs associated with inter-company sales to WestPlains  
10 Kansas (“WPK”). The fuel model annualizes fuel and purchased power costs for native  
11 load only, therefore pro forma Adjustment No. FPP-10 made to fuel and purchased power  
12 expense did not include the purchased power costs associated with WPK sales.  
13 Therefore, Adjustment No. CS-53 was made to properly match inter-company revenues  
14 with inter-company purchased power expense associated with WPK, resulting in an  
15 adjustment of \$5,985,199 and \$263,714 for MPS and L&P, respectively.

16 **JEC EMPLOYEE EXPENSE**

17 Q. Please explain Adjustment No. CS-82 made to Aquila Networks – MPS electric  
18 operations.

19 A. Adjustment No. CS-82 annualizes 2002 employee expenses from JEC that should have  
20 been recorded during the test year; however, MPS was not billed for these expenses  
21 during 2002. Adjustment No. CS-82 increases MPS’ cost of service by \$102,929.

22 Q. Does this conclude your direct testimony?

23 A. Yes.

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

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                                     )

Case No. ER-\_\_\_\_\_

County of Jackson    )  
                                  )        ss  
State of Missouri     )

**AFFIDAVIT OF LISA A. STARKEBAUM**

Lisa A. Starkebaum, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Lisa A. Starkebaum;" 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.

\_\_\_\_\_  
Lisa A. Starkebaum

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

\_\_\_\_\_  
Notary Public  
Terry D. Lutes

My Commission expires:  
  
\_\_\_\_\_

**Aquila Networks - MPS  
Case No. ER-  
Twelve Months Ended December 31, 2002**

**Revenue Requirement**

Line	Low <b>9.486%</b> Return	Mid <b>9.589%</b> Return	High <b>9.725%</b> Return
(a)	(b)	(c)	(d)
1 Net Orig Cost of Rate Base (Sch 2)	\$ 724,569,487	\$ 724,569,487	\$ 724,569,487
2 Rate of Return	9.486%	9.589%	9.725%
3 Net Operating Income Requirement	\$ 68,729,763	\$ 69,481,866	\$ 70,462,209
4 Net Income Available (Sch 7)	\$ 20,783,977	\$ 20,783,977	\$ 20,783,977
5 Additional NOIBT Needed	47,945,787	48,697,890	49,678,232
6 Additional Current Tax Required	\$ 29,874,061	\$ 30,342,681	\$ 30,953,513
7 Gross Revenue Requirement	<u>77,819,847</u>	<u>79,040,571</u>	<u>80,631,745</u>

**Aquila Networks - MPS**  
**Case No. ER-**  
**Twelve Months Ended December 31, 2002**

**Income Statement**

Line No.	Description	Total Electric	Electric Non-Juris	Electric Jurisdictional	Adjustment	Jurisdictional As Adjusted
	(A)	(B)	(C)	(D)	(E)	(F)
1	Operating Revenue	344,315,231	6,669,849	337,645,382	345,312	337,990,694
2	Operating & Maintenance Expenses:					
3	Production	170,826,776	918,784	169,907,992	20,662,604	190,570,596
4	Transmission	8,980,990	48,292	8,932,698	1,016,336	9,949,034
5	Distribution	18,519,864	30,871	18,488,993	50,406	18,539,399
6	Customer Accounting	7,420,331	-	7,420,331	396,170	7,816,501
7	Customer Services	629,093	-	629,093	(54,870)	574,223
8	Sales	747,678	-	747,678	(210,455)	537,223
9	A & G Expenses	32,222,320	117,459	32,104,861	(3,066,503)	29,038,358
10	Total O & M Expenses	239,347,052	1,115,406	238,231,646	18,793,688	257,025,334
11	Depreciation Expense	34,606,362	123,742	34,482,620	11,752,954	46,235,574
12	Amortization Expense	1,763,987	6,308	1,757,679	146,701	1,904,380
13	Taxes other than Income Tax	13,091,008	47,040	13,043,968	241,619	13,285,587
14	Net Operating Income before T:	55,506,822	5,377,353	50,129,469	(30,589,650)	19,539,819
15	Income Taxes	5,341,776	517,497	4,824,279	(7,803,570)	(2,979,291)
16	Income Taxes Deferred	(3,211,310)	(11,482)	(3,199,828)	5,747,696	2,547,868
17	Investment Tax Credit	(815,652)	(2,917)	(812,735)	-	(812,735)
18	Total Taxes	1,314,814	503,098	811,716	(2,055,874)	(1,244,158)
19	Total Net Operating Income	54,192,008	4,874,255	49,317,753	(28,533,776)	20,783,977

**Aquila Networks - MPS  
Case No. ER-  
Twelve Months Ended December 31, 2002**

**Rate Base**

Line No.	Line Description (a)	Amount (b)
	<b>Total Plant :</b>	
1	Total Plant in Service-MPS Only (Sch 3)	\$ 1,183,943,230
1a	Total Plant in Service-MPS' Share of UCU (Sch 3a)	<u>53,358,002</u>
	<b>Total Plant</b>	<u>1,237,301,231</u>
	 <b>Subtract from Total Plant:</b>	
2	Depr Reserve-MPS & UCU Share (Sch 5)	<u>482,779,235</u>
	<b>Total Depreciation Reserve</b>	<u>482,779,235</u>
3	<b>Net Plant in Service</b>	<u><u>\$ 754,521,996</u></u>
	 <b>Add to Net Plant in Service</b>	
4	Cash Working Capital	(2,795,426)
5	Materials and Supplies	17,043,883
6	Emission Allowances	364,301
7	Prepayments	23,345,245
8	Fuel Inventory - Oil	1,476,074
9	Fuel Inventory - Coal	8,391,257
10	Fuel Inventory - Coke	-
11	AAO Def Sibley Rebuild & Western Coal 1990	1,537,067
12	AAO Def Sibley Rebuild & Western Coal 1992	1,530,508
12	AAO Ice Storm 2002	6,734,598
	 <b>Subtract from Net Plant:</b>	
13	Customer Advances for Construction	\$ 4,136,012
14	Customer Deposits	2,777,884
15	Deferred Income Taxes	76,086,041
16	Deferred Income Taxes - AAO	3,763,054
17	Unamortized Investment Tax Credit	77,328
18	Deferred Income Taxes - Synergies to MPS	739,697
19	<b>Total Rate Base</b>	<u><u>\$ 724,569,487</u></u>

**AQUILA NETWORKS - MPS**  
**DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
R-10	<p><b>Customer &amp; Weather Adj</b>  This adjusts test period revenues to reflect normal cooling and heating degree days and annualizes revenues for 2002 customer level.  Operating Revenues</p>	E. Watkins	\$ (323,163)
R-20	<p><b>Eliminate Unbilled Revenues</b>  This adjusts revenues to a billed basis.  Operating Revenues</p>	R. Clayburn	\$ 668,475
FPP-10	<p><b>Fuel and Purchased Power Energy</b>  This adjustment annualizes the test year fuel expense .  Steam Power/Other Power Generation - Fuel  Purchased Power</p>	L.Starkebaum	\$ 9,521,042
FPP-20	<p><b>Purchased Power Demand Charge</b>  This adjustment annualizes the demand component of purchased power for changes in capacity effective <a href="#">September 30, 2003</a>.  Purchased Power</p>	L.Starkebaum	\$ 1,625,339
FPP-30	<p><b>Synergies from Joint Dispatch</b>  This adjustment annualizes the synergies resulting from joint dispatching.  Steam Power/Other Power Generation - Fuel  Purchased Power</p>	L.Starkebaum	\$ 2,914,460
FPP-40	<p><b>Gas Cost Cap Adjustment</b>  This adjustment annualizes gas costs at \$.50 above the base cost of fuel included in this case.  Other Power Generation - Fuel</p>	L.Starkebaum	\$ 4,879,660
CS-5	<p><b>Payroll</b>  This adjustment annualizes payroll expense for the test year.  Production  Transmission  Distribution  Customer Accounting  Customer Service  Sales  Administrative &amp; General  Total</p>	R. Klote	\$ 248,718
CS-6	<p><b>Incentive</b>  This adjustment annualizes incentive expenses to be paid at target levels.  Production  Transmission  Distribution  Customer Accounting  Customer Service  Sales  Administrative &amp; General</p>	R. Klote	\$ 533,899



**AQUILA NETWORKS - MPS**  
**DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	Total		
CS-10	<p><b>Restructuring</b>  This adjustment amortizes restructuring related expenses during the test year over three years.</p> <ul style="list-style-type: none"> <li>Production</li> <li>Transmission</li> <li>Distribution</li> <li>Administrative &amp; General</li> <li>Taxes Other Than Income Taxes</li> </ul> <p>Total</p>	R. Klote	\$ (1,329,340)
CS-11	<p><b>Employee Benefits</b>  This adjustment annualizes the MPS portion of employee benefits made on behalf of its employees.</p> <ul style="list-style-type: none"> <li>Administrative and General</li> </ul>	S. Murphy	\$ 324,439
CS-16	<p><b>ESF/IBU Adjustments</b>  This adjustment updates the ESF and IBU corporate allocation factors to January 2003 drivers.</p> <ul style="list-style-type: none"> <li>Production</li> <li>Transmission</li> <li>Distribution</li> <li>Customer Accounting</li> <li>Customer Service</li> <li>Sales</li> <li>Administrative and General</li> </ul> <p>Total</p>	B. Agut	\$ (1,294,164)
CS-17	<p><b>O&amp;M L&amp;P Merger Synergies</b>  This adjustment annualizes the O&amp;M synergies resulting from the L&amp;P merger.</p> <ul style="list-style-type: none"> <li>Production</li> <li>Transmission</li> <li>Distribution</li> <li>Customer Accounting</li> <li>Customer Service</li> <li>Sales</li> <li>Administrative and General</li> </ul> <p>Total</p>	B. Agut	\$ 1,542,160
CS-20	<p><b>Greenwood Lease</b>  This adjustment eliminates 100% of Greenwood lease expense from the test year.</p> <ul style="list-style-type: none"> <li>Other Production Expenses</li> </ul>	S. Braun	\$ (3,892,763)
CS-27	<p><b>Elimination of Emission Allowances</b>  This adjustment eliminates 100% of the emission allowances from the test year.</p> <ul style="list-style-type: none"> <li>Allowances</li> </ul>	L. Starkebaum	\$ (704,030)

**AQUILA NETWORKS - MPS**  
**DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
CS-35	<b>Bad Debt Expense</b> This adjusts bad debt expense to an annualized level based on a three year average rate times annualized revenue Customer Accounting Expense	R. Erickson	\$ 882
CS-40	<b>PSC Assessment</b> This adjustment annualizes the PSC assessment to the most current assessment received. Administrative and General	R. Erickson	\$ (126,311)
CS-45	<b>Customer Deposit Interest</b> This entry annualizes the interest expense related to customer deposits. Customer Accounting Expense	R. Erickson	\$ 166,673
CS-50	<b>Rate Case Expense</b> This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 3 years. Administrative and General	R. Clayburn	\$ 149,146
CS-53	<b>Miscellaneous Per Books Adjustment</b> This adjustment includes purchased power costs associated with inter-company sales to WPK to properly match intercompany revenues with intercompany purchased power expense. Purchased Power - Off-System	L. Starkebaum	\$ 5,985,199
CS-56	<b>Eliminate TransUCU</b> This adjustment eliminates test year transportation related expenses allocated to MPS from TransUCU. Office Supplies and Expenses	L. Starkebaum	\$ (722,083)
CS-57	<b>Transmission Expense</b> This adjustment annualizes test year transmission expense per the terms of the Sunflower contract for months June through September. Transmission of Electricity by Others	L. Starkebaum	\$ 154,530
CS-60	<b>Dues and Donations</b> This adjustment eliminates all dues and donations except EEI and Power Pool dues. Administrative and General	R. Erickson	\$ (293,003)
CS-65	<b>Advertising Expense</b> This adjustment eliminates all advertising except safety and informational . Production Distribution Customer Accounts Customer Service and Informational Expense Sales Expense Administrative & General	R. Erickson	\$ (343,316)
	Total		

**AQUILA NETWORKS - MPS**  
**DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
CS-76	<b>MISO</b> This adjustment annualizes the on-going level of MISO transmission membership dues. Transmission of Electricity by Others	L. Starkebaum	\$ 845,708
CS-81	<b>Homeland Security</b> This adjustment annualizes Homeland Security costs not included in the test year. Office Supplies and Expenses	S. Murphy	\$ 101,595
CS-82	<b>JEC Employee Expense</b> This adjustment annualizes MPS' share of JEC employee expense not included in test year per books. Steam Power - Fuel Miscellaneous Steam Power Expenses Maintenance of Structures Taxes Other Than Income Taxes	L. Starkebaum	\$ 102,929
CS-83	<b>Write-off Pre-2002 Miscellaneous Payroll Expenses</b> 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	R. Klote	\$ (1,358,071)
CS-85	<b>Payroll Taxes</b> This adjustment annualizes FICA and Medicare tax expense. Taxes Other Than Income Tax	R. Klote	\$ 42,973
CS-90	<b>Ad Valorem Taxes</b> This adjustment annualizes Property taxes based on plant in service adjusted in this case. Taxes Other Than Income Tax	S. Murphy	\$ 113,855
CS-95	<b>Depreciation</b> This adjustment annualizes depreciation expense for plant additions through the known and measurable test period September 30, 2003. Depreciation Expense	S. Murphy	\$ 11,605,820
CS-100	<b>AAO Amortization</b> This adjustment annualizes a full year of amortization expense relating to the 2002 Ice Storm. Amortization Expense	L. Starkebaum	\$ 139,016
TAX-10A	<b>Current Income Taxes Expense</b> This adjustment annualizes the current income tax based on adjusted net operating income. Income Taxes, Operating Income	R. Klote	\$ (7,803,570)
TAX-10A	<b>Deferred Taxes</b> This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences.	R. Klote	\$ 5,747,696

**AQUILA NETWORKS - MPS**  
**DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	Deferred Income Taxes		