Exhibit No.:
Witness: James T. Selecky
Type of Exhibit: Direct Testimony
Issue: Depreciation Rates
Sponsoring Party: Ag Processing, Inc.
Case No.: HR-2005-0450

Before the Public Service Commission
of the State of Missouri

In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Steam Heat Service Provided to Customers in its L&P Missouri Service Area.	))))	Case No. HR-2005-0450

Direct Testimony and Schedule of

James T. Selecky

On behalf of

Ag Processing, Inc.

Project 8418
October 14, 2005

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Before the Public Service Commission
of the State of Missouri

In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Steam Heat Service Provided to Customers in its L&P Missouri Service Area.	))))	Case No. HR-2005-0450

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of James T. Selecky

James T. Selecky, being first duly sworn, on his oath states:

1. My name is James T. Selecky. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Ag Processing, Inc. in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. HR-2005-0450.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things they purport to show.

James T. Selecky

Subscribed and sworn to before this 13th day of October 2005.

CAROL SCHULZ
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Feb. 26, 2008

Notary Public

My Commission Expires February 26, 2008.

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In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Steam Heat Service Provided to Customers in its L&P Missouri Service Area.	))))	Case No. HR-2005-0450

Direct Testimony of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf Ag Processing, Inc.

Q WHAT SUBJECTS ARE ADDRESSED IN YOUR TESTIMONY?

A My testimony will address the book depreciation rates that Aquila Networks - L&P (L&P or Company) is proposing for their electric production and steam production

plant accounts. These depreciation rates impact the revenue requirements of the steam operations. The fact that I have not addressed an issue should not be construed as an endorsement of L&P's position.

Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A A summary of my conclusions and recommendations follows:

1. The Missouri Public Service Commission (Commission or MPSC) should reject L&P's proposed electric and steam production book depreciation rates for the Lake Road steam generating plant.

2. The lives utilized to develop the book depreciation rates for Lake Road should be lengthened from the lives proposed by L&P.

3. The book depreciation rates should be calculated utilizing the straight-line method, broad group procedure, and whole-life technique since this is the Commission's preferred method.

4. Consistent with the Commission's Order in the Empire District Electric Company case, the depreciation rates should not include a component to allow for terminal net salvage. However, the depreciation rates should reflect the net salvage associated with any interim retirements.

5. L&P's proposed depreciation rates for its "steam production" accounts associated with its investment at Lake Road appear to include a provision for terminal net salvage. Also, the depreciation rates for this investment should reflect the life characteristics that are used to develop Lake Road "electric production" depreciation rates.

6. The lives utilized to calculate the depreciation rates for Accounts 375 through 381 should be lengthened to reflect the lengthening of the life of Lake Road.

Q PLEASE SUMMARIZE YOUR CONCERNS ABOUT THE DEPRECIATION RATES THAT L&P IS PROPOSING TO USE TO DEPRECIATE ITS INVESTMENT AT LAKE ROAD.

A First, the depreciation rates were calculated for the electric and steam production plant accounts utilizing a vintage group procedure, combined with the remaining life technique. This represents a departure from Commission-approved past practices.

It is my understanding that the Commission has utilized the straight-line method, broad group procedure, whole-life technique to develop its depreciation rates.

Second, the depreciation rates were developed based on a retirement date for Lake Road that is not adequately supported. The proposed average service lives used to develop the depreciation rates are extremely short.

Therefore, the Commission should reject L&P's proposed production depreciation rates as they are not adequately supported and are inconsistent with past MPSC practice.

Q WHAT IS THE PROJECTED RETIREMENT DATE FOR LAKE ROAD?

A As indicated in the filings made by Aquila Networks in MPSC Case No. ER-2004-0034, the projected retirement date for Lake Road is 2012. This retirement date was utilized to develop the depreciation rates for the Lake Road plant accounts.

Q SHOULD THE COMMISSION UTILIZE THE 2012 RETIREMENT DATE TO DEVELOP THE LAKE ROAD DEPRECIATION RATES?

A No. A review of the depreciation study submitted in Case No. ER-2004-0034 indicates that this life is not adequately supported. I am also not aware of any plans to replace this existing generation. The increase in natural gas costs over the last two years, coupled with the low operating costs of this unit as compared to other alternatives, should result in lengthening the useful life of this facility. Therefore, it is reasonable to assume that life extension should be factored into the development of depreciation rates for Lake Road.

Q DO YOU HAVE ANY SUPPORT FOR EXTENDING THE RETIREMENT DATE?

A Yes. In the testimony filed by Aquila in Docket No. ER-2004-0034, the Company was projecting a retirement date for the Jeffery Energy Center (Jeffery) of 2022. However, in this case, Aquila Networks states in the testimony of Susan Braun that the Jeffery retirement date has been changed to 2040, which represents a lengthening of the life span of 18 years. Therefore, it is reasonable to assume the life span of Lake Road should also be extended.

Q WHAT WAS THE IMPACT ON THE AVERAGE SERVICE LIVES FOR JEFFERY BY CHANGING THE RETIREMENT DATE FROM 2022 TO 2040?

A Increasing the retirement date by approximately 18 years increases Aquila's proposed average service life from approximately 36.5 years to approximately 53 years. It also lowered the composite depreciation rate for Jeffery to 1.05%.

Q WHAT IS YOUR RECOMMENDATION?

A My recommendation is that the Commission should not approve L&P's proposed electric and steam production depreciation rates. The average service lives that were utilized to develop the depreciation rates contained in the Unanimous Stipulation and Agreement in Case Nos. ER-2004-0034 and HR-2004-0024 should be lengthened by ten years and used to develop the electric and steam production depreciation rates. Consistent with Commission past practices, those lives would be utilized to calculate the depreciation rates based on the straight-line method, broad group procedure and whole-life technique.

Q WHAT ARE THE CURRENT APPROVED DEPRECIATION RATES AND LIVES FOR THE ELECTRIC AND STEAM PRODUCTION PLANT ACCOUNTS?

A As contained in the Unanimous Stipulation and Agreement in Case Nos. ER-2004-0034 and HR-2004-0024, the following electric and steam production depreciation rates and life parameters were approved:

TABLE 1

Steam Production Rates and Life Parameters

Account Number	Account	Depreciation Rates	Average Service Life Years
311	Structures & Improvements	2.22%	45
312	Boiler Plant Equipment	2.22%	45
314	Turbine Generator Units	2.22%	45
315	Accessory Electric Equipment	2.63%	38
316	Miscellaneous Power Plant Equipment	2.86%	35

It is my understanding that those depreciation parameters and rates were recommended by the Staff in those cases and apply to Lake Road.

Q HAVE YOU CALCULATED NEW ELECTRIC AND STEAM PRODUCTION DEPRECIATION RATES FOR LAKE ROAD?

A Yes. I have calculated new depreciation rates for Lake Road. This rate applies to all of Aquila's electric production plants. To develop these rates, I increased the average lives that were contained in the Unanimous Stipulation and Agreement by ten years. I also included in the depreciation rates a component for the net salvage associated with interim retirements. I have utilized the net salvage percentages

proposed by Aquila for its electric production plant accounts to develop my depreciation rates.

Q WHAT DEPRECIATION RATES ARE YOU PROPOSING IN THIS CASE?

A Table 2 below shows the depreciation rates, the average service lives and net salvage ratios that I am proposing.

TABLE 2

Proposed Steam Production
Depreciation Parameters and Rates

Account Number	Average Service Life Years	Net Salvage Ratio	Depreciation Rates
311	55	-1.2%	1.84%
312	55	-3.0%	1.87%
314	55	-2.3%	1.86%
315	48	-2.1%	2.13%
316	45	-2.4%	2.17%

The depreciation rates shown in Table 2 are calculated utilizing Aquila's proposed net salvage ratios for the steam production plants and the whole-life technique. The depreciation rates are applicable to all Lake Road investment.

Q PLEASE DESCRIBE HOW YOU DEVELOPED THE NET SALVAGE RATIO SHOWN ON TABLE 2.

A I developed these net salvage ratios from the data contained in Aquila's workpapers. Aquila provided separate net salvage ratios for each plant account for Lake Road, Iatan, Sibley and Jeffery. I weighted Aquila's proposed net salvage by the investment

in each plant and each plant account. This weighting produced the net salvage ratios shown in Table 2 above.

Q DO YOU HAVE ANY COMMENTS TO MAKE REGARDING YOUR PROPOSED AVERAGE SERVICE LIVES?

A Yes. It should be noted that my proposed average service lives are consistent with the average service lives that Aquila is proposing for the Jeffery facility. The average service life that Aquila was proposing for Jeffery is approximately 53 years. The average service life that I am proposing for all of Aquila's steam production plants is approximately the same.

Q DO YOU HAVE ANY COMMENTS REGARDING ANY OTHER L&P STEAM DEPRECIATION RATES?

A Yes. First, it appears that the proposed depreciation rates that are applied to some of the investment at Lake Road contains a component for terminal net salvage. The steam customers receive an allocation of Lake Road "electric production" and "steam production" investment. L&P is proposing different depreciation rates for the Lake Road "electric production" investment and for the Lake Road "steam production" investment. A review of the depreciation parameters utilized to develop the proposed depreciation rates for the "steam production" investment indicate net salvage values of a negative 27.6% for Account 311, a negative 24.9% for Account 312, and a negative 11.2% for Account 315. These net salvage ratios are significantly more negative than the net salvage ratios utilized to develop the depreciation rates for the "electric production" Accounts 311, 312, and 315 for Lake Road. The Lake Road

electric production depreciation rates do not include a component for terminal net salvage.

Finally, the depreciation rates for Accounts 375 and 381 are calculated using the vintage group procedure, combined with the remaining life technique. As indicated previously, the depreciation rates should be calculated utilizing the straight-line method, broad group procedure and whole-life technique. In addition, these depreciation rates appear excessive.

Q WHAT DEPRECIATION RATES ARE YOU PROPOSING THAT THE COMMISSION UTILIZE TO DEPRECIATE THE LAKE ROAD STEAM INVESTMENT ASSOCIATED WITH ACCOUNTS 311, 312 AND 315?

A I am proposing that the Commission utilize the depreciation rates shown in Table 2 of my testimony. I am proposing that the Lake Road depreciation rates for "electric production" and "steam production" be identical.

Q DO YOU HAVE ANY RECOMMENDED CHANGES FOR THE DEPRECIATION RATES FOR ACCOUNTS 375 THROUGH 381 RELATED TO STEAM PRODUCTION?

A Yes. Those depreciation rates should be calculated utilizing the straight-line method, broad group procedure and whole-life technique. In addition, it is reasonable to assume that L&P will be providing steam over the remaining life of the Lake Road plant. Therefore, consistent with lengthening the life and lowering the depreciation rates for Lake Road, I am recommending that the depreciation rates for Accounts 375 through 381 also be lowered.

Q WHAT LEVEL OF DEPRECIATION RATES IS L&P PROPOSING FOR ACCOUNTS 375 THROUGH 381?

A Aquila is proposing depreciation rates that range from 5.86% to 6.64%. These rates are shown on my attached **Schedule 1**.

Q HAVE YOU DEVELOPED DEPRECIATION RATES OF ACCOUNTS 375 THROUGH 381?

A Yes. Table 3 below shows my proposed depreciation parameters and rates for Accounts 375 through 381.

TABLE 3

Proposed Steam Production
Depreciation Parameters and Rates

Account Number	Average Service Life Years	Net Salvage Ratio	Depreciation Rates
375	45	-5.6%	2.35%
376	44	-3.1%	2.34%
379	44	-4.7%	2.38%
380	44	-4.9%	2.38%
381	25	-0.1%	4.00%

Q HOW DID YOU DEVELOP YOUR DEPRECIATION RATES FOR ACCOUNTS 375 THROUGH 381?

A I utilized the lives that were approved in the Unanimous Stipulation and Agreement. I then calculated the depreciation rate utilizing those lives and making an adjustment for net salvage. The net salvage ratios used to develop the rate are the same net salvage ratios that L&P is proposing.

Q HAVE YOU CALCULATED THE IMPACT OF YOUR PROPOSED DEPRECIATION RATES ON AQUILA'S REVENUE REQUIREMENTS?

A Yes. Attached as **Schedule 1** is the impact of my proposed depreciation rates on L&P steam operations. My proposed book depreciation rates reduce L&P's depreciation expense applicable to steam service by $357,214.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Appendix A

Qualifications of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and am a principal with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978, I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company (DECo) in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and troubleshooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

In May of 1975, I transferred to the Rate and Revenue Requirement area of DECo. From that time, and until my departure from DECo in June 1984, I held

various positions which included economic analyst, senior financial analyst, supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division and director of the Revenue Requirement Department. In these positions, I was responsible for overseeing and performing economic and financial studies and book depreciation studies; developing fixed charge rates and parameters and procedures used in economic studies; providing a financial analysis consulting service to all areas of DECo; developing and designing rate structure for electrical and steam service; analyzing profitability of various classes of service and recommending changes therein; determining fuel and purchased power adjustments; and all aspects of determining revenue requirements for ratemaking purposes.

In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc. (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and staff. At DBA and BAI I have testified in electric, gas and water proceedings involving almost all aspects of regulation. I have also performed economic analyses for clients related to energy cost issues.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

A Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In these cases I have testified to rate base, income statement adjustments, changes in book depreciation rates, rate design, and interim and final revenue deficiencies.

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Ohio,

Oklahoma, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the Provinces of Alberta and Saskatchewan. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Florida, Montana, New York, Oregon and Pennsylvania and the Province of British Columbia. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, and rate base adjustments for items such as plant held for future use, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates and rate design.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A Yes, I am a registered professional engineer in the State of Michigan.

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AQUILA NETWORKS
L&P (Steam)
Annualized Depreciation Expense
Year Ending 12/31/04

Line	FERC Account No.	Account Description	Steam Plant in Service 12/31/2004 (1)	Aquila Depreciation Rates (2)	Aquila Annualized Depreciation Expense (3)	Proposed Depreciation Rates (4)	Proposed Annualized Depreciation Expense (5)	Reduction in Depreciation Expense (6)
		Electric Production						
1	311000	STRUCTURES & IMPROVEMENTS - LAKE RD.	$ 1,171,404	4.32%	$ 50,605	1.84%	$ 21,554	$ 29,051
2	312000	BOILER PLANT EQUIPMENT - LAKE RD.	5,779,634	4.53%	261,817	1.87%	108,079	153,738
3	312200	PRECIPATOR BOILER #5 - LAKE RD.	1,935,066	4.53%	87,658	1.87%	36,186	51,473
4	314110	TURBOGENERATOR UNITS - LAKE RD.	4,248	3.54%	150	1.86%	79	71
5	315110	ACCESSORY ELEC. EQUIPMENT - LAKE RD.	292,696	3.68%	10,771	2.13%	6,234	4,537
6	316110	MISC. POWER PLANT EQUIPMENT - LAKE RD.	57,263	5.54%	3,172	2.17%	1,243	1,930
7		**Total Electric Production**	$ 9,240,311		$ 414,175		$ 173,375	$ 240,800
		Steam Production						
8	311000	STRUCTURES & IMPROVEMENTS - LAKE RD.	32,160	6.15%	1,978	1.84%	592	1,386
9	312000	BOILER PLANT EQUIPMENT - LAKE RD.	172,134	5.99%	10,311	1.87%	3,219	7,092
10	315110	ACCESSORY ELEC. EQUIPMENT - LAKE RD.	269,117	6.65%	17,896	2.13%	5,732	12,164
11	375000	INDUSTRIAL - STM-DIST. STR & IMPROV	107,094	6.28%	6,726	2.35%	2,517	4,209
12	376000	INDUSTRIAL - STM-MAINS	1,481,523	5.86%	86,817	2.34%	34,668	52,150
13	379000	INDUSTRIAL - STM-CTYGATE MEA/REG	638,475	6.55%	41,820	2.38%	15,196	26,624
14	380000	INDUSTRIAL - STM-SERVICES	100,842	6.00%	6,051	2.38%	2,400	3,650
15	381000	INDUSTRIAL - STM-METERS	346,166	6.64%	22,985	4.00%	13,847	9,139
16		**Total Steam Production**	$ 3,147,511		$ 194,584		$ 78,170	$ 116,414
17		**Total**	$ 12,387,822		$ 608,758		$ 251,544	$ 357,214

Schedule 1