

*Exhibit No.:*  
*Issue:* Merger Savings  
*Witness:* Steve M. Traxler  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* GR-2004-0072  
*Date Testimony Prepared:* February 13, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**STEVE M. TRAXLER**

**AQUILA, INC.**  
**d/b/a AQUILA NETWORKS-MPS**  
**and AQUILA NETWORKS-L&P**

**CASE NO. GR-2004-0072**

*Jefferson City, Missouri*  
*February 2004*

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

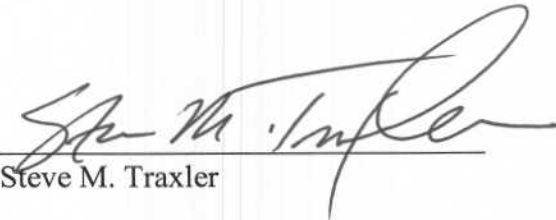
In the Matter of Aquila, Inc. d/b/a Aquila    )  
Networks-MPS and Aquila Networks-L&P,    )  
Natural Gas General Rate Increase         )

Case No. GR-2004-0072


AFFIDAVIT OF STEVE M. TRAXLER

STATE OF MISSOURI     )  
                                   )     ss.  
COUNTY OF COLE     )

Steve M. Traxler, being of lawful age, on his oath states: that he has participated in the preparation of the following rebuttal testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the following rebuttal testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Steve M. Traxler

Subscribed and sworn to before me this 9th day of February 2004.

  
\_\_\_\_\_  
Notary



TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004



Rebuttal Testimony of  
Steve M. Traxler

1           A.    Mr. Siemek's proposed sharing of merger savings for Aquila  
2 Networks-MPS (MPS) includes two areas, which are described on pages 9 and 10 of his  
3 direct testimony:

4                   1) Reduced allocation to MPS of Aquila's corporate general plant facilities  
5                   which are allocated to all Aquila divisions.

6                   2) Reduced allocation of Aquila's corporate overhead (operations &  
7                   maintenance support costs) to MPS.

8           However, Mr. Siemek has **not** proposed any sharing of merger savings for the L&P  
9 division.

10          Q.    Were you involved in the Staff's review of the Aquila-SJLP merger in the  
11 merger case?

12          A.    Yes. I was responsible for reviewing the merger savings and costs resulting  
13 from the merger in Case No. EM-2000-292. I was also involved with the Staff's review of  
14 the Aquila-Empire District Electric Co. (Empire) merger in Case No. EM-2000-369. The  
15 merger with SJLP closed on December 31, 2000. The merger with Empire did not take  
16 place.

17          I also filed testimony relating to the Aquila-SJLP merger in the last MPS general rate  
18 case, Case No. ER-2001-672.

19          Q.    Was Mr. Siemek the primary witness on projected merger savings in the  
20 Aquila-SJLP merger case, Case No. EM-2000-292?

21          A.    Yes. Mr. Siemek's testimony summarized all of the merger "costs" and  
22 "savings" projected to result from the acquisition of SJLP.

1 Q. Is Mr. Siemek's proposed adjustment to share merger savings in Case  
2 No. GR-2004-0072 consistent with his presentation to the Commission in the Aquila-SJLP  
3 merger case, Case No. EM-2000-292?

4 A. No it is not. Mr. Siemek's presentation in the Aquila-SJLP merger case was  
5 based upon a showing that merger savings exceeded merger costs resulting in a "net" savings  
6 to SJLP's customers. However, in Case No. GR-2004-0072, Mr. Siemek has not only not  
7 identified any merger savings for the L&P division, he has failed to consider the increase in  
8 cost of service to L&P as a result of the allocation to L&P of Aquila's corporate general  
9 plant. Mr. Siemek's merger savings adjustments for MPS ignore the merger costs to the  
10 L&P division as a result of higher post merger general plant and related depreciation costs  
11 resulting from the allocation of Aquila corporate plant assets and related depreciation  
12 expense.

13 Consistency with Mr. Siemek's "net savings" presentation to the Commission in  
14 justifying the Aquila-SJLP merger in Case No. EM-2000-292 would require that both merger  
15 savings and merger costs be considered in any proposal to share "net savings" from the  
16 merger.

17 Q. Have you prepared a schedule below that compares L&P's revenue  
18 requirement increase resulting from the allocation of Aquila's general plant?

19 A. Yes. The schedule reflected below reflects the L&P revenue requirement  
20 increase resulting from Aquila's allocation of corporate general plant to L&P.

21 Q. Please explain the schedule that appears below.

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1 A. Line 4 reflects SJLP's net general plant as of December 31, 2000, the last  
2 measurement date prior to being merged with Aquila. SJLP's net general plant investment  
3 for its gas operations was \$184,995.

4 Line 13 reflects L&P net general plant as of September 30, 2003, the update period  
5 for Case No. GR-2004-0072. The net general plant for L&P is now \$891,307 as of  
6 September 30, 2003. This represents an increase, due to the merger, of \$706,312 as shown  
7 on line 14. The \$706,312 increase in net general plant represents a 382% increase as a result  
8 of the merger with Aquila.

9 Q. What is the revenue requirement impact on L&P of the \$706,312 increase in  
10 net general plant?

11 A. Line 15 reflects Aquila's recommended 13.88% gross of tax rate of return for  
12 Case No. GR-2004-0072. The revenue requirement impact for the increase in general plant,  
13 as a result of the merger, is reflected on line 16 to be \$98,036 for Case No. GR-2004-0072.

14 **Analysis of SJLP General Gas Plant – Post-Merger**

1	SJLP General Gas Plant – December 31, 2000			
2	Total General Gas Plant	FERC Form 1		\$ 268,086
3	Reserve for General Gas Plant	FERC Form 1		\$ 83,091
				-----
4	Net General Gas Plant			<b>\$ 184,995</b>
5	<b>GR-2004-0072 – L&amp;P – Gen. Gas Plant as of Sept. 30, 2003</b>			
6	L&P General Gas Plant			\$ 162,415
7	L&P Common Gas Plant			\$ 55,513
8	UCU – Allocated General Plant			\$ 732,861
				-----
9	Total L&P General Gas Plant			\$ 950,789
10	Depr. Reserve – General Gas Plant			\$ 71,282
11	Depr. Reserve – Common Plant			\$ (11,800)
				-----
12	Total Depr. Reserve – Gen. Gas Plant – GR-2004-0072			\$ 59,482
13	Net General Gas Plant – GR-2004-0072			<b>\$ 891,307</b>
14	Increase in General Gas Plant			\$ 706,312

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15	Aquila's Gross of Tax Rate of Return			13.88 %
				-----
16	<b>Increased Revenue Requirement – Rate of Return</b>			<b>\$ 98,036</b>
				-----
17	Depreciation Expense – Pre-Merger – 2000			\$ 8,476
18	Depreciation Expense – Aquila Filing – GR-2004-0072			\$ 97,845
				-----
19	<b>Increased Revenue Requirement – Depreciation Expense</b>			<b>\$ 89,369</b>
				-----
20	<b>Total Post-Merger Revenue Requirement Increase – Gen. Plant</b>			<b>\$ 187,405</b>
				=====

1 Q. What additional merger costs result from the increase in the L&P division's  
2 general plant due to the merger?

3 A. The increase in general plant results in an increase in depreciation expense  
4 due to the merger. Line 19 reflects an \$89,369 increase in depreciation expense related to the  
5 increase in general plant due to the merger.

6 Q. What is the total revenue requirement increase for L&P gas division resulting  
7 from the increase in general plant due to the merger?

8 A. Line 20 reflects that L&P has experienced a total revenue requirement  
9 increase of \$187,405 as a result of the increase in general plant and related depreciation  
10 expense due to the merger.

11 Q. Did Mr. Siemek prepare a schedule intended to illustrate how the SJLP  
12 merger has produced savings for **both** the L&P and MPS divisions?

13 A. Yes. On pages 6 through 8, of Mr. Siemek's direct testimony, he describes his  
14 Schedule VJS-1 which is intended to show how lower support costs (allocated corporate  
15 overhead expense) benefit both MPS and L&P as a result of the merger. Column F reflects a  
16 \$.12 savings to the L&P division and a \$.78 savings to the MPS division.

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1 Q. Does Mr. Siemek's Schedule VJS-1, described in your last answer, provide an  
2 accurate example of Mr. Siemek's proposed merger savings adjustments in this case, Case  
3 No. GR-2004-0072?

4 A. No, it does not. Mr. Siemek's proposal to share merger savings in this case,  
5 Case No. GR-2004-0072, is limited to the MPS division. No merger savings have been  
6 identified for the L&P division.

7 Q. Please summarize your position regarding Mr. Siemek's proposed merger  
8 savings sharing adjustments for the MPS division.

9 A. Mr. Siemek's adjustment should be rejected because it considers only merger  
10 savings for the MPS division while ignoring a significant merger cost to the L&P division.  
11 Under Mr. Siemek's proposal, L&P's ratepayers are not benefiting from any merger savings.  
12 To the contrary L&P customers are having to bear 100% of the cost of the post merger  
13 increase in general plant and related depreciation expense. The unfairness of this Aquila  
14 proposal is obvious. The SJLP merger, Case No. EM-2000-292 was presented to the  
15 Commission, by Mr. Siemek, as being beneficial to the L&P ratepayers. Not only has  
16 Mr. Siemek failed to identify any savings to the L&P ratepayers, he is recommending that  
17 L&P ratepayers bear the burden of an additional \$187,405 increase in their rates as a direct  
18 result of a general plant increase resulting from the merger. The Commission should not  
19 view this proposal on a MPS division only basis as recommended by Mr. Siemek. Fairness  
20 dictates that the impact of the merger on both divisions be considered in deciding this issue.

21 Q. Are you the only Staff witness addressing this issue?



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1           A.     No.    The Staff's position on Mr. Siemek's proposed merger savings  
2 adjustments is also addressed in the rebuttal testimony of Staff witnesses  
3 Cary G. Featherstone, Janis E. Fischer and Mark L. Oligschlaeger.

4           Q.     Does this conclude your rebuttal testimony?

5           A.     Yes it does.