

*Exhibit No.:*  
*Issue:* Accounting Authority Orders  
*Witness:* Phillip K. Williams, C.P.A., C.I.A.  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* ER-2007-0004  
*Date Testimony Prepared:* March 20, 2007

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**PHILLIP K. WILLIAMS, C.P.A., C.I.A.**

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

**CASE NO. ER-2007-0004**

*Jefferson City, Missouri*  
*March 2007*

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

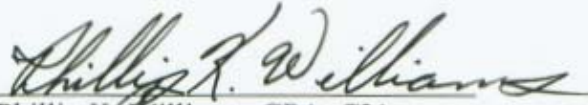
In the matter of Aquila, Inc. d/b/a Aquila Networks- )  
MPS and Aquila Networks-L&P, for authority to )  
file tariffs increasing electric rates for the service )  
provided to customers in the Aquila Networks-MPS )  
and Aquila Networks-L&P service area )

Case No. ER-2007-0004

**AFFIDAVIT OF PHILLIP K. WILLIAMS, CPA, CIA**

STATE OF MISSOURI       )  
                                      )  
COUNTY OF COLE       )       ss.

Phillip K. Williams, CPA, CIA, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
Phillip K. Williams, CPA, CIA

Subscribed and sworn to before me this 4th day of March, 2007





ASHLEY M. HARRISON  
My Commission Expires  
August 31, 2010  
Cole County  
Commission #06898978

## SURREBUTTAL TESTIMONY

**OF**

**PHILLIP K. WILLIAMS, CPA, CIA**

**AQUILA, INC.**

**d/b/a AQUILA NETWORKS-MPS-ELECTRIC and  
AQUILA NETWORKS-L&P-ELECTRIC**

**CASE NO. ER-2007-0004**

Q. Please state your name and business address.

A. My name is Phillip K. Williams, and my business address is Fletcher Daniels  
State Office Building, Room G8, 615 East 13th Street, Kansas City, MO 64106.

Q. Did you pre-file direct and rebuttal testimony in this proceeding?

A. Yes. I filed direct testimony on January 23, 2007, on plant and plant related issues, and rebuttal testimony on February 20, 2007, on the issue of accounting authority orders.

Q. What is the purpose of your surrebuttal testimony?

A. I respond to the rebuttal testimony of the Office of Public Counsel (Public Counsel) witness Ted Robertson on the issue of inclusion of the unamortized portion of Accounting Authority Orders (AAO's) in rate base.

## ACCOUNTING AUTHORITY ORDERS (AAO)

Q. What Accounting Authority Orders are at issue in this case?

A. Three Accounting Authority Orders are at issue in this case. The Commission granted the first two Accounting Authority Orders to authorize Aquila to defer depreciation expenses, property taxes, and carrying costs associated with the capacity life extension and

1 western coal conversion projects at its Sibley generating station. The Commission granted  
2 these authorizations to defer and seek recovery of these costs in its Accounting Authority  
3 Orders entered in Case Nos. EO-90-114 and EO-91-358, and they were subsequently  
4 reauthorized in Case Nos. ER-90-101 and ER-93-37. The Commission also granted Aquila  
5 the authority to defer and amortize costs incurred due to an ice storm in what is now its MPS  
6 service area in January 2002. The Commission granted that authority in Case No.  
7 EU-2002-1053. Staff's inclusion in expense of the remaining unamortized Accounting  
8 Authority Order associated with the Ice Storm remains an issue in this case.

9 Q. What is the current issue concerning the Accounting Authority Orders related  
10 to Aquila's Sibley generating station?

11 A. In his rebuttal testimony, Public Counsel witness, Ted Robertson reiterates his  
12 direct testimony on whether the unamortized balance of the AAO's associated with the  
13 Sibley rebuild and the western coal conversion should be included in rate base. Additionally,  
14 Mr. Robertson raises Public Counsel's objection to including the unamortized portion of the  
15 Ice Storm AAO balance at December 31, 2006, in expense.

16 Q. Mr. Robertson's rebuttal testimony starting on page 3, line 12, states: "it is my  
17 understanding that the Company has included in its cost of service an annual level of expense  
18 that represents a full twelve months of expense, while the MPSC Staff has proposed a slightly  
19 lower level of expense amortization based apparently on a remaining unamortized balance  
20 that does not match with the Commission's Order for the AAO. Public Counsel believes that  
21 both amounts are inappropriate." Did Staff include a level of expense amortization base upon  
22 a remaining unamortized balance of the Ice Storm AAO?

1           A.     Yes. Staff has included the unamortized balance of the Ice Storm AAO as of  
2     December 31, 2006, as amortization expense in the current case. This methodology is  
3     consistent with Staff's methodology in the recent KCPL rate case, Case No. ER-2006-0314.  
4     However, Public Counsel has taken the position that no additional recovery of the  
5     amortization expense associated with the Ice Storm AAO should be allowed in rates.

6           Staff believes that the consistent treatment of amortizations and the principle of  
7     matching revenues and expenses requires the Staff to include the recovery of the remaining  
8     unamortized portion of the Ice Storm AAO in the cost of service. Thus, the additional two  
9     months of amortization remaining at December 31, 2006, should be included in the cost of  
10    service. Staff believes that revenues and expenses associated with the test year and the update  
11    period should be consistent and therefore has matched the remaining amortization balance of  
12    the ice storm with the December 31, 2006, updated period.

13          The Ice Storm AAO amortization is scheduled to end in February 2007 when the Ice  
14    Storm AAO is fully amortized on the books of the Company. However, at December 31,  
15    2006 two additional months of amortization of the Ice Storm AAO will still remain. To avoid  
16    an out of period adjustment, Staff has chosen not to go past the December 31, 2006, update  
17    period to eliminate the two additional months of the Ice Storm AAO amortization expense.  
18    To make the adjustment to eliminate the entire ice storm amortization would require an  
19    adjustment beyond the December 31, 2006, update. Making such an adjustment would be a  
20    violation of the principles of matching revenues and expenses which Staff strongly believes is  
21    the proper ratemaking methodology. Staff has chosen not to go outside the December 31,  
22    2006, update period for the sole purpose of eliminating two months of the ice storm  
23    amortization charged to expense.

1           Q.     What is the remaining issue concerning the Accounting Authority Orders  
2 related to Aquila's Sibley generation station?

3           A.     Staff has previously set forth its position concerning the Accounting Authority  
4 orders related to Aquila's Sibley generation station in my direct and rebuttal testimony, and no  
5 new arguments have been brought forth in rebuttal testimony to change Staff's position on this  
6 matter. Therefore, the Commission should rely on my direct and rebuttal testimony for Staff's  
7 opposition to Public Counsel's position regarding the Sibley amortizations for life extension  
8 and western coal conversion. Staff does not believe it is necessary to provide any additional  
9 testimony on this issue at this time.

10          Q.     Does this conclude your surrebuttal testimony?

11          A.     Yes.