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BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

HEARING

March 2, 2004

Jefferson City, Missouri

Volume 11

In the Matter of Aquila, Inc. d/b/a)Case No.
Aquila Networks - L&P and Aquila)ER-2004-0034
Networks - MPS, to Implement a General)
Rate Increase in Electricity.)

In the Matter of the Request of)Case No.
Aquila, Inc., d/b/a Aquila Networks)HR-2004-0024
- L&P, to Implement a General Rate)
Increase in Steam Rates.)

BEFORE:

KENNARD L. JONES,
REGULATORY LAW JUDGE.
STEVE GAW, Chair
CONNIE MURRAY,
COMMISSIONERS.

REPORTED BY:
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FOR: Staff of the Missouri Public Service Commission

1 JUDGE JONES: Good morning. My name is
2 Kennard Jones. I am the regulatory law judge presiding over
3 this matter.

4 Today the first thing we will take up in
5 ER-2004-0034 is Service Quality and Reliability. I was told
6 yesterday there is an agreement that will be filed.

7 Mr. Williams, it looks like you have
8 something.

9 MR. WILLIAMS: Judge, we'd ask that that be
10 put off because since OPC's announcement the other day,
11 there have been some revisions. And I think there probably
12 still will be a settlement, but we'd rather take it up later
13 as opposed to now. There were some changes made to the
14 written documentation and not all the parties have had an
15 opportunity to review it yet.

16 JUDGE JONES: Okay. That will be fine.

17 I suppose in that case then we'll move right
18 to Weatherization Programs, Energy Efficiency Programs and
19 Wind Energy Assessment. And first witness is from Aquila.

20 MR. COOPER: Aquila would call Mr. Matthew
21 Daunis.

22 (Witness sworn.)

23 JUDGE JONES: Thank you. You may be seated.

24 MATTHEW DAUNIS testified as follows:

25 DIRECT EXAMINATION BY MR. COOPER:

1 Q. Mr. Daunis, do you have any changes that need
2 to be made to your testimony in this case?

3 A. I have one change. On page 3, line 8, I wish
4 to strike "national average" and insert "minimum federal
5 standard."

6 Q. So that that line would now read, Well above
7 the minimum federal standard of 10 --

8 A. Correct.

9 Q. -- SEER or S-E-E-R?

10 A. Correct.

11 Q. Do you have any other changes?

12 A. No.

13 JUDGE JONES: Could you go through that change
14 one more time?

15 MR. COOPER: Yes, your Honor. It's on page 3,
16 line 8 of Mr. Daunis's Rebuttal Testimony.

17 JUDGE JONES: Okay.

18 MR. COOPER: He has stricken the words
19 "national average" and replaced them with the words "minimum
20 federal standard."

21 JUDGE JONES: Thank you.

22 MR. COOPER: With that change I would offer
23 Exhibit 1076 and tender Mr. Daunis for cross-examination.

24 JUDGE JONES: Exhibit 1076 is admitted into
25 the record.

1 (Exhibit No. 1076 was received into evidence.)

2 JUDGE JONES: And it looks like the City of
3 Kansas City is first up with cross-examination.

4 MR. COMLEY: Thank you, Judge Jones.

5 CROSS-EXAMINATION BY MR. COMLEY:

6 Q. Mr. Daunis, my name is Mark Comley. Forgive
7 me for my throat this morning. I don't know exactly what's
8 going on there, but if you can't hear me, let me know. I'll
9 try to speak up as best I can.

10 I represent the City of Kansas City. And
11 Mr. Jackson of the City of Kansas City prepared some
12 testimony and you had some Rebuttal for that.

13 Let me go back to your background a little
14 bit. I understand that you've had a background in
15 engineering; is that correct?

16 A. Correct.

17 Q. So you have a mechanical engineering degree
18 from the University of Maine?

19 A. That's right.

20 Q. One of the -- a heating state, no doubt, I
21 suspect; is that correct?

22 A. Correct.

23 Q. A lot of heat?

24 A. A lot of snow.

25 Q. A lot of snow. And you also worked for a

1 major heating and air conditioning manufactured. Who was
2 that?

3 A. Carrier Air Conditioning.

4 Q. Carrier. Was that while you were in Maine or
5 Nebraska?

6 A. After I graduated from Maine.

7 Q. And where did you -- where did you work for
8 the Carrier company?

9 A. I worked in Cincinnati, Ohio; and then
10 Syracuse, New York; and Omaha, Nebraska.

11 Q. I've got a few questions about your testimony
12 and just a few background questions to see if we're pretty
13 close on things. Let me ask you this. Would you agree that
14 by weatherizing a low-income customer's residence, for
15 example, so that those residences are more energy efficient,
16 use of energy at that residence would decrease, relatively
17 speaking?

18 A. I would agree with that.

19 Q. And is it also fair to say that at that same
20 residence, their costs for energy would decrease?

21 A. If their impacts decrease, their costs would
22 decrease.

23 Q. Let's go the extra step. Do you think your
24 company would agree that if the costs for service of certain
25 low-income customers would decrease, that the burden of bad

1 debt on the company would decrease?

2 A. I -- I don't know if it would or not, but I
3 would -- I don't know.

4 Q. Are you aware that the company does have
5 uncollectibles for bad debt --

6 A. Yes.

7 Q. -- in the residential category?

8 Are you in a position of saying or agreeing
9 that the level of bad debt at that class of service could be
10 related to over-use of energy?

11 A. I'm not in a position to say that.

12 Q. Are you aware of any of the disconnection
13 rates for the company?

14 A. I'm aware of them, but -- the disconnection
15 rates.

16 Q. Are the disconnection rates in any way related
17 to -- well, the affordability -- well, I'm just almost
18 certain you'll say -- affordability of energy is related to
19 the disconnect rate, isn't it?

20 A. I would assume that.

21 Q. Okay. At page 2 of your testimony you talk
22 about Aquila's commitment to providing low-cost
23 weatherization assistance to low-income residential
24 customers. I'm taking it that your company has no objection
25 to providing weatherization assistance for low-income

1 customers. Is that a correct statement?

2 A. We are providing that for electric space and
3 water heating customers at this time.

4 Q. Now, let me ask you this. Is the company
5 objecting to involving itself in a program that follows
6 Federal Government and Missouri Department of Natural
7 Resources guidelines?

8 A. No.

9 Q. Is the company position saying it's willing to
10 expand it's weatherization programs for low-income
11 residential customers?

12 A. We're willing to look at low-income
13 weatherization programs ex-- possibly expansion, but
14 however, we -- when we first developed this program, we went
15 through an analysis of measures and did a benefit/cost test
16 of those measures for low-income electric customers. And we
17 are implementing all those measures that meet that
18 benefit/cost test. But we would be willing to look at --

19 Q. You're willing to look at an expanded kind of
20 thing?

21 A. Willing to look at measures that meet the
22 benefits/cost test; and if they do, we'd be willing to look
23 at that.

24 Q. Are you now involved in any kind of program
25 that you partner up with a federal or state assistance

1 program?

2 A. Yes.

3 Q. You are?

4 A. In other states.

5 Q. In other states. In Missouri my understanding

6 is that you have not partnered up with the Missouri

7 Department of Energy or any federal program through which

8 the Missouri Department --

9 A. I'm not sure what you mean by "partner."

10 Q. Well, I would say that money that you have

11 available is somehow joined with money available from a

12 federal grant and that is used for your weatherization

13 program.

14 A. Well, these programs are implemented by a

15 Community Action Agency, so I would assume that they are

16 leveraging the dollars that we have available with federal

17 dollars.

18 Q. Now, your Community Action Agency, have you

19 included the City of Kansas City in any of these programs?

20 A. We -- we approached the City of Kansas City

21 five or six years ago to be a partner, but we were not able

22 to come to an agreement for them to implement the program.

23 Q. And now are you prepared to talk about that

24 agreement again?

25 A. The door's open.

1 Q. All right. Okay. You did suggest on page 4
2 of your testimony that you were considering partnering with
3 Missouri Gas Electr-- Missouri Gas Energy rather. You would
4 consider doing that for purposes of your low -- I'm thinking
5 about your low-income weatherization program. Is that a
6 correct assessment of your testimony?

7 A. I said we'd be willing to discuss partnering
8 with them. In the testimony of Mr. Jackson, he mentioned
9 working with Missouri Gas Energy and -- and how that -- how
10 the savings for gas -- the insulation or weatherization
11 could also affect electric savings. So I'd said I would be
12 willing to discuss partnering with Missouri Gas Energy.

13 Q. Now, you don't have any dispute with
14 Mr. Jackson's assessment himself about the effects of
15 weatherization. We've already covered that.

16 A. I do have -- I do want to say though that when
17 we did the analysis of the different measures, for example,
18 wall insulation, ceiling insulation, that in order to make
19 it cost effective, that is, the benefits out -- savings
20 outweigh the cost, that we had to -- that we had to go to
21 electric space and/or water heating customers, that it did
22 not work to insulate just for cooling savings, that the
23 benefits did not outweigh the costs.

24 Q. So your weatherization idea, you would include
25 more than just the heating and cooling. You'd think base

1 load issues -- well, you do have a base load program
2 apparently; is that correct?

3 A. Well, we do offer high-efficient, compact,
4 florescent lamps as part of our low-income program.

5 Q. Has the participation in that program been
6 satisfactory to the company?

7 A. I'm not sure if -- what you mean by
8 "satisfactory." What we -- what we have found is that in
9 going through the caps and feedback from the caps is that
10 there have been very few low-income, single-family, electric
11 space heating customers. So what we have found is that it's
12 become more -- more measures in the compact florescent lamps
13 area.

14 Q. All right. Have you ever examined the MGE
15 weatherization program? Do you understand how it works?

16 A. I have not examined it.

17 Q. Were you aware that in that program
18 Mr. Jackson's agency actually has several duties, but the
19 City itself would perform the audit of the premises
20 initially? Were you aware of that?

21 A. No.

22 MR. CONRAD: Objection, insufficient
23 foundation.

24 JUDGE JONES: He can answer whether or not
25 he's aware of the program.

1 MR. CONRAD: Counsel posed a hypothetical to
2 him in his question.

3 JUDGE JONES: I tend to agree. It seems there
4 should be some evidence that that program actually exists or
5 that that service for Mr. Jackson's -- I'm not even sure
6 what it is. We don't know that that exists.

7 MR. COMLEY: Well, I'd like to test the
8 witness's awareness about the program. Part of his
9 testimony is that he thinks that any program should be in
10 line with one already approved. And I think also that it
11 would be consistent with the program in place.

12 BY MR. COMLEY:

13 Q. And let me ask you -- I'll pose it another way
14 and see if we can --

15 A. I don't think.

16 MR. COMLEY: Is there a ruling on the
17 objection, by the way?

18 JUDGE JONES: The objection's sustained.

19 BY MR. COMLEY:

20 Q. If your weatherization program could be joined
21 with a city assistance program through Mr. Jackson's office,
22 for example, and the services rendered by the City would
23 include the energy audit of the premises, among other
24 things, prepare and let the bids for the work, award the
25 bid, issue the work to the contractors and dispatch the

1 contractors for the job site, and then complete post-audit
2 inspection to see whether or not the work was satisfactorily
3 performed, is that something that the company would be
4 interested in working with?

5 A. Paying for the inspection or paying for the
6 audit? Is that what you're asking me? I'm not -- I'm not
7 exactly sure what your question is.

8 Q. The City would be performing those functions.

9 A. Uh-huh.

10 Q. Is the company interested in having that kind
11 of assistance through the City to perform its weatherization
12 programs?

13 A. What we -- what we have -- what we are -- our
14 program consists of paying for measures that are cost
15 effective such as wall insulation, ceiling insulation --

16 Q. Right now --

17 A. -- etc.

18 Q. Right now --

19 A. And -- and -- excuse me.

20 Q. Go ahead.

21 A. And paying a reasonable administrative fee to
22 install those measures.

23 Q. And that administrative fee is paid to whom?

24 A. To whoever would install those measures.

25 Q. I see. And right now --

1 A. So if that is part of what you're talking
2 about, then --

3 Q. All that work is being done internally by the
4 company; isn't that correct?

5 A. No. It's being -- the program right now, is
6 that what you're asking?

7 Q. With the exception of the work done on the
8 premises and the administrative fee you may pay, the work in
9 setting up -- the task of setting up the workmen, isn't that
10 all done internally by the company?

11 A. No.

12 Q. It's done externally by the company. Who is
13 doing the work for setting that up?

14 A. We're -- we're contracting with Metropolitan
15 Energy Center.

16 Q. Metropolitan Energy Center?

17 A. Right.

18 Q. Let me ask you this again. I'm not clear.
19 You had mentioned that you did not want to have a program
20 that was duplicative of ones you already had in place. Do
21 you understand that the -- is it your understanding that the
22 low-income weatherization -- weatherization plan proposed by
23 Missouri DNR and the City of Kansas City is duplicative of
24 ones you already have?

25 A. I can't tell. There isn't enough detail in

1 the testimony to know what it consists of.

2 Q. And you --

3 A. So that's the reason -- and I didn't say I --
4 that we wouldn't. I said that it -- it could be. And I
5 can't tell from the testimony exactly what is being
6 proposed.

7 Q. And I take it you did not look at the MGE
8 weatherization program that was referred to in Mr. Jackson's
9 testimony; is that correct?

10 A. No, I did not look at that. That's a natural
11 gas program.

12 Q. In your testimony you said that you were
13 concerned that the programs proposed by Mr. Jackson or
14 Ms. Randolph may or may not be in alignment with those that
15 have been approved by the Commission. You have not looked
16 at the MGE experimental program; is that correct?

17 A. That's not what my testimony said. I think I
18 said it may not be in line with the view of the Commission.

19 Q. So would your testimony change if you knew
20 that the Commission had approved similar programs for two
21 other utilities, for instance?

22 A. I don't know what the view of the Commission
23 is with regards to this. That's -- that was -- that's my
24 testimony.

25 Q. But would your attitude change on that if you

1 knew that the Commission had approved two other programs for
2 two other separate utilities like this?

3 A. I would have to see what those programs are.

4 MR. COMLEY: I have no other questions.

5 JUDGE JONES: Thank you, Mr. Comley.

6 Now we'll have questions from the Missouri
7 Department of Natural Resources.

8 MS. WOODS: Thank you, your Honor.

9 CROSS-EXAMINATION BY MS. WOODS:

10 Q. Good morning, Mr. Daunis.

11 A. Good morning.

12 Q. I'm Shelly Woods and I represent the Missouri
13 Department of Natural Resources. I need to adjust this
14 thing.

15 As I understand your testimony in this case,
16 the company is proposing to discuss the Department's
17 proposal but not in the context of this rate case. Correct?

18 A. They -- based upon my experience, I believe
19 that the development and design of energy efficiency
20 programs should not be in a general rate case such as this.

21 My experience in Iowa and Minnesota is that
22 it's -- it is separate and it is a collaborative process in
23 which the parties collaborate in the development of the
24 plan. There is -- there are rules, there are -- there is a
25 filing, there are approved budgets, approved participation

1 levels, approved impact levels, there is a cost recovery
2 mechanism in place that -- and there is an annual adjustment
3 based upon expenses. So that's what my testimony is. I
4 don't believe that this is the proper place to do that. I
5 think it works best in a separate --

6 Q. Well, the only way to add costs to the rate
7 base is through a rate case, is it not?

8 A. I understand that. But my experience is that
9 it doesn't -- that it works best in other -- these other
10 ways.

11 Q. Well, there's no reason the Commission could
12 not provide the dedicated review the company suggests in
13 this proceeding, is there?

14 A. If there was a structure set up, a
15 collaborative process, a cost recovery mechanism in place,
16 an approval like I mentioned of budgets, participation,
17 impacts, if that could be done --

18 Q. And, in fact, there's no reason --

19 A. -- and --

20 Q. I'm sorry. Were you through?

21 A. I'm through.

22 Q. And there's no reason that the Commission
23 could not order the parties to engage in just that type of
24 collateral process, is there?

25 A. I don't know. That would be up to the

1 Commission.

2 Q. And one of the ways we find out what the
3 Commission's position is in this type of case is by going
4 through this process; isn't that correct?

5 A. Yes. I would say so.

6 Q. Do you know when Aquila will file its next
7 rate case?

8 A. I do not.

9 Q. And after the events of the last week, it may
10 be a while before any of us are ready for Aquila to file its
11 next rate case.

12 A. Do you want me to answer that?

13 Q. I suppose that's a rhetorical question.

14 The program in the MPS service area is not
15 consistent with the federal low-income weatherization
16 program, is it?

17 A. I don't know. What is the federal low-income
18 weatherization program?

19 Q. Are you familiar with the federal low-income
20 weatherization program?

21 A. Our program is -- offers incentives for
22 measures -- cost effective measures for low-income customers
23 that -- there are attic insulation, wall insulation, etc.,
24 for customers that have electric space and water heating and
25 then also compact florescent lamps for customers.

1 Q. Well, the federal program offers more than
2 just what you've indicated, does it not?

3 A. I'm sure it does, yes, it does.

4 Q. And the federal program is a proven
5 weatherization assistance program, is it not?

6 A. It's a federal program.

7 Q. And it's a proven -- has a proven track
8 record, doesn't it?

9 A. To my knowledge, yes.

10 Q. Would you agree with me that the MPS program
11 does not offer a comprehensive approach to weatherization
12 needs of a residence?

13 A. No.

14 MR. CONRAD: Excuse me. Argumentative.

15 JUDGE JONES: Can you rephrase the question?

16 MS. WOODS: I was asking.

17 BY MS. WOODS:

18 Q. So it's your position that the MPS program
19 does offer a comprehensive approach to weatherization?

20 A. Yes, it is.

21 Q. Are you aware that AmerenUE is implementing a
22 low-income weather program without needing to change -- or
23 without having changed its integrated resource plan and
24 joint agreement?

25 A. I'm aware they have a program. I do not know

1 the details of it.

2 MS. WOODS: If I may approach.

3 JUDGE JONES: Yes, you may.

4 BY MS. WOODS:

5 Q. I'm going to hand you what's been marked
6 Rebuttal Testimony Exhibits of Frank A. DeBacker and if you
7 could take a look at the page No. 1 marked Joint Agreement.
8 And after you've had a chance to do that, if you could tell
9 me what it is, please.

10 A. This looks like a Joint Agreement between
11 Missouri Public Service, Staff and the Office of Public
12 Counsel that in lieu of doing an integrated resource plan,
13 that we were to do -- do several things that we agreed to in
14 the Joint Agreement.

15 Q. That plan is largely a reporting requirement,
16 isn't it, to report on the company's progress?

17 A. No. It also consists of developing a
18 low-income program.

19 Q. And by February 1 of 1999, the company was to
20 report, among other things, how the programs would be
21 implemented?

22 A. That's correct.

23 Q. But it was left to the company to design the
24 program. Right?

25 A. Right. The company designed the program and

1 then -- then we reported -- in a meeting with Staff and
2 Office of Public Counsel, we shared the details of the
3 design and opened it up for questions and for any comments
4 to that design.

5 Q. And there's nothing in that agreement that
6 would prevent Aquila from redesigning the program, is there?

7 A. I don't believe so.

8 Q. And the agreement does not require or specify
9 a specific program, does it?

10 A. I'll have to look. I think it specifically
11 just talks about a low-income program.

12 Q. But it doesn't give any specifics of the
13 program, does it, other than it's to be a low-income
14 weatherization program?

15 A. Well, it talks about going through a measure
16 screening and that -- that the -- that the measures have to
17 meet a benefit/cost test. So there -- you know, it --
18 there's some detail in here as to how that program's to be
19 developed.

20 Q. When the Commission approved the agreement, it
21 did not approve the specific program that Aquila is
22 currently operating, did it?

23 A. It approved the Joint Agreement.

24 Q. Right. But the weatherization program had not
25 even been designed at the time the Commission approved the

1 Joint Agreement, had it?

2 A. No.

3 Q. Aquila is using wind energy -- excuse me, is
4 using wind to reduce energy in the state of Kansas.

5 Correct?

6 A. Yes.

7 Q. And if the new data obtained by the Department
8 is accurate, wouldn't this be an energy source Aquila would
9 be willing to explore in Missouri as well?

10 A. I don't know. I -- my expertise is in -- in
11 the management and direction of our energy efficiency
12 programs, not in the wind energy area.

13 Q. And who would be that expert?

14 A. I don't know who that would be.

15 Q. Currently Aquila does offer residential energy
16 audits. Is that an accurate statement?

17 A. Yes.

18 Q. But by mail?

19 A. Yes. It's a mail-in audit.

20 Q. And it is a time-consuming process, is it not?

21 A. It's -- it's a process where we use an outside
22 contractor to administer the program. And the average cost
23 per audit is running about \$30 per audit. So it's -- it's a
24 pretty reasonably cost audit.

25 Q. What about how long it's taking?

1 A. I don't know the exact time period, but we --
2 we're able to turn around audits that are received by the
3 contractor in a very timely manner.

4 Q. Do you know how long --

5 A. It's a system -- the system is set up. I
6 mean, it's a computerized system. Once they get the
7 survey -- the company gets the survey back, they're able to
8 input it into the computer and provide a report back.

9 So it's not -- I don't believe it's a real
10 time-consuming process. Especially when, like I mentioned,
11 that the cost per audit is only \$30 per audit and that
12 includes everything, sending out the survey, the audit
13 report, everything, so --

14 Q. If people were able to access the survey
15 online, that would be more efficient, wouldn't it?

16 A. It would be -- I think it would add another
17 customer service or offering that would be -- that could be
18 beneficial. However, looking at the cost of that \$250,000
19 first time and over \$100,000 per year, I'm not sure how cost
20 effective that is. And I'm unaware of what -- the impacts
21 there would be from -- from doing such an online audit.

22 Q. You haven't done any kind of a study of that.
23 Correct?

24 A. Generally speaking, audits do not have very
25 much impact, doing audits.

1 Q. Doing audits alone?

2 A. Yes. In other states that we -- we do these
3 programs, the -- the departments and the commissions do not
4 allow any impacts.

5 Q. Well, you have to be able to offer the
6 weatherization services in addition to the audit. Is that
7 what you're saying?

8 A. Weatherization? We're talking about -- I
9 thought we were talking about residential audits.

10 Q. Right. Residential energy audits.

11 A. Just -- okay. You mentioned weatherization.
12 It's a separate -- separate. Right? We're talking about
13 online audits here.

14 Q. Well, if you're doing an energy efficiency
15 audit, that helps the -- the idea, isn't it, is to provide
16 them with some information to take additional action --

17 A. Right.

18 Q. -- to make their home more energy efficient?

19 A. Right. It provides them information.

20 Q. And that may also cause them to do some things
21 that would fall into the weatherization category; isn't that
22 right?

23 A. We're not talking low-income here. Right?

24 Q. No.

25 A. We're talking -- it could, yes.

1 Q. Not necessarily just low-income.

2 A. Right.

3 Q. Does Aquila's low-income program have
4 conditions attached to the money that Aquila is providing?

5 A. What do you mean by "conditions"?

6 Q. Well, the way in which the money is spent, the
7 items for which the money is spent.

8 A. There are certain items that we pay for. If
9 that's what you mean by conditions --

10 Q. Yes.

11 A. -- we -- there are certain items that we pay
12 for and a certain amount per item that we pay for.

13 Q. And only those items. Correct?

14 A. And only those items, again, that meet the
15 benefit/cost test of the total resource cost test in which
16 savings outweigh the costs.

17 Q. Would it be accurate to say that very few
18 homes have received weatherization benefits through the
19 funding provided by the Aquila program?

20 A. There's been since July 1st, 1999, 70 homes
21 and 330 measures.

22 Q. And that's since July 1st of 1999?

23 A. Right.

24 Q. If energy is more affordable, consumers would
25 be more likely to be able to pay their energy bill. Isn't

1 that an accurate statement?

2 A. If they use that money for paying the energy
3 bill.

4 Q. And the more consumers are able to pay their
5 bills, the fewer arrearages there are likely to be.
6 Wouldn't that also be an accurate statement?

7 A. If they use that money to pay their bills.

8 MS. WOODS: And that's all I have for you.
9 Thank you.

10 THE WITNESS: Thank you.

11 JUDGE JONES: Thank you, Ms. Woods.

12 Now we'll have cross-examination from Sedalia
13 Industrial Energy Users' Association.

14 CROSS-EXAMINATION BY MR. CONRAD:

15 Q. Good morning, Mr. Daunis.

16 A. Good morning.

17 Q. My name is Stu Conrad. I'm here for the group
18 of industries in Sedalia and a couple of folks up in another
19 area that your company serves. We'll just talk about the
20 Sedalia folks today.

21 I wanted to ask you, if you would, please,
22 turn to page 4.

23 A. Page 4 of my testimony?

24 Q. Yes, sir. Of your Rebuttal Testimony. By the
25 way, you only filed Rebuttal. Am I correct?

1 A. Correct.

2 Q. And I'm looking at line 11. And there's a
3 question and answer there if you're implementing all cost
4 effective measures. Do you see that?

5 A. Yes.

6 Q. First of all, I was puzzled when I looked at
7 that because the phrase "all cost effective measures" can be
8 read in a couple of ways. And I wanted to explore, first of
9 all, which way you meant that.

10 Are you meaning that you are implementing --
11 "you" being Aquila -- every cost effective measure that
12 there is, or do you mean by that statement and the answer,
13 of course, that the measures you are implementing are all
14 cost effective?

15 A. The measures that we are implementing are all
16 cost effective.

17 Q. Okay. Now, that takes me to the next thing
18 because I want to, as Mr. Micheel sometimes says, unpack
19 that a little bit. When you use the term "cost effective,"
20 what do you mean by that?

21 A. What I mean is that the savings that the
22 measure generates in terms of energy outweigh -- is greater
23 than the costs -- the program costs for that measure. For
24 example, if a compact florescent lamp at a certain size, for
25 us to have a program that would pay an agency to put that

1 in, that -- that the savings generated from that versus
2 standard -- a standard lamp, that the savings would be
3 greater than the cost that we would pay to put -- put that
4 in a customer's home.

5 Q. Now, you also used the term, I think, in
6 responding to some inquiries about this same area, a
7 cost/benefit analysis. I think you actually used the term
8 benefit/cost --

9 A. Right.

10 Q. -- test?

11 A. Right.

12 Q. You turned it around from how I usually hear
13 it. First of all, are we talking about the same thing when
14 we say benefit/cost or cost/benefit?

15 A. Yes -- I believe so.

16 Q. Okay.

17 A. What we did in the low-income program is we
18 looked at the total resource costs test. We looked at all
19 the different tests. There are five -- I believe five
20 different tests, but we looked at the total resource cost
21 test and we looked at it for each measure.

22 And we looked -- we worked with our
23 consultant, Applied Energy Group out of Long Island, and we
24 looked at -- at heating, we looked at cooling, we looked at
25 different areas of a home and we looked at different

1 measures and we analyzed those and we did a detailed
2 cost/benefit -- benefit/cost analysis.

3 Q. Now, you also used the term that I've heard
4 before and I want to -- I just want to see if we're talking
5 about the same thing. You used the term "screen"?

6 A. Screening measures, right.

7 Q. When you use the term "screen," what do you
8 mean?

9 A. Screening is -- means basically looking at
10 different measures, lighting measures, cooling measures,
11 heating measures. Screening them for these tests, for these
12 benefit/cost tests. That's what I mean. What comes out of
13 the screen, what passes the test, what doesn't. Screening
14 methodology.

15 Q. So that's kind of a shorthand for this
16 cost/benefit test?

17 A. It's a process that we go through.

18 Q. Okay. Now, going back to page 4 and line 11
19 through 13, are there measures that are not cost effective
20 in your estimation and experience?

21 A. There are measures that did not pass the test,
22 the benefit/cost test when we did the analysis, that -- that
23 did -- that the costs were higher than the benefits.

24 Q. And, Mr. Daunis, I don't want to chew up the
25 record here with a long list, but just to help me in my

1 understanding of this, could you give me a couple of
2 examples of some measures that did not pass that test?

3 A. Excuse me here.

4 Q. Sure.

5 A. Some of the measures that were looked at, for
6 example, room air conditioner replacement was a measure that
7 didn't pass the test. Replacing the hot water heater, storm
8 windows, some -- those are an example of some of the
9 measures that did not pass the test.

10 Q. And, again, the test we're talking about there
11 is that there was -- as compared to the cost of the
12 measure --

13 A. As opposed to the cost -- the program costs,
14 yeah, the -- that we were going to -- including cost of the
15 measure, plus administration -- an administrative cost that
16 we would pay, that those costs over the lifetime savings of
17 the measure did not meet the --

18 Q. So -- I'm sorry.

19 A. -- total resource cost.

20 Q. So to jump on the example of the storm windows
21 costs, what I'm understanding you to say, it's not just the
22 cost of the storm windows themselves, but it would be
23 cost -- the cost of the program?

24 A. Yeah. We -- we built in -- we built in an
25 administrative -- a cost -- an administrative cost, program

1 cost, delivery cost.

2 Q. Now, you mentioned a program -- well, first of
3 all, let me ask you how many other states do you work in for
4 Aquila in this area?

5 A. Three other states.

6 Q. And those are?

7 A. Iowa, Minnesota and Colorado.

8 Q. Okay. Now, you mentioned Iowa. You're
9 familiar, I take it, with the approach that the Iowa
10 Utilities Board has chosen up there?

11 A. Yes, I am.

12 Q. And I believe you mentioned the term
13 "collaborative"?

14 A. Yes.

15 Q. Could you explain for the benefit of the
16 record here what that means?

17 A. What that is is when we began designing and
18 developing these programs, we asked all interested parties
19 if they were interested, to join us in helping design and
20 develop these programs. And we -- we solicited their input.
21 And we went through three collaborative meetings.

22 And in the end we came up with a -- just a
23 fantastic energy efficiency plan, a five-year plan for the
24 state of Iowa that was due to a collaborative effort of
25 parties providing input. And that's -- that's the kind of

1 process it was.

2 We took their input, we came back, we -- we
3 showed the collaborative, you know -- the process, where we
4 were at in the process, we solicited more input until we
5 came up with a -- a plan that met the needs of all the
6 customers in the state, all of our customers.

7 Q. Okay. And I take it it would be a fair
8 summary of your testimony that an approach like that would
9 be your preference rather than doing something in the
10 context of a specific rate case?

11 A. Yes. That -- that would be my approach. I
12 believe that is an approach that is very effective.

13 Q. What is there about these programs,
14 Mr. Daunis, that is benefited by that type of an approach as
15 opposed to trying to do it in a rate case?

16 A. There is -- well, first of all, I think all
17 the parties -- I mean, it's a collaboration. I mean, it's a
18 collaborat-- you go through the collaborative methods. So
19 it's not like the parties don't know when we're filing it
20 what -- what's being filed.

21 And also, there's a great degree of analysis
22 that goes into developing these programs, looking at cost
23 effective measures, looking at ways to deliver it,
24 developing a structured budget, develop-- coming up with a
25 goal for participation, impact goals based upon measures.

1 So it's quite detailed. And in the end I think it's a very
2 comprehensive and good plan.

3 Q. Would it be fair to say that the process that
4 you've just described is -- or can be fairly complicated in
5 the sense of the analysis that's needed?

6 A. Yes, it is. It is a complicated process. In
7 fact, we went through -- in Iowa we went through -- before
8 we even started developing the program, we went through a
9 technical analysis of measures which was very detailed.

10 Q. I'm approaching the end here, Mr. Daunis, but
11 I did want to ask you, I believe Ms. Woods suggested
12 something about that isn't a rate case the only way to get
13 something into rate base. Do you recall that question --

14 A. Yes.

15 Q. -- or roughly that?

16 A. Uh-huh. Yes.

17 Q. Are we talking about items at least -- and I
18 understand you're not here today as an expert on regulation,
19 but to the extent of your knowledge -- and you can certainly
20 say if you don't know -- are the items we're talking about
21 here, would these be in the public utility's rate base?

22 A. The -- the amount of dollars being proposed
23 by -- or --

24 Q. Correct.

25 A. -- Ms. Randolph? No. They are not in -- in

1 our rate case, not in our rate --

2 Q. Base?

3 A. -- base, no.

4 Q. Okay. And you mentioned, I think in response
5 to a question also from Ms. Woods, about wind energy?

6 A. Yes.

7 Q. And you disclaimed --

8 A. I disclaimed lack of knowledge in that area.

9 Q. Do you know enough about that to know where
10 that's located, that project?

11 A. I believe it's in southwest Kansas.

12 Q. Do you know -- I'm sorry. Go ahead, sir.

13 A. I believe that's the area -- the area out --
14 out in western Kansas.

15 Q. Down here in the Hanston area?

16 A. I believe so.

17 Q. Do you know anything about the geography down
18 there?

19 A. Sort of looks like the moon, I think. I
20 believe.

21 Q. I'm not -- if you don't know, just say --

22 A. I don't know the exact geography of what it
23 looks like.

24 Q. Do you live in Kansas or Missouri, sir?

25 A. I live in Kansas.

1 Q. Has your experience -- in Johnson County, I
2 presume?

3 A. Yes. Don't hold that against me.

4 Q. No. I do too, so don't feel that.

5 What I was going to ask you is, in your common
6 experience, not asking your expertise as a weatherization or
7 measures person, is Kansas more windy than Missouri?

8 A. I don't know.

9 Q. Okay.

10 A. Sorry.

11 MR. CONRAD: Thank you, Judge.

12 JUDGE JONES: I take it you don't have
13 questions on behalf of AG Processing?

14 MR. CONRAD: No, no. I'm together. I don't
15 try to split my personality. Some might ask me too.

16 JUDGE JONES: I don't see Major Paulson here
17 on behalf of Federal Executive Agencies. I will come back
18 to him.

19 At this time I'll move on to Public Counsel.

20 MR. COFFMAN: Thank you.

21 CROSS-EXAMINATION BY MR. COFFMAN:

22 Q. Good morning, Mr. Daunis.

23 A. Good morning.

24 Q. I'm John Coffman with Public Counsel here
25 representing ratepayers.

1 And I assume that you're familiar with the
2 position statement that Aquila issued on this particular
3 issue, are you?

4 A. The position statement?

5 Q. Yes.

6 A. Of?

7 Q. On this particular issue.

8 A. You mean my tes-- I'm not sure what you --

9 Q. There's a document that is filed with the
10 Commission asking if the parties have a position on a
11 particular issue and they often state a simple one- or
12 two-sentence answer --

13 A. I'm not.

14 Q. -- to the question.

15 A. No, I'm not familiar with that.

16 Q. Let me read this and see if that -- what I
17 think has been filed on behalf of Aquila and you can tell me
18 if you think that accurately reflects what you understand
19 Aquila's position to be on this issue.

20 The issue is titled Weatherization Programs,
21 Energy Efficiency Programs and Wind Energy Assessment. The
22 question is, Should the cost of service include dollars to
23 fund Weatherization Programs, Energy Efficiency Programs and
24 a Wind Energy Assessment for L&P service territory? If yes,
25 what is the amount to be included?

1 And why it says only L&P I'm not sure, but the
2 answer I think is answering for all these various programs
3 in that it says, As long as the dollars for the involved
4 programs are added to the current cost of service, then
5 Aquila is not opposed to the programs. The amounts
6 suggested by MDNR would be appropriate if they were added to
7 the cost of service.

8 Do you agree that is an accurate description
9 of Aquila's position on the issues here as they relate to
10 the MPS service territory?

11 A. Yes. And that's -- that's what my testimony
12 talks about is -- is a cost recovery mechanism.

13 Q. Well, in your testimony you suggest that there
14 should be no decisions made in this particular rate case;
15 isn't that correct?

16 A. That is correct. In my testimony -- in my
17 testimony in that -- as I mentioned earlier, I think the
18 appropriate -- that there needs to be -- it needs to be
19 separate because of -- there needs to be some structure,
20 some rule, some kind of collaborative process in developing
21 these programs.

22 Q. Okay. But would it be fair to say that
23 provided that all the money was coming from ratepayers, you
24 wouldn't have a problem with the Commission approving these
25 programs? Is that --

1 A. If -- if --

2 Q. Is that a fair understanding of Aquila's
3 position here?

4 A. Yes. But I have some concerns about the costs
5 that are being proposed.

6 Q. Do you think it may be more reasonable to
7 approve programs at a lower level? Is that what you're
8 saying?

9 A. I don't know. I think --

10 Q. Okay.

11 A. -- I think there needs to be some
12 collaborative effort, some discussion, some more detail as
13 to how -- how those budgets that were proposed were
14 developed, how the participation levels were developed.

15 Q. And if I understand your testimony earlier,
16 you believe a collaborative, where several experts could sit
17 down and hash out what works and what doesn't through
18 analysis, has been a productive way, in your experience, to
19 produce a good program?

20 A. Yes. I -- I mean --

21 Q. As opposed to an on-the-record
22 cross-examination --

23 A. Yes.

24 Q. -- situation?

25 A. And that's where I'm trying to go with this is

1 that -- that a collaborative methodology structure, design
2 development process works in other states, works in Iowa,
3 works in Minnesota.

4 Q. Let me ask you a quick question about Iowa.
5 Did that collaborative process include weatherization and
6 energy efficiency experts? Were they invited to the
7 collaborative?

8 A. Yes. Department of Human Rights was part of
9 the collaborative.

10 Q. Were there experts in providing low-income
11 services invited to the table at that collaborative?

12 A. Yes. Any interested party to the -- to our
13 plan.

14 Q. And did that collaborative in Iowa establish
15 some change in utility rates at the end of that process?

16 A. Yes.

17 Q. And how was that rate change implemented?

18 A. That rate -- the way the rates are implemented
19 on -- on our energy efficiency programs is on an annual
20 basis. And basically we collect against that approved
21 budget as we spend the money on a month-by-month basis. And
22 then at the end of the year, there's an adjustment either up
23 or down depending upon whether we under-collected or
24 over-collected. But that's how -- that's basically how the
25 process works as far as --

1 Q. So are you --

2 A. -- recovery.

3 Q. Are you telling me there's a one-time
4 charge -- surcharge, sur-credit to utility ratepayers'
5 bills?

6 A. Not a one-time. It's a volumetric rate.

7 Q. So there is already a volumetric component of
8 the rates that you're familiar with --

9 A. For --

10 Q. -- being charged in Iowa?

11 A. For energy efficiency programs.

12 Q. Okay. I'm a little bit confused by your
13 testimony. If I can direct you to page 2 of your Rebuttal
14 Testimony, lines 13 through 17, you note that, Each of the
15 programs being proposed by the Missouri Department of
16 Natural Resources bears a cost and that a clear
17 determination of cost recovery and cost assignment should be
18 made.

19 Is that a correct reading of your testimony?

20 A. Yes.

21 Q. You go on to state that, Because of these
22 uncertainties, quote, we do not believe that these
23 recommendations should be part of this electric rate case,
24 but should be -- should await a dedicated review by this
25 Commission.

1 And my question to you is, what better
2 situation than a rate case is there for determining cost
3 recovery and cost assignment?

4 A. Well, as I mentioned, in Iowa and Minnesota,
5 it is a separate -- it is separated from a rate case. Now,
6 I understand that maybe that is -- the situation is the
7 funding can only come from a rate case here. I'm only
8 testifying as to my experience and knowledge in this area
9 and the way that it works best. And it works best outside
10 of a rate case in a -- as a separate entity.

11 Q. Okay. Let me ask you, is Aquila asking for
12 any rate recognition in this particular rate case for any of
13 the energy efficiency or weatherization activities that
14 you're aware of in this particular case?

15 A. Could you repeat that again?

16 Q. To your knowledge, is Aquila asking that the
17 rates be increased in this case in recognition of some
18 energy efficiency or weatherization activity that Aquila is
19 conducting?

20 A. I believe that the costs -- the 2002 costs
21 that were expended are -- are part of this rate case.

22 Q. Do you know what those costs are? Do you know
23 the amount?

24 A. I think they're in the amount of 27,000 or
25 28,000 dollars, somewhere in that area.

1 Q. Do you know if your salary is being included
2 in the rate calculations in this case?

3 A. I don't know that.

4 Q. Okay. Let me ask you about what activities
5 are going on. You lead off in describing programs with the
6 heat pump activity that you're involved with. I assume
7 that's one of your major job responsibilities is to --

8 A. One of my major job responsibilities? I
9 wouldn't say that.

10 Q. Okay. But on page 3 you do talk about the
11 advantages of heat -- energy efficient heat pumps?

12 A. Uh-huh.

13 Q. And what does Aquila provide as far as
14 incentives to consumers to purchase a heat pump?

15 A. We don't provide a rebate incentive. We
16 provide financing --

17 Q. I see.

18 A. -- for these -- for these -- for heat pumps
19 and condensing units and also education. I mean, we provide
20 information available on -- that customers can get energy
21 efficiency information on our -- our website. Also, in
22 dealing with our HVAC contractors promoting energy efficient
23 products.

24 Q. And if you convince a customer to install a
25 heat pump as opposed to a gas furnace or replace out an old

1 gas furnace, Aquila starts making more money, doesn't it?

2 A. We will -- we would -- when we deal with
3 customers, we will -- we will try to recommend what's in the
4 best interest of the customer as far as their savings.

5 Q. But the answer to my question is that Aquila
6 makes more money on the electric side if a customer
7 purchases a heat pump?

8 A. If they're -- if they're using electric as
9 opposed to gas, we will -- there is more kilowatt hours
10 used.

11 Q. Okay. Hold on just a second. I need to
12 get -- maybe I have it here.

13 You list off various programs that you engage
14 in of florescent lights, home insulation and so forth. Can
15 you tell me, you know, in the test year, say, how many MoPub
16 customers have actually benefited from these programs?

17 A. In the test year?

18 Q. Yes.

19 A. I'd have to look.

20 Q. If you don't have that information handy, I
21 could go on.

22 A. For which program?

23 Q. For all the programs combined.

24 A. How many participants?

25 Q. Yes.

1 A. Well, I need to add them up here. It looks
2 like over 1,500 measures or participants --

3 Q. Okay.

4 A. -- when you -- when I'm looking at lighting
5 and all the programs.

6 Q. Okay. Can I direct your attention to
7 Ms. Randolph's Direct Testimony, be Exhibit 1077?

8 A. Okay.

9 Q. And page 14 of that testimony -- pages 13 and
10 14. On page 13 she asks a question regarding the current
11 weatherization program administered by Aquila. And then on
12 page 14 she states that, From July 1, 1999 through October
13 2002, Aquila reports that 28 customers participated in this
14 program and only 2 participated during the 12-month period
15 ending December 31, 2002.

16 Is that an accurate statement on behalf of
17 Ms. Randolph?

18 A. I'd have to check the --

19 Q. Okay.

20 A. It looks like there was 2 in 2002, but I'm not
21 certain about the 28. I don't have that information in
22 front of me.

23 Q. Is her next sentence accurate where she states
24 of \$23,840, only \$1,894 was expended?

25 A. Correct.

1 Q. And is this a part of the 20,000 or more
2 dollars that Aquila is asking ratepayers to pay for in the
3 rate increase in this case?

4 A. I believe so, that this is part of the 2002
5 expenditures.

6 Q. Can you tell me, Mr. Daunis, what's happened
7 to the pace of this particular weatherization program?
8 What's going on?

9 A. What's going on is that we're finding that
10 there are very few low-income electric space heated
11 customers and that -- that mainly what we're seeing is
12 compact florescent lamps being installed.

13 Q. Do you have confidence that Aquila is doing
14 everything it can to ensure that customers are seeking this,
15 or perhaps could some other contractor do a better job of
16 finding customers that would be eligible?

17 A. I think we're trying our very best. Whether
18 that -- whether in the future things could improve or other
19 contractors could be involved, I think that's a possibility.

20 Q. Do you recall last month, I forget the date,
21 there was an integrated resource planning meeting here in
22 this building involving the Staff and the Office of Public
23 Counsel?

24 A. Uh-huh.

25 Q. Do you recall Mr. Ryan Kind from my office

1 requesting certain information about the progress of the
2 weatherization, energy efficiency programs?

3 A. Yes. Uh-huh.

4 Q. Okay. Are you preparing some answer to that
5 request?

6 A. Yes. Uh-huh.

7 Q. And when might we receive that?

8 A. As soon as I get back to the office.

9 Q. Okay. Is that information that could be
10 relevant to understanding this issue about what is going on
11 with Aquila's current weatherization?

12 A. You'll have to refresh my memory exactly as to
13 what --

14 Q. Well, I guess I don't have the exact request,
15 but I do recall --

16 A. Uh-huh.

17 Q. -- it being made. And I assume that you've
18 got it written down somewhere?

19 A. Yes, I do. Yes, I do.

20 Q. And I -- am I accurate in my memory that that
21 relates to the progress of weatherization and energy
22 efficiency programs?

23 A. Yes. But I can't recall the --

24 Q. Okay.

25 A. -- the detail -- the question.

1 Q. Let me ask you another question about electric
2 space heating customers. Do you know the number of electric
3 space heating customers that are on waiting lists in the
4 MoPub area?

5 A. I do not.

6 Q. I mean, in other words, by waiting list I mean
7 we've asked weatherization agencies for assistance -- but
8 you obviously don't know that. Maybe I'll ask Ms. Randolph
9 or someone else that information.

10 Do you have any general knowledge, having
11 worked for Aquila for a long time, about the demographics of
12 the ratepayers in the MPS service territory as to how many
13 of those customers have natural gas heating as opposed to
14 how many have electric space heating?

15 A. I haven't seen a current demographic on that.
16 No, I -- I don't have a current report that says what that
17 is. I -- I can --

18 Q. Do you believe that most customers have
19 natural gas heating?

20 A. Yes, I do. I think a vast majority do.

21 Q. But you don't have an informed percentage?

22 A. I don't have a number that I can give you.

23 Q. You stated an opinion just earlier, I believe,
24 that you don't believe there are many low-income customers
25 that have electric space heating. Is that your opinion?

1 A. Based upon the experience in implementing this
2 program.

3 Q. Do you have any opinions as to why that's the
4 case?

5 A. Because most low-income customers have natural
6 gas or propane or some other --

7 Q. Do you think that might be related to older
8 housing stock is not likely to have electric heating?

9 A. Could -- could be.

10 Q. Well, I don't need to send you down a path of
11 speculation here.

12 One more area I'd like to ask you about and
13 that relates to the savings. And you had some discussion
14 with Mr. Conrad about the energy efficiency or the cost
15 effectiveness of the programs that you are engaged in --

16 A. Uh-huh.

17 Q. -- and some discussion with Ms. Woods about
18 the fact that, you know, it is possible that to the extent
19 low-income customers save money, they might be able to be in
20 a position to pay their bills more readily. Is that an
21 accurate paraphrasing?

22 A. Yes.

23 Q. Okay. And I believe you stated that, you
24 know, if they had more money, they might be able to pay more
25 of their bills?

1 A. They might be able to utilize that money.

2 Q. Right. And that there might be --

3 A. Uh-huh.

4 Q. -- less arrearages or bad debt --

5 A. Uh-huh.

6 Q. -- for the company; is that correct?

7 A. Uh-huh.

8 Q. And in your experience in collaboratives in
9 other states and working with these issues, generally would
10 you expect to see some benefit to the company to the cost of
11 service as a result of a significant investment in
12 weatherization and energy efficiency for low-income
13 customers through the uncollectible expense?

14 A. I don't know what that would -- what level
15 that would be though.

16 Q. To the extent there was any offsetting
17 benefits, should those offsetting benefits offset the cost
18 to the ratepayers to the extent ratepayers are required to
19 fund those activities?

20 A. I'm not sure what -- exactly what you mean by
21 that.

22 Q. If ratepayers were required to finance a
23 weatherization or low-income energy -- low-income
24 weatherization or low-income energy efficiency program and
25 there were some offsetting benefits that related to reducing

1 bad debt for the company, should that cost that is charged
2 to the ratepayers be reduced accordingly or should the
3 company just receive that benefit?

4 A. I don't know without really looking at what
5 that would be.

6 Q. Okay. Would you expect from these type of
7 low-income programs that there would be some reduction in
8 disconnection/reconnection costs?

9 A. Again, I don't know --

10 Q. Okay.

11 A. -- what that -- that -- my area of expertise
12 is mainly the energy efficiency area, not in customer
13 service.

14 Q. So you're not an expert -- would it be fair to
15 say you're not an expert in low-income energy issues?

16 A. In energy efficiency programs for low-income
17 customers.

18 Q. Okay. You are an expert as far as energy
19 efficiency programs for low-income customers?

20 A. Right.

21 Q. Okay. Ms. Randolph states that -- or makes an
22 estimate that with \$218,000, 209 low-income customers could
23 receive weatherization. Do you recall that?

24 A. Uh-huh.

25 Q. Does that sound like a good estimate to you?

1 A. I don't know if those customers are all
2 electric space and water heating customers.

3 Q. Okay.

4 A. If -- if they're not, then -- then it could
5 be.

6 Q. I'm not sure if it's fair to ask you this, but
7 are you a -- are you -- do you consider yourself an expert
8 in the establishment -- in establishing rates related to
9 energy efficiency programs?

10 A. No. Not establishing rates.

11 Q. Okay. Did you read the pages 34 and 35 -- or
12 rather pages 32 through 35 of Ms. Randolph's Direct
13 Testimony where she lays out the cost of the programs that
14 the Missouri Department of Natural Resources are proposing?

15 A. Yes.

16 Q. And did you see the estimate there she has for
17 how much these programs might cost the average customer?

18 A. Yes.

19 Q. Do you have any opinion on whether those are a
20 fair estimate of what those programs might cost ratepayers?

21 A. I don't know if those are accurate or not.

22 Q. Okay. Okay. And I guess you've already
23 stated that you are not familiar with the various low-income
24 programs going on here in the state, that is, the Missouri
25 Gas Energy program?

1 A. No, I'm not familiar with that program.

2 Q. Or the weatherization program of the Laclede
3 Gas Company. Are you familiar with that?

4 A. No, I'm not.

5 Q. Okay. And you did state earlier that although
6 I guess the position statement of your company is as long as
7 ratepayers are paying for this, it's fine, that you do have
8 some concern about the level of various programs --

9 A. Well, again, I --

10 Q. -- is that correct?

11 A. -- I think -- I believe that the programs
12 should -- the benefits should outweigh the costs. And --
13 and to that account, you know, if -- if those costs are in
14 addition to what our rate case as filed, then we wouldn't
15 have an objection to that.

16 If we're able to develop a program through a
17 collaborative process and come to an agreement on budgets
18 and participation and goals, then we wouldn't be opposed to
19 ratepayers paying for those.

20 Q. If the Commission recorded a collaborative
21 process set up to approve certain programs, would you have
22 an opinion about what level that should be -- what level of
23 rate recovery? Would you be more comfortable with a level
24 of weatherization, energy efficiency programs that was
25 somewhat less than the Department of Natural Resources is

1 proposing?

2 A. I would be more comfortable with it, but until
3 you go through the process, it -- it's hard for me to say
4 what the -- what the budget should be.

5 Q. Okay.

6 A. I mean, that's why -- that's why I'm
7 recommending we go through the process.

8 Q. If I told you that the Missouri Public Service
9 Commission has not approved a program for weatherization
10 that charged ratepayers more than 14 cents a month for a
11 particular company, would you agree with me that that might
12 be a fair level to look at as a cap for what these programs
13 should be charged at?

14 A. Where did you come up with the 14 cents a --

15 Q. That's an estimate that I guess is not in the
16 record here, but is an estimate of -- that is the Aquila Gas
17 case that's currently on file relating to AmerenUE Gas and
18 how much various programs there cost ratepayers generally
19 per month.

20 A. I wouldn't -- no, I wouldn't -- I would say I
21 wouldn't agree to that at this point, not without a review.

22 Q. Okay. I can understand certainly it's not
23 fair to put you on the spot as to what level if you had to.
24 So let me just ask, if the Commission orders a collaborative
25 process to look at some level of low-income weatherization

1 or energy efficiency, would you agree that the rate recovery
2 should be offset by the potential savings to the company in
3 what amounts --

4 A. What potential savings are you referring to?

5 Q. The potential savings to reductions in
6 collectible expense, disconnection/reconnection charges,
7 cash working capital, various other components of the
8 rate-making calculation.

9 A. That hasn't been the case in other energy
10 efficiency programs that -- that I manage and direct in
11 other states, but --

12 Q. But you did state in your testimony, didn't
13 you, that all the programs you develop have savings that
14 outweigh the costs; isn't that correct?

15 A. Yes. But the savings are in energy savings
16 and you're -- you're talking about other savings here.

17 Q. Do you rebut or disagree with the testimony
18 from the Missouri Department of Natural Resources and City
19 of Kansas City that weatherization and energy efficiency
20 programs can provide financial benefits to the utility?

21 A. I think there are some -- there could be some
22 benefits there.

23 Q. And to the extent that these programs are
24 financed by ratepayers, shouldn't those ratepayers also
25 receive the financial offsetting benefits that those

1 programs produce?

2 A. What I'm saying is in other states that I'm
3 familiar with on low-income programs, that those savings --
4 those type of savings are not a part of the benefit/cost
5 test or analysis.

6 Q. Okay. Well, my --

7 A. So I'm not --

8 Q. -- my question is --

9 A. -- I'm not sure how you would --

10 Q. Do you disagree that those savings can occur
11 or are you disagreeing that those savings should offset the
12 cost of ratepayers?

13 A. I'm not sure whether they should be part of
14 the benefit/cost analysis or not.

15 Q. So the company should just be able to keep
16 that benefit even though the ratepayers are financing the
17 whole program?

18 A. I'm not exactly saying that either. I think
19 we need to go through this process.

20 MR. COFFMAN: Okay. That's all I have. Thank
21 you.

22 JUDGE JONES: Thank you, Mr. Coffman.

23 Are there questions from the Staff of the
24 Commission?

25 MR. WILLIAMS: Staff has no questions.

1 JUDGE JONES: Thank you. Are there questions,
2 Commissioner Murray?

3 QUESTIONS BY COMMISSIONER MURRAY:

4 Q. I just have a very few questions.

5 Good morning.

6 A. Good morning.

7 Q. In your cost/benefit analysis, over what
8 period of time do you measure benefit to determine whether
9 the benefit exceeds the cost?

10 A. We look at the lifetime of the measure, what
11 the estimated lifetime of the measure is that -- so for
12 each -- each measure might have a different lifetime.

13 Q. So, for example, if you're looking at
14 florescent lighting --

15 A. Uh-huh.

16 Q. -- what period of time would you be looking
17 at?

18 A. There's a certain amount of -- I don't know
19 the exact number, but there's a certain amount of lifetime
20 or hours of operation of those lamps. So we would look at,
21 you know, how many hours they operate and, you know, what
22 the lifetime is, you know, as far as years or time frame.
23 Based upon an average use that that customer may use those
24 lights during a day, we come up with a lifetime --
25 theoretical lifetime.

1 Q. Okay. So if during the entire lifetime of
2 whatever the item is the savings exceed the cost, then it's
3 considered cost beneficial?

4 A. According to the total resource cost test. We
5 look at the -- you know, the savings in terms of kilowatt
6 hours and kW and look at those savings versus the cost --
7 the program cost now, which include, you know, the cost of
8 the measure, any administrative cost, promotional cost.

9 Q. Right. Okay. In terms of your energy audits,
10 how are those done? How are they provided?

11 A. The process basically is we promote it through
12 bill inserts and customers can request a survey. And that
13 survey is provided through a contractor that we have. The
14 customers receive a survey -- it's a very detailed survey.
15 They submit that -- mail that survey back and then they get
16 a report back that indicates the level of their energy use
17 and also recommendations on how to save energy.

18 Q. So no one actually goes on-site, it's all done
19 by --

20 A. It's a mail.

21 Q. -- a survey just by mail?

22 A. By mail, uh-huh.

23 Q. Are those audits available to all customers or
24 only low-income customers?

25 A. They're available to all Missouri Public

1 Service electric customers.

2 Q. And how would the cost of the audits that you
3 currently provide compare to the cost of the provision of
4 the online audits as suggested by DNR in this proceeding, do
5 you know?

6 A. I know that the average cost -- looking at
7 what I've spent on the mail-in audits, that it averages
8 about \$30 an audit. I don't know what the cost of the
9 Internet audit is because there are no participation levels
10 or goals in the testimony for the Internet audit. But -- so
11 just -- I don't know that.

12 You'd -- I think though you'd have to have
13 significantly more audits under the Internet audit system
14 to -- to be comparable to the cost for these -- for the
15 mail-in audit program that we have right now.

16 Q. I'm sorry. Would you state that again? I'm
17 not sure I followed that last statement.

18 A. For example, we -- since we've been doing the
19 mail-in audit program, we've had over 4,000 audits at an
20 average cost of \$30. What I'm saying is you'd have to
21 have -- for the cost being proposed, you'd have to have
22 significantly more audits to be -- to equal that average
23 cost per audit that we're doing on the mail-in audits. If
24 you divide 4,000 into what's being proposed there, it's a
25 significantly higher number.

1 Q. Okay. Somehow I'm not following you, but
2 that's all right.

3 A. Well, what's being proposed is a \$250,000
4 first-year cost and -- let me take a look here -- 250,000
5 one time and then 125,000 annual. So the first year would
6 be \$375,000. And we've done a total of 4,650 audits since
7 July '99 at an average cost of \$30. So if you look -- if
8 you divide that 4,650 into that 375,000, I think that -- I
9 mean over --

10 Q. Okay.

11 A. -- what I'm saying is you'd have to generate a
12 lot more --

13 Q. And you've done some kind of a cost/benefit
14 analysis of energy audits, I assume; is that right?

15 A. Well, energy audits really -- audits really
16 don't have an impact. They're not a measure like a light or
17 insulation or -- it's an audit. So there are -- we have
18 estimates of, you know, customers take action, you know,
19 what -- you know, what kind of estimates -- I think we
20 estimate maybe between 2 to 5 percent energy savings, but we
21 don't know for sure like we do with a -- with a measure such
22 as -- such as a lamp or insulation or water heating measure
23 or something, you know, that is a measure that we'll
24 actually save energy.

25 Q. How do you track what is done following an

1 energy audit, or do you know?

2 A. How do we track? Well, a survey is sent out.
3 And -- and if the customer doesn't return a survey, we send
4 out a notice to the customer saying, We haven't received
5 your survey back. And so that -- you know, to prompt them
6 to get that back in. And then one -- and then we don't
7 track it necessarily after they receive the audit.

8 Q. So you have no way of knowing whether they --

9 A. We have --

10 Q. -- follow any of the suggestions?

11 A. We have done some tracking actually -- we have
12 done some tracking in the past where we've done some
13 surveys. So we do -- we do have a feel for what
14 customers -- what actions customers are taking. So we have
15 done some of that. We aren't currently doing that, but we
16 have done some of that.

17 Q. When was the last time you did follow-up
18 surveys?

19 A. We did that a couple years ago.

20 Q. And do you have an analysis of the types of
21 recommendations that are most frequent during an energy --

22 A. Yes.

23 Q. -- audit?

24 A. Yes, I do. I don't have those with me, but
25 I -- we do. We do -- we have a pretty good feel for what

1 customers are -- what actions they're doing.

2 Q. And when you analyze that survey, is there a
3 rec-- is there an estimate given to the customer as to
4 approximate savings if they followed those recommendations?

5 A. Yes, there is.

6 COMMISSIONER MURRAY: Okay. All right. I
7 think that's all I have. Thank you.

8 THE WITNESS: Thank you.

9 JUDGE JONES: I just have one question or
10 maybe two.

11 QUESTIONS BY JUDGE JONES:

12 Q. You said that from 2002 there were low-income
13 energy programs at a cost of about 27,000 to 28,000 dollars
14 that are being sought in this rate case?

15 A. I believe that is in --

16 Q. Not the exact figure, but somewhere around
17 there?

18 A. Uh-huh.

19 Q. So in 2002, cost exceeded benefit?

20 A. I'm not sure what you --

21 Q. Well, there's a cost --

22 A. There are benefits to what those costs
23 produced there.

24 Q. The costs then are real dollars and the
25 benefits are usually abstract; is that true?

1 A. No, the benefits are real too.

2 Q. In dollars?

3 A. In dollars to customers.

4 Q. Okay. And your general position is that
5 low-income energy programs shouldn't be addressed in rate
6 cases?

7 A. My general position is that is -- as a process
8 for doing energy efficiency programs in general, not only
9 low-income but energy -- developing an energy efficiency
10 plan or program, is a very detailed process and one that
11 works best separate than a rate case, one that is a
12 collaborative process and there are certain rules on how you
13 develop that plan. I think that works best separate from a
14 rate case.

15 JUDGE JONES: Okay. Thank you.

16 Commissioner Murray, do you have any other
17 questions?

18 Well, my intention was to stop at ten o'clock.
19 I realize Aquila -- or there should be recross and then
20 redirect from Aquila and at this time it's only a couple of
21 minutes until 10:00, so we'll break here and come back with
22 recross.

23 (A recess was taken.)

24 JUDGE JONES: Now we'll have recross -- or I
25 should ask generally, is there any recross from the City of

1 Kansas City?

2 MR. COMLEY: I have no recross for Mr. Daunis.

3 JUDGE JONES: Department of Natural Recourses?

4 MS. WOODS: I have nothing. Thank you.

5 JUDGE JONES: Mr. Paulson, you weren't here
6 for cross earlier. Do you have recross?

7 MR. PAULSON: No, Judge, I do not.

8 JUDGE JONES: Any recross from Public Counsel?

9 MR. COFFMAN: No further questions.

10 JUDGE JONES: And Staff?

11 MR. WILLIAMS: Staff has no questions.

12 JUDGE JONES: And redirect from Aquila?

13 MR. COOPER: Thank you, your Honor.

14 REDIRECT EXAMINATION BY MR. COOPER:

15 Q. Mr. Daunis, you were asked some questions
16 about your current energy audit process by I believe
17 Ms. Woods. And I believe you described that process as
18 being accomplished through the mail, the US mail. Correct?

19 A. Correct.

20 Q. Do all the Aquila customers that could take
21 advantage of the energy audit process have access to the
22 United States mail, to your knowledge?

23 A. To my knowledge, yes.

24 Q. Okay. Mr. Coffman was asking about the
25 company's position as found in the position statement in

1 this case. Do you remember that line of questions?

2 A. Yes.

3 Q. And I believe that you stated that you had
4 some concerns about the -- I guess what was being described
5 as the programs that are being proposed in this case. Could
6 you explain for us in a little more detail what concern you
7 have with these programs, what more you would like to know?

8 A. I'd like to know a little bit about the
9 one-time development cost and how that was -- how that --
10 how that \$250,000 -- how that was developed or where that --
11 where that number came from. As far as the low-income
12 program, questions about participation level and whether
13 those customers are electric space heating and/or water
14 heating. Those are just some. I have quite a few more.

15 Q. Is there analysis that you would like to do as
16 well in regard to the effectiveness or potential
17 effectiveness of such program?

18 A. Yes, I would.

19 Q. Now, in answer to questions from Mr. Coffman,
20 you described 2002 costs, that being the costs that you said
21 were in the test year in this case; is that correct?

22 A. Correct.

23 Q. Do the dollars that you identified include
24 your salary?

25 A. A portion of it probably.

1 Q. You stated earlier that you are responsible
2 for more than one state. Correct?

3 A. Right. Yes.

4 Q. And I assume then that your salary, to
5 whatever extent it gets allocated, gets allocated to several
6 states?

7 A. Different states, different programs.

8 Q. Have Aquila's expenditures for these type of
9 programs increased since 2002 or has Aquila's budget
10 increased since 2002?

11 A. Yes. Yes, it has.

12 Q. What is Aquila's budget for 2004 that you're
13 working with right now?

14 A. It's approximately \$100,000.

15 Q. Mr. Coffman also asked you whether these
16 programs could be offset by savings. Do you remember those
17 questions?

18 A. Yes.

19 Q. Will you ever know precisely what savings will
20 result from these types of weatherization, efficiency
21 programs on the front end of the program?

22 A. Not the types of savings that -- that he was
23 asking me about. The savings with regards to the impacts
24 for the energy efficient measures we would, but not the
25 other types of savings on the front end.

1 Q. And by that you mean the impacts or the
2 savings for the individual customer?

3 A. For the measures installed. We would on the
4 front end be able to estimate those.

5 Q. Okay. But what you say is unknown would be
6 whatever savings would result or might result to the
7 company. Correct?

8 A. From savings outside those -- other than those
9 measures, like measured savings.

10 Q. If there are savings that result to Aquila
11 from these types of programs, weatherization, energy
12 efficiency, to your knowledge, will those savings be
13 reflected in the company's test year in its next rate case?

14 A. To my knowledge, they would.

15 MR. COOPER: That's all the questions I have,
16 your Honor.

17 JUDGE JONES: Thank you, Mr. Cooper.

18 Mr. Daunis, you may be excused.

19 THE WITNESS: Thank you.

20 JUDGE JONES: Now we'll have testimony from
21 the City of Kansas City

22 MR. COMLEY: Thank you, Judge. We'd call
23 Robert Jackson.

24 (Witness sworn.)

25 ROBERT JACKSON testified as follows:

1 DIRECT EXAMINATION BY MR. COMLEY:

2 Q. Mr. Jackson, are you the same Robert Jackson
3 that caused to be pre-filed some written testimony that has
4 been premarked by the reporter as Exhibit 79? I think
5 that's the correct number.

6 JUDGE JONES: Yes, it is.

7 THE WITNESS: Yes, I am.

8 BY MR. COMLEY:

9 Q. Do you have any additions or corrections to
10 your testimony?

11 A. No, I don't.

12 MR. COMLEY: Your Honor, we would move for the
13 admission of Exhibit 79 and also offer our thanks to the
14 Commission and to the parties for allowing this witness to
15 appear on March 2nd, today.

16 JUDGE JONES: Exhibit 79 is admitted into the
17 record.

18 (Exhibit No. 79 was received into evidence.)

19 MR. COMLEY: We tender Mr. Jackson for
20 cross-examination.

21 JUDGE JONES: First we'll have
22 cross-examination from the Missouri Department of Natural
23 Resources.

24 MS. WOODS: I don't have any questions. Thank
25 you, your Honor.

1 JUDGE JONES: From the Federal Executive
2 Agencies?

3 MR. PAULSON: No questions, your Honor.

4 JUDGE JONES: Sedalia Industrial Energy Users'
5 Association?

6 MR. CONRAD: No questions.

7 JUDGE JONES: Office of Public Counsel?

8 MR. COFFMAN: Yes, I might have a question or
9 two. Thank you.

10 CROSS-EXAMINATION BY MR. COFFMAN:

11 Q. Good morning, Mr. Jackson.

12 A. Good morning.

13 Q. I just couldn't pass up an opportunity to ask
14 you a question in this format. I have the pleasure of
15 dealing with you in a lot of situations and I just wanted to
16 ask a couple questions so I understand what you're
17 requesting in this case.

18 Now, it isn't true, is it, that Aquila serves
19 any citizen within the city limits of Kansas City?

20 A. That's true, they do not.

21 Q. Okay. They do not. However, the City of
22 Kansas City does serve as a sub-grantee for weatherization
23 programs in all of Clay, Platte and Jackson County?

24 A. That's correct, sir.

25 Q. Okay. How did you come to be the

1 weatherization sub-grantee in those counties?

2 A. Well, the federal legislation that established
3 the weatherization program had the service territories
4 primarily comprised of counties with the State of Missouri,
5 Department of Natural Resources Energy Center, being a
6 recipient of those dollars. The federal legislation also
7 gave preference to Community Action Agencies as
8 weatherization agencies.

9 Some time ago, in approximately 1979, there --
10 the City of Kansas City took the lead in taking an
11 opportunity to become a sub-recipient. And so from that
12 point forward, when the weatherization program was initially
13 established, the City, also putting in some general funds,
14 actually became the sub-recipient. And it's just been
15 advantageous in the use of those resources that have
16 taken -- transpired ever since.

17 Q. Are you an exclusive sub-grantee in that area?

18 A. For weather-- federal weatherization funds,
19 yes.

20 Q. So all federal weatherization assistance flows
21 through DNR and you are the sub-grantee for that in these
22 three counties?

23 A. That's correct.

24 Q. And you've had a lot of experience with
25 implementing weatherization in this area; is that true?

1 A. Yes.

2 Q. And do you have some rule of thumb or
3 knowledge that you can help with understanding electric
4 customers and what percentage of the electric customers in
5 this area have electric space heating as opposed to natural
6 gas heating?

7 A. No, I do not.

8 Q. Okay. Do you have some benefit in analyzing
9 these programs and their successfulness as it relates to
10 allowing customers to pay their bills and avoid racking up
11 debt?

12 A. Well, we were the participants of an
13 experimental weatherization program with Missouri Gas Energy
14 for which, as a part of that rate case, an evaluation had to
15 be conducted to look at the advocacy of the program. And a
16 firm by the -- I think it was called Techmarket Works
17 completed its final report. I think there was a pre-- a
18 control group, an untreated group that participated in the
19 program over a two-year period.

20 Part of their analysis does show that the
21 capacity for a low-income customer to pay their bill has
22 been enhanced. And there's been other empirical studies
23 that I believe have been published around the nation that
24 show that the cap-- or the improved capacity to pay a bill
25 results in lower collection costs and having a very positive

1 impact on the other ratepayers.

2 Q. Aren't there additional benefits in the
3 reduced level of disconnections and reconnections for the
4 utility?

5 A. From the number of reports that I've read,
6 that is indeed true.

7 Q. And all these savings related to reduced bad
8 debt, reduced uncollectible expense and reduced
9 disconnections/reconnections, do you have an opinion about
10 whether it would be fair to take those savings and offset
11 the cost to the ratepayers who might be required to pay for
12 such weatherization assistance?

13 A. In my personal opinion, it would definitely be
14 a value -- a value added benefit.

15 MR. COFFMAN: Okay. I think that's all the
16 questions I have. Thank you.

17 JUDGE JONES: Thank you, Mr. Coffman.

18 Are there any questions from the Staff of the
19 Commission?

20 MR. WILLIAMS: No questions.

21 JUDGE JONES: Finally, are there questions
22 from Aquila?

23 MR. COOPER: No questions, your Honor.

24 JUDGE JONES: I don't have any questions at
25 this time. I don't know if either of the Commissioners will

1 have, so you can't be excused. You can stay here though --
2 you can come down from the Bench -- from the witness stand.

3 Next we'll have, let's see, testimony from the
4 Missouri Department of Natural Resources.

5 MS. WOODS: Intervenor, Missouri Department of
6 Natural Resources, calls Anita Randolph.

7 (Witness sworn.)

8 ANITA RANDOLPH testified as follows:

9 DIRECT EXAMINATION BY MS. WOODS:

10 Q. Would you state your name for the record,
11 please?

12 A. Anita Randolph.

13 Q. And are you the same Anita Randolph that
14 caused your testimony to be pre-filed in this case and it's
15 been marked Exhibits 1077, that would be your Direct
16 Testimony, and Exhibit 1078, your Surrebuttal Testimony?

17 A. I am that person.

18 Q. Thank you.

19 MS. WOODS: And with that, Department of
20 Natural Resources would move the entry into the evidence of
21 Exhibit 1077 and 1078 and tender Ms. Randolph for
22 cross-examination.

23 MR. CONRAD: Your Honor, before you rule on
24 that, I need to get clarification. There were a number of
25 schedules that were attached or were filed along with that.

1 Is that encompassed by the offer?

2 MS. WOODS: Yes.

3 MR. CONRAD: I will have an objection then and
4 we'll probably need to work through that. We can do it in
5 the form of voir dire as you prefer.

6 JUDGE JONES: That will be fine.

7 VOIR DIRE EXAMINATION BY MR. CONRAD:

8 Q. Ms. Randolph, I'm looking at Schedule 2 that
9 was filed. That appears to be a document, Standard
10 Procedures for Meteorological Measurements at a Potential
11 Wind Turbine Site. Did you prepare that report?

12 A. I did not prepare that report.

13 Q. Did you participate or supervise in its
14 preparation?

15 A. May I see it, please?

16 Q. You don't have your schedule?

17 A. I don't have the schedules.

18 Q. Well, ma'am, I only have it on my computer
19 here.

20 A. Okay.

21 Q. Okay. The question was whether you had
22 participated in or supervised in any manner the production
23 of that report?

24 A. We did not.

25 Q. If you would, look at -- I believe it's going

1 to be Schedule 4, which purports to be a report prepared for
2 DNR but by someone named Roger D. Colton. You are not, if I
3 recall, Roger D. Colton; is that correct?

4 A. That is correct.

5 Q. Did you prepare this report?

6 A. We engaged Mr. Colton to prepare the report on
7 our behalf.

8 Q. Did you prepare this report?

9 A. I personally did not prepare the report.

10 Q. Did you personally participate in its
11 preparation?

12 A. No.

13 Q. Next item is Schedule 5, which purports to be
14 something by Fisher, Sheehan and Colton. I really can't
15 tell what it is. It is simply marked -- appears maybe to be
16 part of a website printout because it makes reference to,
17 Simply click on the state. Did you prepare that report?

18 A. No, I did not.

19 Q. Did you participate or in any way supervise
20 its production?

21 A. No.

22 Q. The next is Schedule 6, which is divided into
23 two parts. Appears to be something from the World Wildlife
24 Fund. At least I recognize that logo. Utility Deregulation
25 a Bust. Did you participate in preparing that report?

1 A. I did not.

2 Q. And you did not prepare that report?

3 A. That's correct.

4 Q. And does it have two parts, as I've described?

5 A. Yes, it does.

6 Q. Okay. Let's look at Schedule 7, which appears

7 to be from the Lawrence Berkeley Laboratory and appears to

8 be a report authored by J. Eto, E. Vine, L. Shown,

9 R. Sonnenblick and C. Payne. You're not any of those

10 persons?

11 A. Correct.

12 Q. Did you participate in the production of that

13 report?

14 A. No.

15 Q. In any way supervise in its preparation?

16 A. No.

17 Q. Schedule 8 is a final report of the Missouri

18 Policy Task -- Missouri Energy Policy Task Force. Did you

19 in any way participate in that report?

20 A. Yes, I did.

21 Q. If you would, turn to the end of that report,

22 Appendix J. Is your name listed there as a member of the

23 task force?

24 A. No, it is not.

25 Q. And that is whom the report is from; is that

1 correct?

2 A. The report is from the task force.

3 Q. It is from the people listed on Appendix J?

4 A. These are the members of the actual task
5 force, yes.

6 Q. I'm looking at Schedule 9. This is a report
7 to the Missouri Legislature EIERA, which I'm not sure what
8 that is. Did you author that report?

9 A. No, I did not.

10 Q. Did you participate or in any way supervise in
11 its preparation?

12 A. No.

13 Q. And if I recall, that has three parts, am I
14 correct, to Schedule 9? They're subdivided.

15 A. I'm not sure what you mean when you say parts
16 of this one.

17 Q. Well, as it was filed with the Commission, it
18 was divided into three parts, parts one, parts two and parts
19 three, creatively named, and it's Schedule 9 in all of them.
20 So I'm presuming that altogether they constitute the
21 Schedule 9?

22 A. Yes. That is correct.

23 Q. Okay. Let's look at Schedule 10. And that
24 purports to be a report from the Oak Ridge National
25 Laboratory by a Linda Berry, Marilyn Brown and Laurence

1 Kinney. You're not any of those persons, I take it?

2 A. Correct.

3 Q. Okay. Did you participate in the preparation
4 of that report?

5 A. No, I did not.

6 Q. Did you in any way supervise in its
7 preparation?

8 A. No.

9 Q. Schedule 11, also from Oak Ridge National
10 Laboratory, Metaevaluation of National Weatherization
11 Assistance from Marvin -- Martin rather Schweitzer and a
12 Linda Berry. Did you participate in any way or supervise
13 the production of that report, ma'am?

14 A. No.

15 Q. I'm now at 12. Again, I can't really tell,
16 ma'am, where this is from, but at the top of it,
17 BTS: Weatherization Assistance Program. Appears to be
18 something again from Oak Ridge National Laboratory. Did you
19 participate in the preparation of that document?

20 A. No, I did not.

21 Q. You're not its author?

22 A. No.

23 Q. Schedule 13, Lawrence Berkeley Laboratory, it
24 looks like the same names, Eto, Kito, Shown and Sonnenblick,
25 which we've established you're not. Did you participate in

1 any way in the preparation of that report?

2 A. No, I did not.

3 Q. And you're obviously not its author; is that
4 correct?

5 A. Correct.

6 Q. And finally, Schedule 14, which talks about
7 energy codes. Did you participate in that report --

8 A. No.

9 Q. -- in the preparation of that report?

10 A. No.

11 Q. You're not its author?

12 A. Correct.

13 MR. CONRAD: Well, to begin with, Judge, it
14 looks like Schedules 2, Schedules 4, 5, 6, parts one and
15 parts two, Schedule 7, parts one and part two, Schedules 8,
16 Schedules 9, parts one through three, Schedules 10, 11, 12,
17 13 and 14 I have an objection because they are complete and
18 utter hearsay.

19 JUDGE JONES: She did indicate she had some
20 participation at least in Schedule 8.

21 MR. CONRAD: And if that is -- well, we asked
22 about the nature of that participation. She was not a
23 member of the task force, she acknowledged that. So if it's
24 offered to say what the task force says, it's hearsay
25 because those people are not here and I can't cross-examine

1 them nor can I cross-examine the report.

2 JUDGE JONES: What participation did you have
3 in Schedule 8?

4 THE WITNESS: The participation consisted of
5 two kinds of activities. One was to represent a member of
6 the task force, which was my department director, on
7 opportunities when he could not attend. The second method
8 of participation was to provide research and staff work and
9 language for the task force's consideration.

10 JUDGE JONES: I'm not sure I followed you.
11 Did you help prepare or --

12 THE WITNESS: Yes.

13 JUDGE JONES: Why isn't your name included on
14 the list of those who included in the preparation?

15 THE WITNESS: I don't know that there is a
16 list of those who participated in preparation. The official
17 members of the task force are listed.

18 JUDGE JONES: Are there persons other than the
19 people listed on the task force who participated in making
20 that document?

21 THE WITNESS: There are a -- a few others,
22 yes.

23 JUDGE JONES: Ms. Woods, do these documents
24 fall under any exception to the hearsay rule?

25 MS. WOODS: Well, your Honor, Ms. Randolph has

1 been offered up as the Department's expert on the issues of
2 low-income weatherization, energy efficiency and wind
3 assessment.

4 I think there is a well-recognized exception
5 where experts may rely on hearsay and include it and base
6 their opinions upon that hearsay, which is, in fact, what
7 Ms. Randolph has done. Those specific schedules are all
8 referenced in and cited to in her testimony and form the
9 basis of that testimony and her opinions.

10 JUDGE JONES: Well, if she's using it to aid
11 in testimony, then it's not necessary that they be part of
12 the evidence, is it?

13 MS. WOODS: I think the specific citations to
14 those portions of those documents that appear in her
15 testimony are of benefit and, as I understood the rule,
16 should be included.

17 MR. CONRAD: Your Honor, if it's my turn, I
18 would point you to GS Technologies, Missouri Public Service
19 Commission, 116 S.W. 3d, 680 in which the court returned to
20 the Commission a decision in which it had erred in relying
21 on hearsay that had not been objected to, but also pointed
22 out that while an expert may rely on hearsay to support
23 their testimony, it does not follow from that that the
24 hearsay materials themselves are admissible. They can't be
25 cross-examined, the expert can.

1 JUDGE JONES: Ms. Woods, of what benefit are
2 all these schedules if what's necessary from them is
3 included in her testimony?

4 MS. WOODS: They form the foundation for her
5 testimony. There's specific citations in them to specific
6 portions of those documents. And they are included so that
7 the Commissioners and the Judge could confirm, in fact, that
8 those specific cited portions did say what Ms. Randolph
9 purported that they said.

10 I'd also like to point out on I believe it's
11 Schedule 8 on page -- well, it's Roman numeral -- small
12 Roman numeral six that Ms. Randolph is specifically named as
13 someone who has provided support for that schedule, which is
14 the final report of the Missouri Energy Policy Task Force.

15 JUDGE JONES: I don't believe it's necessary
16 for an expert to supply all the books and documents and
17 papers upon which they base their expert opinions. In that
18 case, I will exclude Schedules 2, 4, 5, 6, 7 -- with the
19 exception of 8 -- 9, 10, 12, 13 and 14. The objection is
20 sustained with the exception of Schedule 8.

21 MR. CONRAD: And, your Honor, we then have to
22 turn to the testimony. And I believe it is page -- I
23 noticed in the transition from the redacted to the other,
24 some of the page numbers change so this might tend to be a
25 little difficult, but I believe it is -- looks to be page 4.

1 Again, it's a page that begins at -- the very
2 first word is -- or first three words are, Reducing their
3 consumption. I believe I'm in Ms. Randolph's Direct. I
4 apologize because the printout -- the copies of what was
5 redacted apparently went to my office and arrived duly on
6 Monday afternoon, yesterday, while I'm here.

7 JUDGE JONES: Is it a question or answer?

8 MR. CONRAD: Well, at the bottom -- if I'm on
9 the right page --

10 JUDGE JONES: We'll find the text.

11 MR. CONRAD: We have a question near the
12 bottom of the page that begins, at least on this version, on
13 line 18, When winter home heating bills in Missouri -- I'm
14 sorry. I'll slow down.

15 Winter home heating bills in Missouri impose
16 significant burdens, starts there, and then goes on to refer
17 to a report prepared by Fisher, Sheehan and Colton, and
18 quotes extensively from that all the way really down to the
19 bottom of the next page, material in quotes, which is
20 material that has now been denied admissibility. I do not
21 have any objection to the initial sentence of Ms. Randolph's
22 answer.

23 And I apologize, your Honor, for not being any
24 more specific in page references, but they appear to have
25 changed between versions and I don't have the hard copies.

1 They went to my office rather than here.

2 JUDGE JONES: Is there anyone that wants to
3 find that that has not found the portion of the testimony?

4 I suppose not.

5 Ms. Woods, any response to the objection?

6 MS. WOODS: Well, again, your Honor, I would
7 note that experts are allowed to rely on hearsay in forming
8 their opinions, and it's an explanation for the basis for
9 her opinion.

10 JUDGE JONES: Can't that explanation be
11 independent of a quotation? I mean, because this Direct
12 Testimony is pre-filed as opposed to her sitting on the
13 Bench and saying, I read this book and this is what it said
14 and this is what I base it on, this quote could have simply
15 been lifted from that book, and then based on that, her
16 opinion could have been formed.

17 MS. WOODS: Well, certainly, your Honor,
18 that's one way of doing it. Another way of doing it is just
19 the way that she did it, which avoids the problem of
20 plagiarism.

21 JUDGE JONES: Well, in this particular
22 instance, I will overrule the objection. The Commission
23 will consider the weight of the evidence that's in place. I
24 suppose the Commission will rely primarily on her statement
25 rather than the quote that supports her statement, if any

1 reliance is made thereon.

2 MR. CONRAD: And, finally, your Honor -- and I
3 appreciate your ruling.

4 Again, as I read this GST case, I'm obligated
5 to make objections to what I believe to be hearsay. I
6 believe this one appears on page 10. Again, I'm on the
7 Direct. I think is the original version.

8 There is a question that begins at line 3 and
9 an answer that begins at line 4 and states the witness's
10 conclusions and then moves on lines 10 through 22
11 essentially quoting or paraphrasing, I can't tell which,
12 this same Fisher, Sheehan, Colton consultant's report that
13 has previously been ruled inadmissible.

14 JUDGE JONES: Is the question, Are there
15 utility benefits from low-income energy efficiency services?

16 MR. CONRAD: Yes, sir. And specifically my
17 objection is aimed at lines 10 through 22, the line
18 beginning, In Pennsylvania. I guess I would add to the
19 objection not just hearsay, but also irrelevance.

20 JUDGE JONES: Well --

21 MR. CONRAD: I think hearsay is basically
22 irrelevant, but --

23 JUDGE JONES: That objection too is overruled.
24 It's quite likely that upon giving this opinion, an expert
25 might be asked, And upon what do you base that opinion? And

1 that source then is provided at the bottom of the page.

2 MR. CONRAD: And I understand your ruling.
3 And hopefully your Honor understands why I had to make the
4 objection. Thank you.

5 JUDGE JONES: So with the exception of those
6 schedules that have been excluded, we'll now move on to
7 cross-examination.

8 Is there any cross from the City of Kansas
9 City?

10 MR. COMLEY: No, thank you, Judge.

11 JUDGE JONES: Federal Executive Agencies?

12 MR. PAULSON: No, your Honor.

13 JUDGE JONES: Sedalia Industrial Energy Users'
14 Association?

15 MR. CONRAD: We have no questions, your Honor.

16 JUDGE JONES: Office the Public Counsel?

17 MR. COFFMAN: Yes. Thank you.

18 CROSS-EXAMINATION BY MR. COFFMAN:

19 Q. Good morning, Ms. Randolph.

20 A. Good morning.

21 Q. How are you?

22 Let me see. Here we go, your Direct
23 Testimony. Is the position of Missouri Department of
24 Natural Resources regarding the various programs that you
25 would like to see implemented by Aquila, are they accurately

1 reflected on pages 33 through 35 of your Direct Testimony or
2 do I have -- is that pagination correct?

3 A. That is correct, yes. The programs we -- we
4 have requested our represented in my testimony, pages 33
5 through 35.

6 Q. Okay. And are you requesting essentially
7 \$218,000 for low-income residential weatherization
8 assistance for the MPS area of Aquila?

9 A. That is correct.

10 Q. Okay. And you are asking that the general
11 body of ratepayers fund that level through the rates.
12 Correct?

13 A. That is correct.

14 Q. And have you done any calculation as to what
15 that might be for the average customer per month as far as
16 an increase in their monthly bill?

17 A. Our calculations indicate that would be
18 slightly more than 8 cents per month for the average
19 customer.

20 Q. For an electric MPS area customer,
21 8 additional cents?

22 A. Correct.

23 Q. Okay. And that's not for any other part --
24 any other area that Aquila serves?

25 A. No.

1 Q. Just for MPS?

2 A. Just for MPS.

3 Q. Now, let me ask you, what portion of those
4 customers who would be charged an additional amount each
5 month be eligible for this particular program?

6 A. Our calculations indicate that there are
7 approximately 8,000 Aquila electric customers in the MPS
8 territory that would qualify for the federal low-income
9 weatherization assistance program. That's using the -- the
10 income threshold that we use to implement the federal
11 program.

12 Q. Is that threshold 150 percent of the federal
13 poverty --

14 A. That's correct.

15 Q. -- level?

16 Okay. Are there other criteria that go into
17 that eligibility?

18 A. No. Just number of -- the income -- the 1--
19 150 percent poverty threshold is different depending on the
20 number of people in the family or in the household, but yes,
21 it's the 150 percent of poverty threshold that is the
22 primary eligibility criteria.

23 Q. And are you proposing that this level of
24 funding go to fund customers that have gas heating as well
25 as those that have electric space heating?

1 A. We believe that -- that all electric customers
2 should -- all those who -- who would be eligible for the
3 program, regardless of their kind of heating, if they are an
4 electric customer, they will benefit from weatherization
5 improvements. Weatherization improvements provide cooling
6 benefits as well as heating benefits. And I do believe
7 Aquila has a significant summertime cooling load --

8 Q. Okay.

9 A. -- for which energy efficiency would assist
10 also.

11 Q. Okay. Let me back up a second. You estimate
12 8,000 customers who may be eligible out of those who would
13 be paying for this and your estimate is that this level of
14 funding would allow approximately 209 customers to actually
15 receive the benefit per year; is that --

16 A. Yes.

17 Q. Okay. So the other customers who would be
18 eligible would still have to be on the waiting list?

19 A. That's correct.

20 Q. Even if they found out about it?

21 A. Right.

22 Q. But my next question is whether this money
23 could potentially benefit customers who are not electric
24 space heating customers? In other words, rather would
25 this -- this amount would be charged to customers -- even

1 those customers who don't have electric space heating?

2 A. Right. It would be -- it would be included in
3 the rate base for all MPS electric customers.

4 Q. And would the beneficiaries have to be
5 electric space heating customers?

6 A. My view is that any electric customers
7 regard-- regardless of the kind of heating they have should
8 be eligible for the program and -- and the customer and the
9 company would benefit from their participation in the
10 weatherization program.

11 Q. Okay. And I've also read lots of studies and
12 participated in lots of collaboratives and analysis of these
13 types of programs. And I do think I agree with you where
14 you see a lot of benefits even to the utility company and to
15 the -- and in some cases the general body of ratepayers to
16 the entire system.

17 Now, to the extent that you recognize or you
18 believe that there would be benefit system-wide to the
19 utility, is it your opinion that it would be fair to offset
20 the amount of funding charged to the ratepayers by the
21 potential savings to the utility company as a result of
22 these programs?

23 A. I think that I am not well qualified enough
24 in -- in the matters of rate setting to offer a good answer
25 to that question.

1 Q. Okay. Fair enough. And so this next question
2 may be a question you answer the same way, but you are
3 asking for some funding with regards to the residential
4 energy efficiency program that is a one-time cost, a
5 \$250,000 cost as well as an annual \$125,000 cost; is that
6 correct?

7 A. That's correct.

8 Q. Okay. And since you're not necessarily an
9 expert in rate setting, I assume you don't have a particular
10 recommendation about how that would be recovered from
11 ratepayers?

12 A. Except to say that -- that our position is and
13 I believe my testimony reflects the -- the belief that these
14 programs are appropriately included in the rate base and
15 should be covered by ratepayers because there are system
16 benefits.

17 Q. Right. So, I mean, you wouldn't be
18 requesting, would you, that ratepayers generally fund these
19 programs if you didn't believe that they would provide
20 system-wide benefits to the general body of ratepayers?

21 A. That is correct.

22 Q. Okay. And you're not saying that those
23 ratepayers should then be denied the recognition of those
24 benefits through the rate-making process, are you?

25 A. No.

1 Q. And would it be fair that these programs that
2 are funded totally by ratepayer money, provided some cost
3 savings to the utility, that the utility would then simply
4 be allowed to pocket that savings? Would that be fair?

5 A. I don't think I can adequately answer that.

6 Q. Okay. Why can't you answer that?

7 A. I think fair -- I just -- I think there are
8 many aspects connected to the question and I don't feel
9 qualified to answer.

10 Q. Okay. Have you participated in other utility
11 weatherization or energy efficiency programs with other
12 utilities regulated by the Public Service Commission?

13 A. Yes.

14 Q. Okay. And what utilities are those?

15 A. AmerenUE and Laclede Gas, in particular.

16 Q. Okay. With regard to AmerenUE, the program
17 that you refer there is a program that's currently being
18 developed through a collaborative; is that correct?

19 A. It is -- it was developed by a collaborative.
20 It's in place, it is functioning.

21 Q. I guess I should distinguish between electric
22 and gas. Are you participating in a collaborative or more
23 than one collaborative relating to the resolution of the
24 most recent AmerenUE electric rate case?

25 A. Yes.

1 Q. And what are those collaboratives?

2 A. They're -- there was one specifically set up
3 to design and determine how the weatherization monies for
4 low-income citizens would be distributed. That
5 collaborative has finished its work, that program is
6 functioning.

7 There is another collaborative that deals with
8 energy efficiency programs for the residential and
9 commercial sector not limited to low-income services, in
10 particular. Those are the two collaboratives that I have
11 been personally involved in.

12 Q. And are you familiar with the funding that was
13 set up for those programs?

14 A. Yes.

15 Q. And do you remember what was the funding
16 source, whether it be ratepayer or shareholder money, for
17 those two projects?

18 A. I believe those were shareholder monies.

19 Q. All right. And with regard to AmerenUE
20 Natural Gas and a rate case that was resolved more recently,
21 are you familiar with that --

22 A. Yes.

23 Q. -- case?

24 Did you file testimony and participate in that
25 rate case?

1 A. Yes.

2 Q. Okay. And that was resolved by a Stipulation
3 and Agreement, was it not?

4 A. That's correct.

5 Q. And did that stipulation specify that the
6 funding for that program necessarily come from ratepayers?

7 A. I have to say I honestly don't recall.

8 Q. Okay. My recollection is that it didn't
9 specify, but did that -- and was there a collaborative
10 established as a result of the resolution of that case?

11 A. Yes, there was.

12 Q. And that process is ongoing?

13 A. It's ongoing, correct.

14 Q. Okay. I think I may have one or two more
15 questions.

16 Now, you recognize that some low-income
17 customers will not be able to participate for some reason in
18 either the weatherization or energy efficiency programs?

19 A. Yes.

20 Q. But you are proposing that they also
21 contribute to the cost -- the funding of these programs,
22 nonetheless?

23 A. Yes.

24 Q. Okay. And I believe your testimony does
25 acknowledge on page 7 that as electric utility rates

1 increase, the home energy affordability gap grows. And as
2 this gap increases, more low-income households are unable to
3 pay either a portion or their entire bill.

4 And would you agree with me that to the extent
5 that 8 cents, whatever amount, is added onto the bill, this
6 would increase the energy burden for those customers who
7 don't have the chance to participate in one of these
8 programs?

9 A. It would slightly increase the energy burden.
10 I also believe as we put more resources into programs such
11 as low-income weatherization assistance, it allows us to
12 reach more and more customers. So as the resources
13 increase, the benefit also increases as more people can take
14 advantage of the program.

15 Q. Okay. You state on page 9 or 10 -- 9 and 10
16 the various benefits that you believe would help reduce the
17 cost to the utility. Have I got the right page of your
18 Direct Testimony?

19 A. Yes. On page 10, yes.

20 Q. Okay. And on page 10 you talk about -- you
21 asked about the utility benefits from low-income energy
22 efficiency services. And if my testimony is has the correct
23 pagination, I think -- and just tell me if this isn't your
24 testimony -- these non-energy savings include reductions in
25 working capital expense, uncollectible account, credit and

1 collection expenses and others.

2 Is that your testimony?

3 A. Yes, it is.

4 Q. Okay. And so you recognize that there will be
5 benefits -- actual monetary savings to the utility company
6 as a result of engaging in the programs that you think would
7 be good programs --

8 A. Yes.

9 Q. -- for this utility?

10 And do you have any objection to those savings
11 being credited to the ratepayers who are actually funding
12 the programs as opposed to being retained by a utility
13 company?

14 A. I do not have an objection to that.

15 Q. Okay. And is it your experience with
16 collaboratives, that the collaborative process is a positive
17 one?

18 A. Absolutely. It has been. The Ameren
19 collaboratives have been very positive. They're putting
20 together some excellent programs.

21 Q. Would you have an objection -- would you
22 recommend that the Commission engage in a collaborative --
23 if they were to approve any of these particular programs, to
24 allow other parties, other interested entities or persons,
25 to participate in the development of those programs?

1 A. I think a collaborative approach would be an
2 excellent approach to carrying out whatever results from
3 this rate filing.

4 MR. COFFMAN: Okay. Thanks a lot. That's all
5 I have.

6 JUDGE JONES: Thank you, Mr. Coffman.
7 Are there any questions from Staff?

8 MR. WILLIAMS: Staff has no questions from
9 this witness.

10 JUDGE JONES: Cross-examination from Aquila?

11 MR. COOPER: Yes, your Honor.

12 CROSS-EXAMINATION BY MR. COOPER:

13 Q. Ms. Randolph, in answer to some questions from
14 Mr. Coffman, I believe you may have said that the
15 weatherization program that you're proposing would apply to
16 all of Aquila's electric customers; is that correct?

17 A. My testimony and my position is that all
18 electric customers of MPS should be eligible for the
19 weatherization program.

20 Q. Okay. When I look at -- if you would, could
21 you turn to page 15 of your Direct Testimony? And if you're
22 there, look at line 6. There's a sentence that starts, It
23 is requested. I believe that sentence says, It is requested
24 that funds should be used to exclusively weatherize Aquila,
25 Inc.'s, low-income electric heated homes.

1 Now, that seems to be different from what you
2 told Mr. Coffman. Have you changed your mind as to how this
3 program should be set up?

4 A. You make an excellent point. This does say
5 low-income electric heated homes. I'd have to say I thought
6 I said and I intended to say all electric customers, not
7 just those with electric heat. You raise a very good point.

8 Q. So to that extent, your testimony here today
9 differs from the program as originally contained in your
10 Direct Testimony?

11 A. That would be correct.

12 Q. And Mr. Coffman also pointed you to I believe
13 it's page 10 of your testimony and, in particular, lines 7
14 through 9 where you say, Non-energy savings include
15 reduction in working capital expense, uncollectible
16 accounts, credit and collection expenses and others.

17 I notice that you have no specific dollar
18 amounts in your testimony. Is there a reason for that?

19 A. I cannot quantify or cite to you at this point
20 what the specific dollars might be.

21 Q. Okay. And any savings there might -- if there
22 are savings, whatever savings there might be would be in the
23 future. Correct?

24 A. After weatherization takes place, yes.

25 Q. So --

1 A. In those -- those energy costs decline and the
2 arrearages to the company decline.

3 Q. So some point out in the future after
4 implementation of whatever program might be implemented.
5 Correct?

6 A. And -- yes. And immediately upon
7 implementation, some of -- these benefits would start to
8 accrue.

9 Q. Now, if you could turn to page, let's see, 34
10 of your Direct Testimony. I believe you have I guess what I
11 would characterize starting on line 12 as a summary of the
12 first-year costs that you're seeking for your proposals.
13 Correct?

14 A. Correct.

15 Q. Okay. And I assume, because the version I'm
16 looking at, which is Exhibit 1077, has some numbers
17 scratched out and written in, that you have made some
18 adjustments to your original numbers to remove L&P-related
19 proposals. Correct?

20 A. Correct.

21 Q. Are the numbers that remain electric case only
22 numbers?

23 A. Yes -- yes, they are.

24 Q. Okay. So there's --

25 A. Let me see.

1 Q. Or are there any other numbers included in
2 here that cross over the line into the ongoing gas case?

3 A. If -- yes, if I can address that. There are a
4 couple that do cross over into the gas case.

5 Q. And which two are those?

6 A. The commercial efficiency. The commercial
7 efficiency one, we -- we would like for that cost to be
8 shared between electric and natural gas customers. The
9 residential efficiency, that is the online energy audit,
10 also to be shared between the two, electric and natural gas.

11 Q. Now, because you have that \$250,000 one-time
12 cost associated with the residential efficiency, if I turn
13 the page to page 35, I see that you have a different summary
14 of dollars that apply to years two and three. Correct?

15 A. Correct.

16 Q. And the first year dollars then total to
17 \$695,833. Correct?

18 A. Correct.

19 Q. And the annual numbers for years two and three
20 under your proposal total to \$445,833. Correct?

21 A. Yes. Yes.

22 Q. And if I follow along in your testimony then
23 to line 10 on page 35, you then sum up, I think, those three
24 years of costs as \$1,587,499. Correct?

25 A. Yes.

1 Q. Okay. Now, if you would, I guess I'm a little
2 confused by that sentence that starts on line 10. As I read
3 it, it says, In order to prevent any further contribution to
4 increased electric rates for customers served by Aquila,
5 Inc., the Energy Center requests a reduction in Aquila,
6 Inc.'s rate filing of no less than \$1,587,499 equal to the
7 funding amounts to support the proposed energy efficiency
8 and renewable energy programs for a period of no less than
9 three years.

10 How is it that you're proposing that that
11 1.5 million and change be taken into account in the setting
12 of a revenue requirement in this case?

13 A. We believe that the -- the cost of these
14 programs should be in the rate base and they will accrue
15 benefits to customers as well as the company.

16 Q. Well, let me start with that. I think you
17 used the term "rate base" earlier maybe in response to some
18 questions from Mr. Coffman. And to me rate base is the
19 company's investment upon which it's going to earn a
20 reasonable return. Is that the context in which you're
21 using rate base?

22 A. I'm using it in the context of the costs are
23 appropriately covered by ratepayers.

24 Q. Okay. So if I were to tell you that the total
25 costs to be covered by ratepayers quite often are referred

1 to as a total revenue requirement, is that what you're
2 talking about, that the dollars you're seeking should be
3 added to that total revenue requirement for Aquila?

4 A. They should be included in the total revenue
5 requirement.

6 Q. Okay. Now, you also have some language in
7 here about a reduction in Aquila, Inc.'s rate filing. What
8 does that refer to?

9 A. Our position is that the -- the costs
10 associated with the programs addressed in my testimony do
11 not necessarily need to add to or increase the company's
12 request for overall revenue requirements.

13 Q. Well, let's say that as a part of the rate
14 case, the Commission determines an amount for reasonable
15 operating expenses, it also determines what a reasonable
16 return should be on the company's investment, adds those
17 together, says that's the overall number generally that the
18 company is going to recover through rates. Is that the
19 number you want to add your proposals on top of?

20 A. I think our proposals should be within the
21 revenue requirements, but I don't necessarily think the
22 revenue requirements should be increased in order to pay for
23 these programs.

24 Q. Well, let's say that the company has some sort
25 of statutory -- we'll start there. I might argue that it's

1 a constitutional right, but let's say that the company has
2 the -- under the statutes the right to receive just and
3 reasonable rates for its service to include a reasonable
4 return on its investment.

5 Are you going to -- are you going to somehow
6 reduce that number, that amount of revenue that the company
7 is due in order to make room for your programs, or are you
8 going to add the dollars for your programs on top of what
9 the company would otherwise be due statutorily in regard to
10 its rate revenue?

11 A. I think there are many factors that go into
12 determining what the company's statutorily due. The
13 position in my testimony is that -- is that we do not
14 believe that the cost of these programs necessarily should
15 increase the revenue requirement for the company.

16 Q. But won't they necessarily increase the
17 revenue requirement for the company?

18 A. We also believe that there are system benefits
19 that will help reduce some of the company's costs also.

20 Q. And these are the system benefits that you
21 told me earlier we can't quantify today. Correct?

22 A. Not -- not with the information available to
23 me at this time.

24 Q. Okay. And wouldn't occur until some time in
25 the future even if they did occur --

1 A. After --

2 Q. -- correct?

3 A. -- the implementation of the programs, I
4 believe there's substantiation that these kind of system
5 benefits do occur.

6 Q. Okay. But none of those would have -- because
7 the programs haven't been implemented, none of those
8 benefits would be -- evidence of those benefits would be
9 found in the test year in this case or the update period in
10 this case; is that correct?

11 A. That I believe would be correct.

12 MR. COOPER: Okay. That's all the questions I
13 have.

14 JUDGE JONES: Thank you, Mr. Cooper.

15 Commissioner Murray?

16 COMMISSIONER MURRAY: Is it my turn already?

17 QUESTIONS BY COMMISSIONER MURRAY:

18 Q. Good morning.

19 A. Good morning.

20 Q. Ms. Randolph, are you saying that your
21 recommendations here are that the company provide these
22 additional weatherization programs and then there be no
23 consideration in rates until the next rate case? Is that
24 what you're saying?

25 A. I'm saying that the costs of providing the

1 programs should be covered by ratepayers as a result of the
2 rate filing before you right now.

3 Q. And I heard you say that you were -- to
4 clarify your statement on page 35 of your testimony, that
5 you meant that the amounts or the costs of the programs
6 should be included in the total revenue requirement. Did I
7 hear you say that?

8 A. Yes.

9 Q. But then I thought I heard you say something
10 different when Mr. Cooper was questioning you further, that
11 you did not think that the costs should actually be added to
12 the revenue requirement?

13 A. I think the costs associated with the programs
14 should be -- should be covered by ratepayers. I don't -- I
15 don't necessarily -- I cannot necessarily say that I think
16 they should just automatically increase the revenue requests
17 by the company. You know, I don't -- I don't have
18 capability to do the kind of analysis certainly that the
19 Commission Staff and the company have available to them.

20 Q. Is that because you're not sure of the
21 numbers?

22 A. Could I ask you to clarify which numbers,
23 please?

24 Q. The numbers that you're estimating as the
25 costs for the programs that you're recommending.

1 A. No. No. I feel very comfortable with those
2 numbers.

3 Q. And if, in order for the ratepayers to pay for
4 those costs, it were necessary to include those as an
5 addition to the revenue requirement, would it be your
6 testimony that that's what you're recommending?

7 A. It would be my testimony that -- that I -- I
8 truly believe the expertise for those kinds of decisions
9 lies within the Commission and the Commission Staff.

10 COMMISSIONER MURRAY: I think that's all I
11 have. Thank you.

12 JUDGE JONES: Thank you, Commissioner Murray.

13 QUESTIONS BY JUDGE JONES:

14 Q. I just want to be clear. On page 35, a
15 reference was made to 1.5 million or so. And I know we
16 filed -- redacted and changed testimony. On line 12 in the
17 original testimony it was
18 one-million-eight-hundred-some-thousand. Has that changed?

19 A. The revised number reflects MPS only.

20 JUDGE JONES: Okay. Just wanted to be sure of
21 that. Thank you.

22 COMMISSIONER MURRAY: I have one more, Judge.

23 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

24 Q. Also, Ms. Randolph, in terms of the costs that
25 you estimated, I think I understood you to say that they

1 were based upon provision of at least one of your
2 recommendations to only customers -- electric heating
3 customers; is that right?

4 A. The testimony states that we were requesting
5 that the weatherization program for low-income citizens be
6 offered to MPS low-income citizens with electric heat.

7 Mr. Cooper raised a very good point that --
8 that I -- my recollection was that we had asked -- and that
9 I was asking that all electric customers be -- be eligible,
10 regardless of whether they have electric heat. But the
11 testimony does say electric heat for the low-income
12 weatherization assistance program specifically.

13 Q. So your numbers are based on electric heat
14 customers only?

15 A. Yes.

16 COMMISSIONER MURRAY: Thank you.

17 JUDGE JONES: Is there any recross
18 examination?

19 MR. COMLEY: Judge, I'd like to clarify a few
20 things with the witness a minute.

21 JUDGE JONES: Go right ahead.

22 CROSS-EXAMINATION BY MR. COMLEY:

23 Q. Ms. Randolph, in answering questions from
24 Commissioner Murray about the way in which you had intended
25 to account for this amount of money -- and forgive me, I

1 don't have a copy of your redacted testimony -- but how much
2 are you proposing the company include in its revenue
3 requirement?

4 A. Our position is that the 1-- approximately
5 \$1.5 million of costs associated with these programs be
6 covered by ratepayers.

7 Q. And then was it also your position that -- the
8 way I understood you were going on about this, it would
9 be -- 1.5 would be paid by the ratepayers but it would be a
10 reduction of the overall revenue requirement. Is that kind
11 of where we're going with that?

12 A. I'm saying that -- that I don't necessarily
13 have the expertise to say what the impact on the revenue
14 requirement may be. I can't -- I can't -- I don't feel
15 qualified to say automatically that I think the revenue
16 requirement should be increased. We simply -- we simply
17 don't have the kind of analysis and expertise to determine
18 those kinds of things.

19 Q. Were you proposing that there may be a
20 dollar-for-dollar benefit to the company as a consequence of
21 its weatherization program through the federal program that
22 you're part of?

23 A. We think there's -- will be substantial
24 benefits to the company. I cannot put a dollar amount on
25 it.

1 Q. And the other thing is, this amount of money
2 you're talking about in your testimony would join with
3 federal money; is that correct?

4 A. Correct.

5 Q. The idea that you talked about in your
6 testimony was a leverage. Could you explain that to me?

7 A. As Mr. Jackson testified, we distribute the
8 federal low-income weatherization funds to his agency as
9 well as a network of agencies across Missouri.

10 And what the addition of -- of ratepayer funds
11 allows an agency like Mr. Jackson's to do is obviously
12 increase the benefit by serving more citizens. But on an
13 individual basis, it also gives him the opportunity to
14 combine some federal funds with funds, for instance, from
15 this Aquila rate filing to bring more resources to bear on
16 that particular individual need and also reach more
17 citizens -- more low-income citizens with this kind of
18 energy efficiency help.

19 Q. And that's what you meant by the leverage
20 technique in your testimony?

21 A. Right. Combining resources to have greater
22 impact.

23 Q. You mentioned the sub-grantees throughout the
24 state of Missouri. Are there other sub-grantees in the
25 Clay, Jackson and Platte County areas?

1 A. Not for the low-income weatherization.

2 MR. CONRAD: Your Honor, this is going way
3 beyond Bench questions.

4 MR. COMLEY: I followed up on an answer from
5 the witness. And the question was about the way in which it
6 was done and the way in which the money was going to be
7 done.

8 MR. CONRAD: I'll stand on the record. I
9 don't think the Commissioner asked or your Honor asked
10 anything about federal monies or garage enhancements or
11 anything that we're going into. It's beyond the scope.

12 MR. COMLEY: I think it was my fair
13 implication to make clear to everyone about how much money
14 would be devoted to the program. I would stand by my
15 question and ask Ms. Randolph --

16 JUDGE JONES: Well, I'll have to rule on that
17 objection and it is sustained.

18 MR. COMLEY: As an offer of proof, Judge, I'd
19 like to ask the question if there's other sub-grantees in
20 Platte, Jackson and Clay Counties.

21 JUDGE JONES: Go ahead.

22 BY MR. COMLEY:

23 Q. Ms. Randolph, as an offer of proof in this
24 matter, I'm asking you a question. Do you know of any other
25 sub-grantees under your program in Clay, Jackson or Platte

1 Counties?

2 A. There are no other sub-grantees.

3 Q. Except the City of Kansas City?

4 A. Correct.

5 MR. COMLEY: Thank you.

6 JUDGE JONES: Is there any other recross?

7 MR. WILLIAMS: Staff has none.

8 MR. COFFMAN: No further questions.

9 JUDGE JONES: Thank you.

10 MR. CONRAD: No, your Honor.

11 CROSS-EXAMINATION BY MR. COOPER:

12 Q. Ms. Randolph, I believe the judge had asked
13 you about that same \$1.5 million figure that you and I
14 discussed a little bit on page 35. And just for
15 clarification sake, I think you had told me that some of the
16 numbers that go into developing that 1.5 million straddle
17 the line between electric and gas. Correct?

18 A. Correct.

19 Q. So the electric-only number would be something
20 smaller than that?

21 A. Yes. Could be something somewhat smaller.

22 Just makes it a little difficult since -- since we're
23 proposing that some of the costs be shared between the gas
24 and electric customers.

25 Q. Okay. And then one more item, as a matter of

1 clarification. I believe that whatever that total is, be it
2 1.5 or something slightly less than 1.5, that's a three-year
3 total. Correct?

4 A. Correct.

5 Q. That's not an annual amount?

6 A. That is a three-year total.

7 MR. COOPER: That's all the questions I have,
8 your Honor.

9 JUDGE JONES: Thank you.

10 And we'll have redirect then from Natural
11 Resources.

12 REDIRECT EXAMINATION BY MS. WOODS:

13 Q. Ms. Randolph, I believe in response to a
14 question from Commissioner Murray, that you indicated that
15 the numbers that the Department's requesting, particularly
16 for the low-income weatherization, are based on electric
17 heating only. Is that correct or is it just electric
18 customers? Is that how the numbers were calculated?

19 A. The numbers were calculated on electric heat,
20 consistent with the testimony.

21 MS. WOODS: Thank you.

22 JUDGE JONES: Any more questions from the
23 Bench, Commissioner Murray?

24 Thank you. You may step down.

25 It looks like we've completed the issue of

1 weather programs.

2 MR. COMLEY: Your Honor --

3 JUDGE JONES: Yes.

4 MR. COMLEY: -- I think that Mr. Jackson had
5 not been excused.

6 JUDGE JONES: Mr. Jackson, you may be excused.

7 MR. COMLEY: There's no other questions from
8 the Bench?

9 JUDGE JONES: No other questions.

10 MR. COMLEY: I think I had redirect for him.

11 MR. CONRAD: No. He's been up and down. He's
12 excused.

13 JUDGE JONES: I believe you're right.

14 MR. COMLEY: I think you excused him
15 momentarily so that you could wait for the Commission to
16 return to have questions.

17 MR. CONRAD: I stand corrected.

18 MR. COMLEY: We deferred redirect.

19 JUDGE JONES: That's correct. Thank you,
20 Mr. Comley.

21 MR. COMLEY: I would call Mr. Jackson for
22 redirect.

23 ROBERT JACKSON (recalled) testified as follows:

24 REDIRECT EXAMINATION BY MR. COMLEY:

25 Q. Mr. Jackson, during the course of his

1 cross-examination, Mr. Coffman brought up the issue of
2 how -- the manner in which the federal grants were
3 distributed for local weatherization programs and those
4 guidelines. Could you explain the process that the federal
5 government through Missouri DNR works with your organization
6 at the City in distributing those funds, just very briefly?

7 A. Well, I need a clarification to your question.
8 Do you mean how they're allocated or how we actually operate
9 the program?

10 Q. From the application process, how does it go
11 to the federal government and then back to you?

12 A. Okay. Well, the application for the low --
13 the eligible pop-- population, what we basically do is have
14 a massive outreach effort, an ongoing outreach effort.
15 Those that apply are assessed based on the documentation
16 they provide us.

17 When they're determined eligible, we send a
18 technician out to their home to write -- to run a diagnostic
19 analysis of the current and pre-installation energy profile
20 of that property.

21 We then take the information we gather, run a
22 computer analysis and use that computer analysis to
23 determine those measures that are going to have a positive
24 cost/benefit ratio for the dollars invested. We then
25 structure specifications that are put out -- developed.

1 Those specifications are put out on a competitive bid basis.
2 The low winning contractor gets -- the low bid gets the
3 work.

4 We then do -- after the work is submitted for
5 payment, we do a post-diagnostic analysis to contrast the
6 pre- and post-success and change of that energy profile.
7 That profile also includes addressing health and safety
8 measures, natural gas leaks, carbon monoxide, indoor air
9 quality problems.

10 That contract awards the work for 12 months.
11 The contractor's then paid. A report is submitted to DNR
12 along with some demographic data on each home and on each
13 applicant. And from there, the City is reimbursed.

14 Q. Okay. Thank you very much.

15 Regarding the City's position as sub-grantee,
16 let me ask this question of you. Are there other community
17 action organizations in the Jackson County, Clay County and
18 Platte County areas that work with your office?

19 A. They only work with us in the context of
20 channeling applicants to us for weatherization assistance.

21 Q. Do you know of any other sub-grantee in the
22 Clay, Jackson and Platte County areas for the federal
23 low-income weatherization program?

24 A. No, I don't.

25 MR. COMLEY: That's all the questions I have

1 on redirect.

2 JUDGE JONES: Thank you, Mr. Comley.

3 Mr. Jackson, you may be excused.

4 With that, we have a half hour to take up
5 here. We will go up until noon. So we'll move on to
6 Customer Growth Adjustments. I believe the company has the
7 first witness.

8 MR. COOPER: Company would call Mr. Eric
9 Watkins.

10 (Witness sworn.)

11 JUDGE JONES: You may be seated.

12 ERIC WATKINS testified as follows:

13 DIRECT EXAMINATION BY MR. COOPER:

14 Q. Mr. Watkins, do you have any changes that need
15 to be made to your testimony?

16 A. I do have one. My Rebuttal Testimony, page 2,
17 line 23 should read, Customer switching to MO-711 from
18 MO-710.

19 MR. FRANSON: I'm sorry. Was that on Direct
20 you said?

21 MR. COOPER: This is on Rebuttal Testimony,
22 page 2.

23 THE WITNESS: Line 23.

24 BY MR. COOPER:

25 Q. Could you read again how that sentence should

1 read?

2 A. The sentence should read, beginning on line
3 23, Customer switching to MO-711 from MO-710.

4 Q. So the second 711 that's reflected in the
5 originally filed testimony should be changed to read 710?

6 A. That's correct.

7 Q. Do you have any other changes to your
8 testimony?

9 A. No, I don't.

10 MR. COOPER: With that, your Honor, I would
11 offer Exhibits 1023, 1024, 1025 and tender Mr. Watkins for
12 cross-examination on Customer Growth.

13 JUDGE JONES: Exhibits 1023, 1024 and 1025 are
14 admitted into the record.

15 (Exhibit Nos. 1023, 1024 and 1025 were
16 received into evidence.)

17 JUDGE JONES: Is there any cross-examination
18 from the City of Kansas City? Oh, looks like Mr. Comley's
19 gone.

20 Is there any cross-examination from the
21 Missouri Department of Natural Resources?

22 MS. WOODS: No, your Honor.

23 JUDGE JONES: Sedalia Industrial Energy Users'
24 Association?

25 MR. CONRAD: No questions, your Honor. Thank

1 you.

2 JUDGE JONES: Federal Executive Agencies?

3 MR. PAULSON: No questions, your Honor.

4 JUDGE JONES: Office of Public Counsel?

5 MR. COFFMAN: No questions.

6 JUDGE JONES: Staff of the Commission?

7 MR. FRANSON: Yes. A few questions, your
8 Honor.

9 CROSS-EXAMINATION BY MR. FRANSON:

10 Q. Good morning, Mr. Watkins. My name's Robert
11 Franson. I'm an attorney representing the Staff of the
12 Commission. Have a few questions for you today.

13 First of all, do you have all of your
14 testimony in front of you to refer to, if need be?

15 A. I believe I do.

16 Q. Okay. Let me ask you, Mr. Watkins, isn't it
17 true that in your Direct Testimony -- actually, let me go
18 back a moment. Let me change that.

19 What is the issue here on customer growth
20 between Staff and the company? Could you explain that,
21 please?

22 A. I believe there are two issues that we're
23 discussing today. One relates to the customer growth
24 adjustments in Missouri rate codes 710 and 711, our small
25 general service class of customers.

1 Staff and company has gone through an
2 analysis. Staff's recommendation is that revenues be
3 adjusted by \$2.6 million, I believe, relative to customer
4 growth in those two -- in those two rate codes. Company has
5 recommended an annualized adjustment of 1.1 million for
6 3.1 percent annualized revenue growth adjustment.

7 Q. Let me ask you to focus on a couple things.
8 Specifically, isn't it true that Aquila used a customer
9 growth methodology based on changes in the number of
10 customers in determining the test year sales and the revenue
11 for rate codes MO-730 and MO-735? And --

12 A. You're asking if I represented it that way in
13 my Direct Testimony?

14 Q. No. I'm asking you if that statement is true.
15 And then the second question, would that be in your
16 testimony?

17 A. I'm sorry. I'm going to have ask you to
18 re-ask that question.

19 Q. Okay. Actually, let's move on. Isn't it true
20 that MO-730 contains large power customers who are served as
21 secondary voltages?

22 A. No. That's not correct.

23 Q. Is it MO-710 and 711?

24 A. I believe those -- that is correct.

25 Q. Okay. Other question, isn't it true that

1 Aquila used a customer growth methodology based on changes
2 in the number of customers in determining the test year
3 sales and revenue for rate codes 710 and 711?

4 A. The -- the customer growth methodology for the
5 test year sales would be based on actual customers during
6 that time period.

7 Q. Okay. But isn't it true that you used a
8 customer growth methodology that was based on the changes in
9 the number of customers in determining the test year sales
10 and revenue for rate code 710 and 711-- MO-710 and 711?

11 A. I believe that's correct.

12 Q. Okay. Now, isn't it true that MO-735 contains
13 large power customers who are served at primary voltages?

14 Let's move on, sir. Specifically on the 710,
15 711 rate codes, is there an issue between the company and
16 Staff regarding the customer growth adjustment for those
17 rate codes?

18 A. Yes, there is.

19 Q. Okay.

20 A. As I described earlier.

21 Q. Okay. Now, turning to your Direct Testimony,
22 do you have that available?

23 A. I do.

24 Q. Could I direct your attention to page 5,
25 beginning at line 5 and proceeding through page 6, line 11.

1 If you could review that and then tell me when you have the
2 opportunity to finish that review, please?

3 A. I'm sorry. Page 5, line 5 --

4 Q. Yes, sir.

5 A. -- through page 6, line --

6 MR. COOPER: Are you sure line 5 is correct?

7 MR. FRANSON: Actually, page 5, line 5 --
8 maybe lines -- I'm sorry, I stand corrected. Page 5, line
9 16 through page 6, line 11. Thank you, Mr. Cooper.

10 THE WITNESS: Okay.

11 BY MR. FRANSON:

12 Q. Could you review that, please?

13 A. I will review it.

14 Q. Thank you. And then please tell me when
15 you're done with that.

16 A. Okay.

17 Okay.

18 Q. Okay. Is this position supported -- well,
19 first of all, you've had your opportunity to review that.
20 Correct?

21 A. That's correct.

22 Q. What is your current position when it comes to
23 customer growth adjustment for the 710 and 711 rate codes?
24 Is it accurately set out in your Direct Testimony?

25 A. No, it's not.

1 Q. Okay. Where is it accurately set out?

2 A. I believe in my Rebuttal Testimony we talk
3 about truing up.

4 Q. Okay. So let me just ask you, you've got a
5 different position in Rebuttal Testimony?

6 A. Well, it's customary for -- because we had to
7 file this Direct Testimony before the September 30th true-up
8 period in this case, that we would go back and use actual
9 customers as of 7/30 to do the analysis, if that's what
10 you're referring to.

11 Q. Okay. What I'm asking is --

12 A. So that is the difference between my Direct
13 Testimony and what is on record with the Commission.

14 Q. Okay. We've got two -- actually, you've got
15 three pieces of testimony that were just admitted into
16 evidence. Correct?

17 A. Yes.

18 Q. Okay. I asked you what is your current
19 position when it comes to customer growth adjustment for the
20 710, 711 rate code. Question one, is there a difference
21 between what you set out in your Direct Testimony and what
22 you set out in your Rebuttal Testimony?

23 A. Yes. Due to the true-up period that has
24 occurred of September 30th.

25 Q. Thank you. My question is, there's a

1 difference.

2 Now, what is your current position here today?
3 Is it that found in your Direct Testimony or your Rebuttal
4 Testimony on this issue?

5 A. I believe the Rebuttal Testimony that I've
6 filed allows for an adjustment in Missouri rate code 710 and
7 711 for a total of \$1.1 million.

8 Q. Okay. Actually, is that found on your
9 Rebuttal Testimony, page 3, lines 18 through 19? Actually
10 let me direct you to page 3, lines 17 through 19 of your
11 testimony. You've got question, What is your recommendation
12 to the Commission?

13 A. One million five -- \$1,059,073, the number on
14 line 19 is the number I was referring to as \$1.1 million.

15 Q. Okay. Now, isn't it true -- okay. Now, let
16 me direct your attention to Rebuttal, page 3, lines 13
17 through 15.

18 A. Okay.

19 Q. Now -- actually, let me correct that. Page 3,
20 lines 13 through 16 of your testimony. What analysis has
21 the company done to get these numbers here?

22 A. Those numbers are just an annualized average
23 of -- using Ms. McMellen's revenue divided out by the number
24 of customers for an annual period and using ours as well for
25 that same period.

1 Q. Okay. Was this information ever provided to
2 the Staff prior to appearing in your testimony?

3 A. It would be -- it would be in our work papers
4 that -- the number would be something that could be
5 calculated by Staff using our work papers.

6 Q. Okay. But the actual calculation or your
7 desire to use it was not ever provided to Staff before it
8 appeared in your testimony?

9 A. Only so much to say that it was in our work
10 papers provided to them.

11 Q. Okay. Now, let me ask you generally, isn't it
12 more accurate to use the actual known and measurable numbers
13 when available as to the estimated ones in calculating
14 customer growth?

15 A. Which we did, yes.

16 Q. Okay. I understand what you say you did. My
17 question is, isn't it true that that's the more accurate way
18 to do it generally? Do I need to repeat that for you?

19 A. The more accurate way to do what? I'm sorry.
20 You've lost me.

21 Q. Okay. Generally, isn't it, in figuring
22 customer growth, more accurate to use actual known and
23 measurable numbers as opposed to estimated ones?

24 A. Yes.

25 Q. Okay. Now, did you use estimated numbers in

1 your adjustment by substituting the 710 averages for the
2 growth in the 710 rate code -- I'm sorry, 711 rate code?

3 A. We used estimated customer numbers to try and
4 arrive at the number of customers that were switching from
5 rate code 710 to 711.

6 Q. So you did, in fact, use estimated numbers in
7 your adjustment by substituting the 710 average for the
8 growth of the 711 rate code; is that correct?

9 A. That's correct.

10 Q. Okay. Isn't it true that there is growth in
11 the 711 rate code above and beyond the customers that switch
12 from the 710 rate code?

13 A. Yes.

14 Q. Has the company reflected this customer growth
15 in their adjustment?

16 A. Yes.

17 Q. How?

18 A. By using as a proxy the revenue per customer
19 for the 710 -- for the 710 rate class of customers
20 multiplied by the additional customer growth that has
21 occurred in that rate code.

22 Q. Is that the methodology used by Ms. Hong and
23 Ms. McMellen?

24 A. I'm certainly not an expert on their
25 testimony, but I understand that --

1 Q. I'm asking your understanding of it.

2 A. That's my understanding, that it's not.

3 Q. That it is not?

4 A. That it is not the same methodology used by
5 them.

6 Q. What is your understanding of the methodology
7 used by Ms. Hong and Ms. McMellen?

8 A. I believe they have -- just with respect to
9 710 and 711? Is that your question?

10 Q. Yes.

11 A. I believe they have used a combining
12 methodology where they would combine the customers of both
13 rate codes and multiply that incremental growth in customers
14 times the average revenue per customer for both rate codes
15 combined.

16 Q. Okay. Mr. Watkins, let's move onto some other
17 things. Is it true that in your Direct Testimony you have
18 recommended using average sales per customer and average
19 revenues per customer to annualize rate codes MO-730 and
20 MO-735?

21 A. In my Direct Testimony you're asking?

22 Q. Yes.

23 A. That's correct.

24 Q. Okay. And we've talked about the
25 difference -- isn't it true that in your Rebuttal you have

1 changed your position on this issue and recommended using
2 individual customer data to annualize sales and revenues for
3 those two rate codes?

4 A. That's correct.

5 Q. Okay. Did you make adjustments to ensure that
6 any customers new to the system during the analysis period
7 had 12 months of data to be used?

8 A. I'm sorry. Could you ask that again?

9 Q. Okay. Did you make any adjustments to ensure
10 that any customers new to the system during the analysis
11 period had 12 months of data?

12 A. Yes, we did.

13 Q. Okay. Did you make any adjustments to remove
14 all data for those customers who left the system during the
15 analysis period?

16 A. Yes.

17 Q. Do you know how many customers were added to
18 the system during the test year or update period?

19 A. For just 730 and 735?

20 Q. Yes.

21 A. We did an analysis and submitted that, yes, I
22 do.

23 Q. Okay. How many?

24 A. I believe there were four--

25 Q. Before you answer, would you consider the

1 answer to that question to be highly confidential?

2 A. No.

3 Q. Okay. What is that number that you adjusted
4 for?

5 A. The number?

6 Q. Yes. Of customers. Without identifying --

7 A. The number of customers?

8 Q. How many are we talking about?

9 A. We added four new customers and took away one.

10 Q. Okay. Do you know how many customers left the
11 system during the test year or update period? And -- okay.

12 A. Yeah, I did. I just answered that with one.

13 Q. Okay. Actually, before I asked you how many
14 were added. Now I'm asking you how many left?

15 A. One.

16 Q. Okay. Now, give me just a moment here.

17 MR. FRANSON: If I could have just a moment,
18 your Honor, I need to get an exhibit.

19 Okay. Mr. Watkins -- if I may approach the
20 witness, your Honor?

21 JUDGE JONES: Yes, you may.

22 BY MR. FRANSON:

23 Q. I'm going to hand you DR-489. Could you take
24 an opportunity to review that, please?

25 MR. FRANSON: Sorry. If I may approach the

1 witness again, your Honor. May I take that back just a
2 moment, please? I apologize to Mr. Cooper.

3 BY MR. FRANSON:

4 Q. Mr. Watkins, I hand you DR-489. Could you
5 review that for a moment and then tell me when you've had
6 the opportunity to do that, please?

7 MR. FRANSON: And, Mr. Watkins, I would
8 suggest to you that the document that you are reviewing is
9 highly confidential so we will probably be going into highly
10 confidential material in the very near future, but at this
11 point I don't think we've quite reached there, your Honor,
12 but I believe we will be there very shortly.

13 JUDGE JONES: Okay. Well, let me know when we
14 do.

15 THE WITNESS: Okay. I have reviewed it.

16 BY MR. FRANSON:

17 Q. Okay. Mr. Watkins, I'm going to ask you
18 certain questions and I'll be looking to you and then also
19 to Mr. Cooper. Hopefully my questions don't go down the
20 highly confidential route, but if they do, please say so at
21 this point.

22 The fact is you've had an opportunity to
23 review Staff DR-489; is that correct?

24 A. That's correct.

25 Q. Would you please review the DR question and

1 summarize what was requested and what was provided, without
2 giving any specific customer names, please?

3 A. I don't know that this states exactly what the
4 request is. It gives a description of the response. I can
5 provide that for you --

6 Q. Okay.

7 A. -- on this.

8 Q. Would the mere description of the response be
9 highly confidential?

10 A. I don't believe so.

11 Q. Okay. Could you state how you understand the
12 description of the response?

13 A. It says, Attached is a list of MPS customers
14 on rate ID MO-3 -- 730 and MO-735 that appear to be new
15 customers. Please provide the data that each customer
16 became active on MPS's system and their current status,
17 active/inactive, as of September 30th, 2003.

18 I guess it is the request. I apologize.

19 Q. Okay. Now, this next question, how many
20 customers are shown to have been added to the system? Now,
21 would that particular answer, which would be a number, would
22 you consider that to be highly confidential?

23 A. No, I would not.

24 Q. Okay. Could you review that and then see how
25 many customers have been shown to have been added to the

1 system?

2 A. It looks like there are 17 that appear to be
3 new customers as we've described.

4 Q. Okay.

5 MR. FRANSON: Your Honor, at this time I would
6 like to approach the witness, retrieve that and then proceed
7 with another exhibit.

8 JUDGE JONES: Go right ahead, Mr. Franson.

9 MR. FRANSON: Thank you.

10 Your Honor, at this time if I may approach the
11 witness again.

12 JUDGE JONES: Yes.

13 BY MR. FRANSON:

14 Q. Mr. Watkins, I hand you DR No. 490. Could you
15 take the opportunity to review that at that time -- at this
16 time?

17 A. Yes.

18 Q. Are you familiar with it?

19 A. I'd like a moment to read it, if you don't
20 mind.

21 Q. Please do. Please.

22 A. Okay.

23 Q. You've had an opportunity to review that?

24 A. Yes.

25 Q. Okay. We're going to go through the similar

1 questions that we did with DR-489 and I'll be asking you a
2 few questions here. And if this is touching on highly
3 confidential information, please say so. Don't state the
4 information, just say you believe it to be highly
5 confidential. That way we can ask the judge to go to a
6 session where we can talk about those things.

7 Okay. You've had an opportunity to review DR
8 No. 490?

9 A. That's correct.

10 Q. Okay. Would you be able to summarize what was
11 requested and what was provided?

12 A. It says here, Attached is a list of MPS
13 customers on rate ID MO-730 and MO-735 that appear to be
14 inactive. Please provide the date that each customer became
15 inactive on MPS's system.

16 Q. Okay.

17 A. And then there is an attached spreadsheet.

18 Q. Okay. Now, I'm asking for a number on this
19 next one, but my first question is, how many customers are
20 shown to have left the system during the test year or the
21 update period? And I'm looking for a number, not specific
22 names of customers. The question is, would that number be
23 considered by you to be highly confidential?

24 A. No, it would not.

25 Q. Okay. And then my next question is, how many

1 customers are shown to have left the system during the test
2 year or the update period?

3 A. If I've added correctly, there appears to be
4 14.

5 MR. FRANSON: Okay. Your Honor, may I
6 approach the witness to retrieve that document?

7 JUDGE JONES: Yes, you may.

8 MR. FRANSON: Thank you.

9 BY MR. FRANSON:

10 Q. Okay. Mr. Watkins, did you make adjustments
11 for those customers who were on the system during the entire
12 test year but either switched into or out of MO-730 or
13 MO-735? Do you understand my question, sir?

14 A. We did not. I do understand and we did not.

15 Q. Okay. Now, would it surprise you to -- would
16 it be a surprise to you if I tell you that one customer that
17 you identified as a customer who left the system during the
18 test year or update period is, in fact, quote, a rate
19 switcher, meaning he didn't leave the system, in fact, he
20 simply switched to another rate code? The question is, if
21 that exists, would that surprise you?

22 A. One customer that I identified as left the
23 system actually still exists on the system? Is that your
24 question? Would I be surprised by that?

25 Q. Yes. And please do not name this customer.

1 I'm asking, would that surprise you?

2 A. That would surprise me.

3 Q. Okay. Okay. Then you don't know of any
4 customers that meet this. Correct? The idea that --

5 A. That meet what?

6 Q. There isn't any customer that you identified
7 as leaving the system but, in fact, you believe that did, in
8 fact, switch to another rate code?

9 A. On either --

10 Q. MO--

11 A. -- 730 or 735?

12 Q. -- 730 or 735?

13 A. I do not know of any customer I have
14 identified as leaving the system that still exists on our
15 system.

16 MR. FRANSON: Okay. Now, I need to approach
17 the witness at this time, your Honor. I need to show
18 something to Mr. Cooper first

19 JUDGE JONES: I don't want to break your flow
20 of questioning. Do you have much more on this line of
21 questioning?

22 MR. FRANSON: No. Actually, I don't. I do
23 have a few more questions and I'm going somewhere specific
24 and then that will conclude my questions for this witness.
25 I know it's noon.

1 JUDGE JONES: Yeah. We've already gone past
2 the 90-minute mark. Let's go ahead and stop now. We'll
3 come back at a quarter after 1:00.

4 (A recess was taken.)

5 JUDGE JONES: We'll go on the record.

6 MR. FRANSON: May I proceed, your Honor?

7 JUDGE JONES: Yes, you may, Mr. Franson.

8 MR. FRANSON: Thank you.

9 Mr. Watkins -- may I approach the witness,
10 your Honor, after I show something to counsel?

11 JUDGE JONES: You may.

12 MR. FRANSON: Thank you.

13 BY MR. FRANSON:

14 Q. Mr. Watkins, if you could take a look at that,
15 please. Mr. Watkins, could you take a look at that document
16 in front of you, which I believe is from DR-68 in this case?

17 A. Okay.

18 Q. Have you had an opportunity to do that?

19 A. (Witness nodded head.)

20 Q. The document in front of you, what is that?

21 A. Appears to be a spreadsheet of some sort.

22 Q. Okay. After looking at this information,
23 would you agree with me that this customer, in fact, didn't
24 leave the system, but actually switched from -- the one
25 that's highlighted actually switched from MO-730 to MO-720?

1 A. Are you -- I'm sorry. You're confusing me.
2 Are you referring to the customer that you have highlighted?

3 Q. Yes.

4 A. And I assume you're also referring to the
5 column titled Link DT --

6 Q. Yes.

7 A. -- and Unlink D?

8 Q. Yes.

9 A. And then New Link DT and New Link -- New
10 Unlink DT?

11 Q. Yes.

12 A. Okay. I see those.

13 Q. And would that not indicate that one customer,
14 in fact, did not leave the system, but actually switched
15 from MO-730 to MO-720?

16 A. It's -- it's kind of difficult to determine
17 from this. I think that's what this would tell me.

18 Q. Okay. Now, given this information that you,
19 in fact, have a rate switcher instead of some -- a customer
20 leaving the system, would you still make the same adjustment
21 you did before?

22 A. Same adjustment -- what adjustment are you
23 referring to?

24 MR. FRANSON: Okay. May I approach the
25 witness again, your Honor?

1 JUDGE JONES: Yes, you may.

2 BY MR. FRANSON:

3 Q. I'm going to hand you what I believe are your
4 work papers, Mr. Watkins. Could you take a look at those,
5 please?

6 A. Okay.

7 Q. Then the DR-68, I believe there's an SA number
8 and another number -- since I don't have those right in
9 front of me, but do those not, in fact, match up?

10 A. I'm sorry. You're asking if the -- what are
11 you asking that matches up? I apologize.

12 Q. Is it the same customer from DR-68 to your
13 work papers is the question?

14 A. It does -- I can see where the service count
15 ID and the count ID matches up to the line that I show as a
16 customer leaving our system.

17 Q. So -- okay.

18 MR. FRANSON: May I approach the witness, your
19 Honor?

20 JUDGE JONES: Yes.

21 BY MR. FRANSON:

22 Q. Let me get those back from you.

23 Specifically, if a customer left the system,
24 you would make one type of adjustment; is that correct?

25 A. If a customer leaves the system, we show an

1 appropriate reduction in revenue for that customer leaving
2 the system.

3 Q. Okay. If a customer, however, does not leave
4 the system but switches classes, as this one appears to do,
5 specifically goes from MO-730 to MO 720, would that not
6 require an adjustment in your calculation?

7 A. It would if that customer had any incremental
8 load on 720, which it does not.

9 Q. Okay. So you wouldn't have to change your
10 calculations at all. Is that what you're saying?

11 A. No. The customer we're referring to is a
12 large retail establishment in a mall that has gone out of
13 business. There are no lights on there anymore. I live
14 right by it. I can see it. So it doesn't matter where it
15 switched to. The fact of the matter is that they're no
16 longer in business.

17 Q. Okay. But that doesn't change a couple facts
18 here. First of all, that the response to DR-68 shows that
19 during the update period that this -- I believe you called
20 it a large retail customer of a mall was, in fact, hooked up
21 at MO-720 in that class; isn't that true?

22 A. I don't know. I'm not -- is that one of the
23 DRs we --

24 MR. FRANSON: May I approach the witness, your
25 Honor?

1 THE WITNESS: -- looked at earlier?

2 JUDGE JONES: Yes, you may.

3 BY MR. FRANSON:

4 Q. Okay. Could you take a look at this document,
5 please?

6 A. Is this the same document we had earlier?

7 Q. It is.

8 A. Okay.

9 Q. Now, what do you believe that document to be?
10 What does it appear to be to you?

11 A. As I said earlier, appears to be a
12 spreadsheet.

13 Q. Okay. And doesn't it, in fact, show what you
14 have now identified as a large retail customer at a mall
15 actually on February 3rd, 2003 switched from MO-730, I
16 believe it was, to MO-720?

17 A. And I think I said I -- it -- I think I can
18 come to that conclusion by looking at this.

19 Q. Okay.

20 MR. FRANSON: Now, may I approach the witness,
21 your Honor, again?

22 JUDGE JONES: Yes.

23 BY MR. FRANSON:

24 Q. Okay. Now I'm going to hand you this other
25 document again. What is that?

1 A. It appears to be my work papers.

2 Q. Well, could you look at it and see if it, in
3 fact, is your work papers or a portion thereof?

4 A. I have.

5 Q. Okay. Now, this large retail customer --
6 there is a number assigned for revenue in your work papers;
7 isn't that correct?

8 A. That's right.

9 Q. Now,

10 A. It's \$121,000 reduction.

11 Q. Okay. If this customer, in fact, switched
12 from MO-730 to MO-720, you would, in fact, need to make an
13 adjustment; isn't that correct?

14 A. I would only make an adjustment if there were
15 additional revenue gains or incremental losses from that
16 customer switching.

17 Q. But your work papers do, in fact, show a gain
18 or loss in revenue?

19 A. That's right. Because the customer is no
20 longer adding load to our system.

21 Q. Okay. Without regard to what you believe
22 about this customer, let's go with what these documents
23 suggest. That on February 3rd, 2003, this customer switched
24 classes; isn't that correct?

25 A. It appears so.

1 Q. And if that's correct, you would, in fact,
2 need to make an adjustment; isn't that correct?

3 A. No, that's not correct.

4 Q. Why not?

5 A. Because the customer didn't -- the customer no
6 longer adds load to our system.

7 Q. Okay. Let's try it again. You are trying to
8 add things that I'm not asking. I'm asking about these
9 documents. Okay? Then we'll go to your other knowledge
10 about the customer.

11 Based on these documents that you have in
12 front of you, DR-68 and your work papers, if those are
13 accurate, would it not be true you have to make an
14 adjustment of either a gain or loss in revenue; isn't that
15 correct? Let's assume for the sake of this question that
16 this customer adds a load.

17 MR. COOPER: Objection, your Honor. I think
18 this has been answered. I think Mr. Watkins has said he
19 does not, in fact, have to make an adjustment because he
20 knows that this customer is not adding load to the system.

21 MR. FRANSON: Your Honor, I've tried to
22 qualify my question. And this witness obviously during an
23 hour and 15 minutes had plenty of time to research this and
24 that's obviously what's going on here and he's very
25 skillfully evading my question. I've tried to put it in the

1 form of a hypothetical and then on redirect if Mr. Cooper
2 wants to ask these questions, he's more than able to do
3 that.

4 JUDGE JONES: Well, so the answer that
5 Mr. Cooper has stated that his client has answered is not an
6 answer to your question?

7 MR. FRANSON: That is how I would phrase it,
8 your Honor. My question is specifically assuming that he
9 puts aside his knowledge of that -- of what he believes to
10 be this large retail customer, I'm asking him to step back
11 from that and assume that this customer was, in fact, still
12 adding load to their system, would he need to make an
13 adjustment. That question has not been answered. That's my
14 specific question.

15 JUDGE JONES: Do you want him to entertain a
16 hypothetical?

17 MR. FRANSON: I want him to entertain that
18 specific question, yes, your Honor. And if I need to put
19 that in the form of a hypothetical, I'll be more than happy
20 to.

21 JUDGE JONES: When you say "a large retail
22 customer," are you talking about a particular large retail
23 customer?

24 MR. FRANSON: Yes, your Honor. Staff would
25 believe that the identity of that large retail customer, the

1 specific name of that customer, is highly confidential.

2 However --

3 JUDGE JONES: Well, we don't need to know the
4 name of it, but if you're speaking of Large Retail
5 Customer A and the truth of the matter is the Retail
6 Customer A is no longer a customer, why do we need to assume
7 that they are or aren't? We just need to know what the fact
8 is with regard to that customer, don't we?

9 MR. FRANSON: Well, your Honor, I think you're
10 asking me to explain to you why I want to ask a specific
11 question, and I respectfully decline to do that. I think
12 I'm entitled to ask my question. And right now I'm not sure
13 that there is a specific question before the witness so I
14 suggest I ask my question and if there's an objection to
15 that, we go forward.

16 JUDGE JONES: Okay. Ask the question as
17 simply as you can.

18 MR. FRANSON: Yes, your Honor.

19 BY MR. FRANSON:

20 Q. Mr. Watkins, assuming that as of
21 September 30th, 2003, this large retail customer in a mall
22 that is adding load to your system, if that was true would
23 you, in fact, need to make an adjustment of either an
24 increase or decrease in revenues in this case?

25 A. If there is an instance where that would be

1 occurring, that -- the Retail Customer A that you're
2 referring to is still adding load to our system, then that
3 would go as an added customer to the 720 rate code as your
4 example is pointing out, an incremental amount of load would
5 be added on that. I might point out though, that --

6 Q. Okay. Thank you. You've answered my
7 question.

8 Now, my next question is, the particular
9 customer that is referred to, again, without naming this
10 customer, that is in both DR-68 and your work papers there,
11 you had some opportunity during the break to research that
12 customer; is that correct?

13 A. I had the opportunity. I didn't -- did not
14 exercise that opportunity because I am familiar with this
15 customer. And since I only subtracted one customer from the
16 load, I knew specifically what customer you were talking
17 about.

18 Q. Okay. Now, my other question is, specifically
19 when did this customer, which we'll refer to as Customer A,
20 when did that customer go out of business and stop adding
21 load to Aquila's system?

22 A. I have it I believe in my notes in my work
23 papers that there was a final bill sent in February of '03,
24 which would correspond with -- in February of '03.

25 Q. Thank you very much.

1 MR. FRANSON: If I may approach and retrieve
2 my exhibits, I have no other questions for this witness.

3 JUDGE JONES: Thank you. Commissioner Murray,
4 do you have questions for the witness?

5 COMMISSIONER MURRAY: Briefly, your Honor.
6 Thank you.

7 QUESTIONS BY COMMISSIONER MURRAY:

8 Q. Good afternoon.

9 A. Good afternoon.

10 Q. Can you tell me what is the dollar amount of
11 revenue requirement difference between you and Staff on this
12 particular issue, do you know?

13 A. There are two issues that -- the first of
14 which -- regarding our small general service class of
15 customers there's a difference of \$1.5 million there.

16 Q. And that's rate code 710 and 711?

17 A. That's correct.

18 Q. Okay.

19 A. And then the other issue regarding our 730,
20 735 rate classes or large general service class of customers
21 there's a difference of \$586,000 there, rounded off.

22 Q. Okay. And in the large general service, are
23 you just talking about the difference in treatment of one
24 customer?

25 A. I don't think that we are, although that

1 has -- where the conversation was turned earlier. We went
2 through and -- if I may, we went through and tried to look
3 at each individual customer and determine where new load was
4 being added as a result of a new customer coming onto our
5 system and, likewise, the subtractions. And I -- as I said
6 earlier, we came up with four additions and one subtraction
7 to net addition of three customers.

8 Staff, as I understand it, did a similar
9 method, I think; however, they made other adjustments that
10 would try to account for customers that would switch into
11 and out of rate code 730 and 735. And I think that probably
12 has created some of the differences in our numbers that add
13 up to \$586,000.

14 Q. Okay. And on the small -- the rate code 710
15 and 711, the \$1.5 million difference, there were quite a
16 large number of customers involved in that calculation; is
17 that right?

18 A. There are. And that's made much more
19 difficult by the fact that a large number of customers are
20 switching out of 710 and into 711, which --

21 Q. Can you explain why that is?

22 A. It's my understanding that the company has
23 taken a practice of installing demand meters on a large
24 portion of the 710 customers and that qualifies them for
25 being in the rate code 711 rate. And as such, a large

1 number have been switching over the past couple of years as
2 they receive their demand meters.

3 Q. Okay. And the 710 customers, they're -- the
4 average revenue requirement for a 710 customer would be
5 lower than that for a 711 customer?

6 A. Much lower, yes.

7 Q. And with Staff's calculations there was
8 some -- I believe in your testimony you stated in your
9 Surrebuttal on pages 1 and 2 you spoke about Staff using a
10 mid-month customer average to determine revenue per customer
11 and that causing actually a mismatch between the normalized
12 calendar month revenue. Is that the group of customers
13 you're talking about there or is that --

14 A. It's the same group of customers, but I don't
15 believe that is part of the issues that we're talking about
16 today.

17 Q. Okay.

18 A. That's not part of the 1.5 million.

19 Q. Okay. I see we've got -- so the primary
20 difference in the way that Staff -- the methodology that
21 Staff used and the methodology that the company used, could
22 you state it simply, the primary difference?

23 A. I could try. The Staff's adjustment by
24 combining the two rate codes together results in a
25 \$2.1 million adjustment, which also translates into an

1 annualized revenue of -- annualized percentage revenue
2 increase of 7.8 percent.

3 Our adjustment correspondingly, by trying to
4 look at each individual rate code and adjusting
5 correspondingly, results in \$1.1 million which results in a
6 3.1 percent annualized revenue increase, which we believe is
7 much more reasonable relative to the rest of the growth of
8 our service territories.

9 7.8 percent revenue adjustment would be close
10 to double that of our normal system growth rate. And if you
11 look at the size of these customers and what makes up these
12 customers, you could realize that the economics of those
13 individual customers are supported by the growth of
14 residential class because of their size. And our
15 residential class is growing more along the clip of
16 3, 3.5 percent.

17 Q. Okay. And then the position that Public
18 Counsel has taken with regard to this issue, what is the
19 total difference there between the company and Public
20 Counsel, do you know?

21 A. I'm not aware of any.

22 Q. You're not. Okay. I must admit I'm a little
23 bit behind on this testimony.

24 COMMISSIONER MURRAY: All right. Thank you.

25 THE WITNESS: Thank you.

1 JUDGE JONES: Is there any recross for this
2 witness?

3 Seeing none, we'll have redirect from Aquila.

4 REDIRECT EXAMINATION BY MR. COOPER:

5 Q. Mr. Watkins, Mr. Franson asked you about two
6 company data request responses. I believe they were
7 MPSC-489 and MPSC-490. I'd like to hand you copies of those
8 and -- do you have 489 and 490 in front of you at this time?

9 A. I do.

10 Q. On 489, could you read to us the question that
11 was posed to the company?

12 A. Certainly. Attached is a list of MPS
13 customers on rate ID MO-730 and MO-735 that appear to be new
14 customers. Please provide the date that each customer
15 became active on MPS's system and their current status,
16 paren, active/inactive, paren closed, as of September 30th,
17 2003.

18 Q. I take it from that question then that the
19 company was actually provided a list by the Staff?

20 A. I believe that to be the case, yes.

21 Q. Okay. Would that be a comprehensive list of
22 new customers?

23 A. I don't know that to be the case. In fact, I
24 would probably say no.

25 Q. I was going to say, do you have any reasonable

1 to believe that, in fact, that's not the case?

2 A. I don't have any reason to believe that it's
3 not the -- or that it is the case. It appears to be a list
4 of customers, and as they have said, they appear to be new,
5 but I don't know -- I wouldn't know why it would be a
6 comprehensive list.

7 Q. Now,

8 MR. FRANSON: Your Honor, I need to object if
9 this witness is going to ask questions and answer questions
10 about these DRs in some detail. While he's stated he's
11 generally familiar with them, the types of answers he's
12 giving now would indicate and require that he, in fact, be
13 the one that prepared these, because he's making definitive
14 statements of whether they are complete lists,
15 comprehensive.

16 That would be the person who, in fact,
17 completed the answers to these DRs. If that's him, I will
18 be more than happy to withdraw my objection. But if it is
19 not him, then we have a lack of foundation, Judge, to all
20 the questions that have been asked and I would object at
21 this point in this regard.

22 JUDGE JONES: I can't sustain your objection
23 to questions that have been asked and answered.

24 MR. FRANSON: I understand that, Judge.

25 JUDGE JONES: The DRs that the redirect is

1 directed to are data requests that you brought into issue.

2 MR. FRANSON: I brought the DRs in a sense of
3 DRs and specific answers. I did not ask this witness if
4 they were, in fact, complete, comprehensive and all the
5 things that Mr. Cooper is doing.

6 And, Judge, there is a very distinct
7 difference between what does it appear to say and what does
8 the answer appear to be. And here, that the intent of the
9 company in giving this answer was not to give a
10 comprehensive list, that shows the intent of the person who
11 answered them and there is a very distinct difference
12 between Mr. Cooper's questions and mine.

13 And it has not been established that this
14 witness is the one who, in fact, provided the answers to
15 these and can make definitive statements about what the
16 intent of the company was in making an answer. Between
17 what -- there is a difference between what the answer
18 actually is versus the intent of the company in giving that
19 answer.

20 This witness is testifying to the intent of
21 the company in giving that answer. And, your Honor, for
22 that I believe we have a lack of foundation. Now,
23 Mr. Cooper could certainly correct that if Mr. Watkins is
24 the one that prepared these answers, but I haven't heard
25 that.

1 MR. COOPER: I don't think I need to correct
2 it. I would go back to the first point, which was that
3 Mr. Franson felt that Mr. Watkins was sufficiently qualified
4 to answer questions about what was stated in these data
5 request responses before lunch when Mr. Franson asked the
6 questions. And I think I should at least be able to on
7 redirect follow up on those questions.

8 Second, I think my point is not what
9 Mr. Watkins believes the intent to be, but to merely
10 highlight the question that was asked. And the question
11 that was asked provided a list to the company. It did not
12 ask the company to provide a list to the Staff.

13 And I think that is -- that's really where my
14 point is, is that neither of these data requests ask for a
15 comprehensive list. They instead work the other direction,
16 they provide a list to the company and ask the company to
17 provide some additional information relating to specifically
18 listed service agreements.

19 JUDGE JONES: I tend to agree with Mr. Cooper,
20 Mr. Franson. If hear your objection is two-fold. It seems
21 like you're objecting because he didn't prepare the DRs.

22 MR. FRANSON: No. Actually, Judge, that's not
23 my objection. My objection is to these questions -- it's
24 one thing for a witness -- and Mr. Watkins, who undoubtedly
25 is familiar with this -- to read a question and look at the

1 answer and say, Okay, this is the answer versus stating the
2 company's intent or Staff's intent, your Honor. That is
3 lack of foundation and that's what this witness is doing.

4 JUDGE JONES: Doesn't he work for Aquila?

5 MR. FRANSON: Your Honor, just because he
6 works for Aquila does not mean that he's the one that can
7 definitively state the company's intent unless he prepared
8 the response or otherwise a foundation is laid, and it
9 hasn't been done.

10 And it's not just my questions are okay,
11 Mr. Cooper's are not. There's a very distinct difference
12 between the questions I asked, which were asked and answered
13 without objection, and the questions that Mr. Cooper is
14 asking.

15 MR. COOPER: Well, I don't -- well, I think
16 you mischaracterized my question though because I don't
17 think I have asked Mr. Watkins as to the company's intent as
18 to anything. I think we're trying to focus on the question
19 that was asked and the response that was given in these two
20 data requests.

21 MR. FRANSON: Your Honor, at this point maybe
22 we need to go back to the specific question and I'll raise
23 objections with each question as we go.

24 JUDGE JONES: That's fine. Ask your question
25 again, Mr. Cooper.

1 At this point I will overrule the objection.

2 MR. FRANSON: Thank you, Judge.

3 MR. COOPER: Well, let me do this. Why don't
4 we go ahead and get a couple of exhibits marked, if we can.

5 JUDGE JONES: That will be fine.

6 MR. COOPER: The first exhibit would be
7 Aquila's response to MPSC-489.

8 MR. FRANSON: What are we up to on numbers?

9 JUDGE JONES: 160.

10 MR. FRANSON: 160. And, Mr. Cooper, this was
11 DR question and response to 489?

12 JUDGE JONES: Mr. Cooper is this the question
13 and the answer?

14 MR. COOPER: It is, yes, your Honor.

15 JUDGE JONES: Thank you.

16 MR. COOPER: Your Honor, the second document I
17 would like to mark would be the request and response
18 identified as MPSC-490.

19 (Exhibit Nos. 160 and 161 were marked for
20 identification.)

21 MR. COOPER: And this I take it would be 161;
22 is that correct?

23 JUDGE JONES: Yes, sir.

24 BY MR. COOPER:

25 Q. Mr. Watkins, do you have before you the

1 documents that have been identified as exhibits marked for
2 identification as Exhibits 160 and 161?

3 A. I do.

4 Q. Are you familiar with those data requests and
5 responses?

6 A. Yes.

7 Q. Did you have the opportunity to review those
8 responses prior to today?

9 A. I have seen these data requests before and
10 have seen the responses, although -- before today.

11 Q. Is it your understanding that what is in
12 Exhibits 160 and 161 represent the responses provided on
13 behalf of Aquila, Inc. to Staff Data Request 489 and 490?

14 A. Yes.

15 Q. Are these data requests responses the data
16 request responses that Mr. Franson asked you about earlier
17 today in his cross-examination?

18 MR. FRANSON: I'll stipulate to that.

19 BY MR. COOPER:

20 Q. And the data request responses that you
21 referred to in providing answers to Mr. Franson earlier
22 today?

23 A. Yes

24 MR. COOPER: Your Honor, I would offer
25 Exhibits 160 and 161.

1 JUDGE JONES: Any objection?

2 MR. FRANSON: Your Honor, yes. However, I
3 would ask to voir dire the witness at this point in time.

4 JUDGE JONES: You may voir dire the witness.

5 VOIR DIRE EXAMINATION BY MR. FRANSON:

6 Q. Okay. Mr. Watkins, earlier -- well, first of
7 all, you didn't prepare these DR responses; is that correct?

8 A. No, I did not.

9 Q. Did you assist in their preparation?

10 A. No, I did not.

11 Q. In fact, DR-489 and DR-490 would indicate they
12 were answered by Charles Gray; is that correct?

13 A. Yes.

14 Q. Who is Charles Gray?

15 A. He is an employee of Aquila, Inc.

16 Q. And what's did he do at Aquila, Inc.?

17 A. He is employed in the rate department of
18 Aquila, Inc.

19 Q. And, in fact, he -- my -- okay. The question
20 I have is, on page 2 there's a list of specific customers.
21 I believe you -- this is on 489 and on 490 also; is that
22 correct?

23 A. I'm sorry. You're asking if there's a list?

24 Q. Let's start with 489. It's Exhibit 160,
25 DR-489. Isn't it true that in earlier questions from

1 Mr. Cooper you stated that Staff provided this list of
2 customers and then Aquila provided certain information
3 regarding each of those customers?

4 A. That's the way that the data request reads to
5 me, yes.

6 Q. Okay. Do you know where Staff might have
7 gotten this list of specific customers?

8 A. I would assume that it was provided in earlier
9 data requests from the company.

10 Q. And the source of that information, at least
11 based on your best assumption and belief, would be that
12 Aquila was the source of that information?

13 A. Yes.

14 Q. And would that be true also for 490, that that
15 list most likely was -- received from Staff was gained from
16 information that was provided by Aquila?

17 A. In fact, probably a part of or a subset of a
18 much larger data request.

19 MR. FRANSON: Your Honor, with those questions
20 answered, I have no objection to the introduction of these.
21 However, I would ask if the company wants to designate any
22 part of these as highly confidential because we are dealing
23 with specific customers being identified, we are dealing
24 with certain specific information about certain customers.

25 JUDGE JONES: Exhibits 160 and 161 are

1 admitted into the record.

2 (Exhibit Nos. 160 and 161 were received into
3 evidence.)

4 JUDGE JONES: As far as the highly
5 confidential information is concerned, I'll leave that to
6 Mr. Cooper to determine if his question will result in an
7 answer that divulges that information

8 MR. FRANSON: Your Honor, it's not the only
9 the question but the exhibits themselves, whether they need
10 to be highly confidential.

11 MR. COOPER: Well I think we differ probably
12 in an interpretation of what needs to be highly confidential
13 and what doesn't need to be highly confidential.

14 MR. FRANSON: Your Honor, if Mr. Cooper
15 doesn't think they need to be highly confidential and he's
16 perfectly content with these documents being made available
17 to anyone wanting to see them, Staff has no objection to
18 that. I'm just raising the point that generally specific
19 customers being identified has historically been highly
20 confidential. But if he wants to make it public, Staff
21 would have no objection. I'm just raising the point, your
22 Honor.

23 MR. COOPER: Well, and my viewpoint I guess
24 comes from the fact that neither of these data request
25 responses identifies usage or billing amounts or those sorts

1 of information. They're merely customer names, so --

2 MR. FRANSON: Okay.

3 JUDGE JONES: Proceed with your questions
4 then, Mr. Cooper.

5 BY MR. COOPER:

6 Q. Mr. Watkins, if you look at 489 for a moment,
7 which has been identified or is now Exhibit 160, do you see
8 any customers that are listed twice on that list?

9 A. Yes.

10 Q. And why are what you would respond to as
11 customers being listed twice, why are they on there twice?
12 Is there some other difference?

13 MR. FRANSON: Your Honor, at this point I need
14 to object and again I would ask to voir dire the witness.

15 JUDGE JONES: Anyone that has this exhibit in
16 their hand, Mr. Franson, can look and see that certain
17 customers are listed twice. I don't understand the purpose
18 of your objection. What is your objection, for that matter?

19 MR. FRANSON: Well, he stated something,
20 Judge, and I would like to ask him a couple questions about
21 it.

22 JUDGE JONES: I won't allow that.

23 Go ahead, Mr. Cooper.

24 BY MR. COOPER:

25 Q. Going back to Exhibit 160, Mr. Watkins, there

1 are some customer names that are listed on there more than
2 once, aren't there?

3 A. Yes.

4 Q. Okay. Why is that? Why would a customer be
5 listed more than once on that list?

6 A. Could be a variety of reasons and it probably
7 stems from what is the definition of a customer. Is it
8 multiple service IDs or account IDs? But there could be a
9 variety of reasons why a name would show up more than once
10 on this list.

11 Q. But one of the reasons is a customer, in your
12 opinion, could have more than one service agreement.

13 Correct?

14 A. That's correct.

15 Q. Okay. Mr. Franson asked you several questions
16 about what became known as I think in his questions Customer

17 A. Do you remember that?

18 A. I do.

19 Q. And I believe -- was Customer A the customer
20 that you had identified as having left the system?

21 A. Yes.

22 Q. Okay. And what rate classification was
23 Customer A formerly under?

24 A. I believe it was rate code 730.

25 Q. Who is Customer A?

1 A. Customer A was The Jones Store, retail store,
2 in one of the malls near Kansas City.

3 Q. And why is it you believe that Customer A, or
4 The Jones Store, has left the system?

5 A. Because I can no longer go into the building
6 and buy anything from that establishment. It's -- there's
7 nothing there anymore.

8 Q. So if their classification had changed to 720,
9 as was alleged, would there be a significant difference in
10 their load at this point?

11 A. No. I would expect -- there would be a
12 significant difference in their load, that being -- going
13 from about \$120,000 a year of revenue to the company almost
14 to 0.

15 Q. Now, Mr. Franson -- I believe his first
16 question this morning was what is the issue between the
17 Staff and company. And I think you responded that there's
18 really two issues. There's an issue as to the 710, 711
19 classifications. Correct?

20 A. That's right.

21 Q. Then there's also an issue as to the 730, 735
22 classifications. Correct?

23 A. Correct.

24 Q. Working off that, could you describe for us
25 what the issue is in regard to the 710, 711 -- what you've

1 done and why you think that's superior to what the Staff has
2 done?

3 MR. FRANSON: Your Honor, somewhere in there
4 between Mr. Cooper's sentences is called leading the
5 witness, your Honor. This is very -- this is about as
6 blatant as it can get and I would object on that basis and
7 ask that the question be stricken and Mr. Cooper be directed
8 to ask a non-leading question.

9 JUDGE JONES: Objection's sustained.
10 Mr. Cooper, ask him what the difference is or
11 not -- don't ask a leading question. Don't put the
12 answer --

13 MR. COOPER: I think my leading questions were
14 things that perhaps we would have all agreed to, but that's
15 all right. I'll ask the big question in an unleading
16 fashion and hopefully we'll be able to move on then.

17 BY MR. COOPER:

18 Q. Mr. Watkins, given the fact that you were
19 asked questions by Mr. Franson as to the differences between
20 Staff and the company, can you describe for us in regard to
21 the 710, 711 classifications how the company went about
22 computing the customer growth?

23 A. The company used a method to try and identify
24 customer growth in those two classes by assuming that the
25 average revenue per customer for the customers that switched

1 and the new customers that were coming on board for the --
2 both classes were more along the lines of those -- that
3 revenue per customer observed in the 710 rate class.

4 That being said, our adjustment -- our
5 proposed adjustment of \$1.1 million results in, as I tried
6 to point out earlier, 3.1 percent annualized revenue growth
7 rate, which we believe is more along the lines of --
8 representative of the rest of our growth of our company.

9 Q. Okay. Now, how does that compare to the
10 growth rate reflected in the Staff's numbers for the 710,
11 711?

12 A. The Staff's proposed adjustment of
13 \$2.1 million results in an annualized revenue growth rate of
14 7.8 percent, which is a very robust growth rate relative to
15 the rest of our service territory and the rest of our
16 customer base. And it would -- it is such that that type of
17 growth rate could not be supported by -- would not likely be
18 supported by the -- by our residential customer class on a
19 going-forward basis.

20 Q. Now, as to the 730, 735 classifications, what
21 has the company done in order to compute its customer
22 growth?

23 A. The company has taken an individual
24 customer-by-customer approach in those rate classes to try
25 and identify customers that have come on the system during

1 the test year and true-up period, in this case September of
2 2003. And during that process, as I tried to point out
3 earlier, we've come up with four additions to the system and
4 one subtraction resulting in a net revenue adjustment of
5 \$398,000.

6 Q. And could you go into a little more detail?
7 How did you compute that amount?

8 A. We looked -- once we identified a customer as
9 new load to the system -- for example, there were a couple
10 of grocery stores that came on the system -- we would look
11 and try to find a representative customer that was already
12 on our system, i.e., another grocery store, and use whatever
13 relevant data that we would have during the time period that
14 that customer might have already been our system to compute
15 what an annualized figure would be going forward.

16 Q. Now, why is it that you believe that that's
17 superior to the Staff method as to the 730, 735
18 classification?

19 A. Well, one of the things that I can't quite
20 understand in the Staff's approach is they have tried to
21 make adjustments for customers that are switching rate codes
22 into and out of 730 and 735. I can see from their work
23 papers that they have adjusted about \$526,000 worth of
24 customers that are switching into those rate codes, but I
25 cannot see where they are subtracting them out in the other

1 rate codes on a one -- one-for-one basis, dollar for dollar.

2 MR. COOPER: That's all the questions I have,
3 your Honor.

4 JUDGE JONES: Thank you, Mr. Cooper.

5 MR. COOPER: May Mr. Watkins be excused? I
6 don't believe that he appears on any other issues.

7 JUDGE JONES: Yes.

8 Now we'll move on to Staff witnesses on this
9 issue. Mr. Franson, will you call your --

10 MR. FRANSON: Staff will call Amanda McMellen,
11 your Honor.

12 (Witness sworn.)

13 MR. FRANSON: May I proceed, your Honor?

14 JUDGE JONES: Yes, you may.

15 AMANDA MCMELLEN testified as follows:

16 DIRECT EXAMINATION BY MR. FRANSON:

17 Q. Ma'am, please state your name.

18 A. It's Amanda McMellen, M-c M-e-l-l-e-n.

19 Q. Okay. And, Ms. McMellen, you have prepared
20 testimony in this case; is that correct?

21 A. Yes. That's correct.

22 Q. Okay. I believe you have Direct Testimony.
23 What is the new number on -- new exhibit number on that?

24 A. I believe that's Exhibit 1138.

25 Q. Okay. And your Rebuttal Testimony is what

1 exhibit number?

2 A. 1026.

3 Q. And your Surrebuttal Testimony?

4 A. I believe it's 1027. Yes.

5 Q. Do you have any corrections to your testimony?

6 A. No, I do not.

7 MR. FRANSON: Your Honor, at this time I would
8 offer Exhibits 1138, 1026 and 1027 respectively, the Direct,
9 Rebuttal and Surrebuttal Testimony of Amanda McMellen, this
10 witness.

11 JUDGE JONES: Thank you.

12 Exhibits 1138 and 1026 and 1027 are admitted
13 into the record.

14 (Exhibit Nos. 1026, 1027 and 1138 were
15 received into evidence.)

16 MR. FRANSON: Your Honor, with that being
17 done, I would tender this witness for cross-examination.

18 JUDGE JONES: Is there any cross-examination
19 from the Office of Public Counsel?

20 MR. MICHEEL: No, your Honor.

21 JUDGE JONES: Is there any cross-examination
22 from Aquila?

23 MR. COOPER: No, your Honor.

24 JUDGE JONES: Commissioner Murray, do you have
25 any questions for this witness?

1 COMMISSIONER MURRAY: I think so. Thank you.

2 QUESTIONS BY COMMISSIONER MURRAY:

3 Q. Hello.

4 A. Hello.

5 Q. Could you briefly describe the difference in
6 the way you are calculating the 710, 711 customer growth
7 adjustments from the way that the company has calculated
8 them?

9 A. Yes. In the 710, 711 rate codes, I used an --
10 I combined the two rate codes together and used actual known
11 and measurable actual numbers for those classes. And the
12 company used the average and normalized usage and revenues
13 from rate code 710 for all customers for 710 and 711.

14 Q. And why did it make sense for you to combine
15 them -- combine the two classes?

16 A. With these two rate codes, the majority --
17 they're billed on both 710 and 711 and then they actually
18 have to pay the lesser of the two. So there could be usage
19 in both rate codes. So it was just -- it made -- it was
20 more reasonable to combine the two than just using the usage
21 and revenues from 710.

22 Q. Okay. And there is a -- well, what you might
23 call a migration of customers out of 710 into 711; is that
24 right?

25 A. Correct.

1 Q. And that does not result in those customers
2 being billed differently?

3 A. Each customer from 710 and 711 are both --
4 customers from 711 are billed on 711 and 710 and pay the
5 lesser of the two.

6 Q. Regardless of which class they're in?

7 A. One -- once they've moved into 711.

8 Q. Okay. Once they've moved into 710. But while
9 they're in 710, how are they billed?

10 A. I believe they're just billed on the 710.

11 Q. So that a customer that has migrated from 710
12 into 711 could be billed less than a customer in rate class
13 710; is that right?

14 A. No. I believe at the least they -- either one
15 of the lesser two, either 710 or 711. It wouldn't be any
16 less than 710.

17 Q. All right. That's the bottom?

18 A. Yes.

19 Q. And then on the issue of rate code 730 and
20 735, I understand that you have a difference as to the
21 treatment of one customer, but other than that, how would
22 you classify your major difference?

23 A. There are actually three major differences.
24 The first one is there are a significant amount of
25 customers, I believe 40, that we annualized for rate

1 switching and I believe 4 customers that we annualized for
2 loads changes and another I believe 25 customers that we
3 annualized for either new -- they were either new customers
4 or departing customers from the system.

5 Q. How many was that?

6 A. Twenty-five, I believe.

7 Q. New or departing?

8 A. Yes.

9 Q. And I believe Mr. Watkins said that you had
10 adjusted customers that were coming into those rate codes,
11 but he couldn't see where you were adjusting them out. Can
12 you show us that?

13 A. The rates switching issue is going to be
14 addressed by Staff witness Hong Hu.

15 Q. All right.

16 A. My understanding is our averaging -- my
17 understanding is by averaging the other customer classes,
18 we've taken care of that, but she's the better witness on
19 that issue.

20 COMMISSIONER MURRAY: All right. That's all I
21 have. Thank you.

22 JUDGE JONES: Is there any recross based on
23 questions from the Bench?

24 Any redirect?

25 MR. FRANSON: Yes, your Honor.

1 REDIRECT EXAMINATION BY MR. FRANSON:

2 Q. Ms. McMellen, in your opinion, is the use of
3 710 usage for both rate codes, that being both 710 and 711,
4 as the company did, does that result in an understatement of
5 revenue?

6 A. Yes, it does.

7 Q. Now, let's assume that there's 6 to 7 percent
8 of actual customer growth in the rate codes of 710 and 711.
9 And with all other things being equal, would you expect at
10 least a 6 to 7 percent increase in revenue?

11 A. Yes, I would.

12 Q. And what is the increase in number of
13 customers in both the rate classes 710 and 711?

14 A. The actual number of increase in customers or
15 the percentage?

16 Q. The actual increase and the percentage.

17 A. The actual increase in customers from the end
18 of 2002 to September of 2003 was 1,285 customers, which is
19 about a 6 to 7 percent increase in actual customers.

20 Q. Now, that was 710 or --

21 A. That was the combination of 710 and 711.

22 Q. A combination. Okay. What increase does the
23 customer growth equate to? What does it -- does it equate
24 to anything in your mind?

25 A. I'm sorry. Could you repeat the question?

1 Q. Yes. What does the increase in customer
2 growth rate equate to?

3 MR. FRANSON: I'll withdraw my question, your
4 Honor. I have no further questions.

5 JUDGE JONES: Okay. Thank you.

6 Will Staff call their next witness, please?

7 MR. FRANSON: That would be Hong Hu, your
8 Honor.

9 (Witness sworn.)

10 MR. FRANSON: Your Honor, if I could have just
11 a moment, we will be submitting different schedules for
12 Ms. Hong. Those have been earlier presented to the parties
13 and I will be providing those again.

14 May I proceed, your Honor?

15 JUDGE JONES: Yes, you may.

16 HONG HU testified as follows:

17 DIRECT EXAMINATION BY MR. FRANSON:

18 Q. Ma'am, please state your name.

19 A. My name's Hong Hu, H-o-n-g H-u.

20 Q. And, Ms. Hu, how are you employed?

21 A. I'm an economist employed by the Staff.

22 Q. Of the Missouri Public Service Commission?

23 A. Yes.

24 Q. Okay. Did you, in fact, prepare Direct and
25 Surrebuttal Testimony in this case?

1 A. Yes.

2 Q. Okay. What is the new exhibit number of your
3 mod-- I believe we call it modified testimony, your Direct
4 Testimony?

5 A. It's 1028.

6 Q. And what is the new exhibit number of your
7 modified Surrebuttal Testimony?

8 A. It's 1029.

9 Q. And starting with your Direct, do you have any
10 corrections to your testimony?

11 A. Yes, I do.

12 Q. And what are those?

13 A. On page 5 I have some corrections for the
14 numbers. The first one would be page 5, line 10. The
15 No. 529,329 should be 529,326.

16 MR. COOPER: I'm sorry. Are we in Direct
17 Testimony?

18 MR. FRANSON: Yes. Exhibit 1028.

19 THE WITNESS: No, I'm sorry. Actually, that's
20 my Surrebuttal.

21 Well, my Direct I don't believe I have any
22 corrections for my text. I think we only needed to refile
23 the updated schedules.

24 BY MR. FRANSON:

25 Q. Okay. We'll come to that. So other than

1 possibly your schedules, you don't have any corrections to
2 Exhibit 1028, your modified Direct Testimony?

3 A. That's correct.

4 Q. Now, let's go to Exhibit 1029, your modified
5 Surrebuttal. Do you have any corrections to that?

6 A. Yes, I do.

7 Q. Okay. What are those?

8 A. On page 5, line 10 --

9 Q. Yes.

10 A. -- the No. 529,329 should be 529,326.

11 Q. Okay. Do you have any other corrections?

12 A. Yes. Line 3, the sentence should read, The
13 net revenue adjustment is to increase booked revenue by
14 \$495,067.

15 Q. Okay. We better go over that again. What
16 line was that?

17 A. That's line 13.

18 Q. Line 13. And how should that read?

19 A. It should read, The net revenue adjustment is
20 to increase, instead of decrease, booked revenues by
21 \$495,067.

22 Q. Okay. Any other corrections?

23 A. In line 15, the entire line should read,
24 MO-735 was an increase in revenues of \$529,326.

25 Q. I'm sorry. How much?

1 A. 529,326.

2 Q. Okay. Any other corrections?

3 A. Line 16, instead of an increase of 85053.40,
4 it should be a decrease of \$34,259.

5 Q. Okay. Any other corrections in your
6 Surrebuttal?

7 A. I believe there are -- that is all.

8 Q. Okay. Now, with those corrections, did you
9 have any changes to your Direct Testimony, specifically your
10 schedules?

11 A. Yes. I think we need to file the updated
12 version of the schedules from Schedule 2-1 to Schedule 3-2.

13 Q. Would that include Schedules 2-1, Schedule
14 2-2, Schedule 3-1 and Schedule 3-2?

15 A. Yes.

16 Q. Okay.

17 MR. FRANSON: Your Honor, I'm going to have
18 two exhibits. One is going to be the updated schedules that
19 are, in fact, entitled that; and then the second one is
20 going to be the same thing except it is, in fact,
21 highlighted. So I would like to call the -- I don't know if
22 you want to do 162 and 162-A or if you want to do 162 and
23 163.

24 JUDGE JONES: The latter of the two.

25 MR. FRANSON: First of all, your Honor, I'll

1 hand one to the court reporter and then to all --

2 JUDGE JONES: That would be fine.

3 MR. FRANSON: This will be 162.

4 JUDGE JONES: I'll need copies for
5 Commissioners Gaw and Clayton too.

6 (Exhibit No. 162 was marked for
7 identification.)

8 MR. FRANSON: Your Honor, at this time I would
9 ask to hand out 163, which is the same thing but
10 highlighted.

11 (Exhibit No. 163 was marked for
12 identification.)

13 BY MR. FRANSON:

14 Q. Ma'am, you have in front of you what have now
15 been marked as Exhibits 162, your corrected -- your updated
16 Schedules 2-1, 2-2, 3-1 and 3-2, and then Exhibit 163, the
17 highlighted versions of those, those being the same things?

18 A. Yes.

19 Q. And are these, in fact, the corrected
20 schedules that you need to put into your testimony?

21 A. Yes.

22 Q. And do those reflect the numbers, the
23 corrections that you talked about earlier in your
24 Surrebuttal?

25 A. No.

1 Q. What do these represent?

2 A. This has nothing to do with the corrections
3 that I had made for the Surrebuttal Testimony. This, in
4 fact, is an updated version of the financial summary of our
5 revenue that every party has already gotten like about --
6 after a week -- one week from the filing of the Direct.

7 This only reflects some changes and
8 corrections that I get, because this is a summary that -- I
9 get input from quite a lot of sources other people have been
10 working on. And so I -- I received corrections and updates
11 and so I updated this file. And we have provided the same
12 file as work papers to all the parties. So this is nothing
13 new. The only thing is that we haven't filed it so right
14 now we are filing it as --

15 Q. Does it change any of the substance of your
16 Direct or Surrebuttal Testimony?

17 A. No.

18 MR. FRANSON: Your Honor, at this time with
19 these corrections, I'd offer this witness for
20 cross-examination.

21 Well, first I offer Exhibits 1028 and 1029.

22 JUDGE JONES: Exhibits 1028 and 1029 are
23 admitted into the record.

24 (Exhibit Nos. 1028 and 1029 were received into
25 evidence.)

1 MR. FRANSON: And with that, your Honor, I
2 would offer this witness for cross-examination.

3 JUDGE JONES: These additional exhibits --

4 MR. FRANSON: Yes, your Honor.

5 JUDGE JONES: -- one of them replaces what was
6 attached to --

7 MR. FRANSON: Yes, your Honor. To her Direct
8 Testimony, it replaces that. And then the only difference
9 with 163 is we've provided that as a highlight showing what
10 numbers actually are being changed from the original.

11 JUDGE JONES: Oh, I see.

12 MR. FRANSON: So that's the difference between
13 162 and 163.

14 JUDGE JONES: Are there any objections to
15 Exhibits 162 and 163?

16 Seeing none, Exhibits 162 and 163 are admitted
17 into the record.

18 (Exhibit Nos. 162 and 163 were received into
19 evidence.)

20 JUDGE JONES: And for cross-examination, is
21 there any cross from the Office of Public Counsel?

22 MR. MICHEEL: Mr. Franson just answered my
23 last question -- my only question, thanks.

24 JUDGE JONES: Is there any cross from Aquila?

25 MR. COOPER: No, your Honor.

1 JUDGE JONES: Commissioner Murray?

2 COMMISSIONER MURRAY: Thank you.

3 QUESTIONS BY COMMISSIONER MURRAY:

4 Q. Good afternoon.

5 A. Good afternoon, Commissioner.

6 Q. I just have a question regarding Mr. Watkins'
7 statement that Staff had adjusted customers into the classes
8 730 and 735, but that he couldn't see where you had adjusted
9 them out. Can you explain that?

10 A. Yes. In fact, the Staff did make the
11 offsetting adjustment for those rates, which is -- that's
12 what we call rate switchers, the customers who switch into
13 730 or 735 from other rate codes like, say, 720 or customers
14 who switch out from those two rate codes into other rate
15 codes, like 720 or 725. So we call them rate switchers.

16 Now, what the Staff did is we make an
17 adjustment for the revenue that they incur when they are in
18 those large customer class, MO-730 and MO-735. And we also
19 make an offsetting adjustment for the revenues when they
20 were in the other class, say -- for example, if -- if this
21 customer switched out from 720 to 735 -- to 730, then we
22 would adjust the revenue up for 730 and adjust the revenue
23 down for 720 for this one customer.

24 Q. Do you have a schedule that would show that?

25 A. Actually, no. I -- I have provided the work

1 papers and -- well, I and Ms. McMellen had provided work
2 papers to all the parties, but -- and also in my Surrebuttal
3 Testimony I have explained this a little bit. Let me show
4 you the page number. It would be from page 3 of my
5 Surrebuttal Testimony to page 5. And I actually have given
6 some examples. Not specific customer, but I have some
7 detailed explanation there. If you would like, I could
8 explain this in more details.

9 Q. That's all right. I'll study your testimony a
10 little further and if anybody else has any questions, they
11 can ask them.

12 COMMISSIONER MURRAY: Thank you.

13 THE WITNESS: Okay. Thank you.

14 JUDGE JONES: Is there any recross based on
15 questions from the Bench?

16 Seeing none, Mr. Franson, do you have any
17 redirect?

18 MR. FRANSON: No, your Honor. Though I do
19 have an inquiry. Based on Commissioner Murray's last
20 statements I'm wondering if she's wanting Ms. Hong to be
21 available for recall if she would so desire Ms. Hong -- I'm
22 sorry, Ms. Hu would be available. I'm not sure if there
23 might be later questions or not.

24 COMMISSIONER MURRAY: I wasn't referencing the
25 other Commissioners.

1 MR. FRANSON: Okay. Your Honor, I have no
2 redirect.

3 JUDGE JONES: Thank you, Ms. Hu. You may step
4 down.

5 Okay. We're finished with this issue and
6 we're going to move on to Interest on Accounts Receivable,
7 Cash Working Capital. My intention was to take a break at a
8 quarter till 3:00, but -- well, as a matter of fact, let's
9 go ahead and do --

10 MR. FRANSON: Your Honor, I might ask that we
11 could go ahead and take a break now. I need to locate Staff
12 counsel. I believe for this -- oh, I stand corrected. He's
13 here, your Honor. I didn't see him.

14 JUDGE JONES: We'll move on to the next issue.
15 Looks like first Aquila has a witness to call.

16 MR. BOUDREAU: I do. Thank you. I'd call
17 Denny Williams to the stand, please.

18 JUDGE JONES: And, Mr. Williams, assume you
19 remain under oath. You may be seated.

20 MR. BOUDREAU: From the other mechanical
21 front, I believe Mr. Williams' testimony has previously been
22 offered and received. And with that, I will tender him for
23 cross-examination on the issue of Interest on Accounts
24 Receivable.

25 JUDGE JONES: Is there any cross-examination

1 from the Office of Public Counsel?

2 MR. MICHEEL: Not on this issue, your Honor.

3 JUDGE JONES: Any cross-examination from the
4 Staff of the Commission?

5 MR. BATES: No, thank you, your Honor.

6 JUDGE JONES: Commissioner Murray?

7 COMMISSIONER MURRAY: I have no questions.
8 Thank you.

9 JUDGE JONES: You may be seated then,
10 Mr. Williams.

11 Does Aquila have a second witness they'd like
12 to call on this issue?

13 MR. BOUDREAU: Yes, I do. I'd like to call
14 Richard Clayburn to the stand, please.

15 (Witness sworn.)

16 JUDGE JONES: You may be seated.

17 MR. BOUDREAU: May it please the Commission.

18 JUDGE JONES: Go right ahead.

19 RICHARD CLAYBURN, JR., testified as follows:

20 DIRECT EXAMINATION BY MR. BOUDREAU:

21 Q. Would you state your name for the record,
22 please, sir?

23 A. My name is -- excuse me, is Richard Orlando
24 Clayburn, Jr.

25 Q. Are you the same Richard Clayburn that has

1 previously caused to be filed prepared Direct Testimony
2 which has previously been marked for identification as
3 Exhibit 1031?

4 A. Yes.

5 Q. Would you state for whom you're employed and
6 what capacity?

7 A. I'm employed by Aquila, Inc. in the regulatory
8 services area. I'm a senior regularly analyst.

9 Q. With respect to your prepared Direct
10 Testimony, was that prepared by you or under your direct
11 supervision?

12 A. Yes.

13 Q. Do you have any corrections you'd like to make
14 to your testimony at this time?

15 A. No.

16 Q. If I were to ask you the same questions as are
17 contained in that testimony, would the answers that you
18 would give today be substantially the same?

19 A. Yes.

20 Q. Would they be true and accurate, to the best
21 of your information, knowledge and belief?

22 A. Yes.

23 MR. BOUDREAU: With that, I'd offer Exhibit
24 1031 into the record and tender Mr. Clayburn for
25 cross-examination on the -- tender him for

1 cross-examination. Thank you.

2 JUDGE JONES: Exhibit 1031 is admitted into
3 the record.

4 (Exhibit No. 1031 was received into evidence.)

5 JUDGE JONES: Does the Office of Public
6 Counsel have cross-examination?

7 MR. MICHEEL: No, your Honor.

8 JUDGE JONES: Is there any cross-examination
9 from the Staff of the Commission?

10 MR. BATES: No, thank you, your Honor.

11 JUDGE JONES: Commissioner Murray?

12 COMMISSIONER MURRAY: Yes. Are we on the
13 issue of Interest on Accounts Receivable?

14 JUDGE JONES: Yes.

15 QUESTIONS BY COMMISSIONER MURRAY:

16 Q. Can you tell me where in your testimony that
17 issue is covered?

18 A. Okay. In my testimony on page -- starting
19 with 6 and 7, I talk about cash working capital, how I come
20 up with my collection lag impacts the accounts receivable
21 balance and the interest is calculated from that.

22 Q. Okay. And what is the difference here between
23 you and Staff on this issue, do you know?

24 A. Previously we've had an accounts receivable
25 program in the past. We no longer have that program.

1 Therefore, it takes us longer to get cash into the company
2 because we no longer have that previous program.

3 Q. I remember that issue.

4 COMMISSIONER MURRAY: Thank you very much.

5 THE WITNESS: Thank you.

6 JUDGE JONES: Is there any recross based on
7 questions from the Bench?

8 Is there any redirect?

9 MR. BOUDREAU: I have none. Thank you.

10 JUDGE JONES: Thank you. You may step down,
11 Mr. Clayburn.

12 THE WITNESS: Okay. Thank you.

13 JUDGE JONES: I will ascertain whether or not
14 you can be excused though.

15 THE WITNESS: Okay.

16 MR. BOUDREAU: Just for matter of
17 clarification, did you excuse the witness or --

18 JUDGE JONES: No, I haven't.

19 MR. BOUDREAU: I'm not sure Mr. Clayburn has
20 any further testimony or any other issues about which he
21 testifies. And at this point if the Bench is not ready to
22 rule, that's fine, but I would ask that Mr. Clayburn be
23 excused.

24 JUDGE JONES: Well, the answer's no right now.
25 I need to get the answer to that question.

1 MR. BOUDREAU: Okay. Very good. Thank you.

2 JUDGE JONES: At this time would Staff call
3 its witness?

4 MR. BATES: Yes, your Honor. Staff calls
5 Leslie Preston to the stand.

6 JUDGE JONES: You may go ahead, Mr. Bates.

7 MR. BATES: Your Honor, has this witness been
8 sworn?

9 JUDGE JONES: Oh, I'm sorry.

10 (Witness sworn.)

11 JUDGE JONES: You may be seated.

12 LESLIE PRESTON testified as follows:

13 DIRECT EXAMINATION BY MR. BATES:

14 Q. Would you state your full name for the record,
15 please?

16 A. It's Leslie R. Preston.

17 Q. Ms. Preston, did you prepare and cause to be
18 filed in this matter Direct and Surrebuttal Testimony that
19 has been marked for purposes of identification as Exhibits
20 No. 1032 and 1033?

21 A. That's correct.

22 Q. Are there any corrections, changes or
23 additions to that testimony which you would like to make at
24 this time?

25 A. Yes. I have a couple corrections.

1 Q. And what is the first one?

2 A. It deals with my Direct Testimony. On
3 page 13, line No. 9 it reads, And/or services. The Sibley
4 coal and freight expense lag is 18.88 days. It should read
5 22.17 days.

6 Q. And what is your next correction?

7 A. It's on page 14, line 23. The second word is
8 "takes." It should be "taxes."

9 Q. And do you have any further changes or
10 corrections?

11 A. I do have an update to my Surrebuttall
12 Testimony.

13 Q. And where will that be?

14 A. It's on the last page, page 6.

15 Q. Please go ahead.

16 A. The schedule lists the revenue requirement
17 impact of this issue. The net effect has changed based on
18 the reconciliation filed on February 27th.

19 Q. And what is the corrected figure?

20 A. It's negative \$2,297,186. This also changes
21 the cost per year per customer. It now becomes \$10.27.

22 JUDGE JONES: Could you repeat that first
23 correction the, 2 million 9--

24 THE WITNESS: Yes. It was negative
25 \$2,297,186.

1 JUDGE JONES: Thank you.

2 BY MR. BATES:

3 Q. Are there any more corrections?

4 A. Not to my knowledge.

5 Q. Ms. Preston, if I asked you the same questions
6 today, would your answers be substantively the same?

7 A. Yes, they would.

8 Q. And are those answers true and correct to the
9 best of your information, knowledge and belief?

10 A. Yes, they are.

11 MR. BATES: Your Honor, at this point I ask
12 that Exhibits Nos. 1032 and 1033 be received into evidence.

13 JUDGE JONES: Exhibits 1032 and 1033 are
14 admitted.

15 (Exhibit Nos. 1032 and 1033 were received into
16 evidence.)

17 MR. BATES: And, your Honor, at this time I
18 tender this witness for cross-examination.

19 JUDGE JONES: Thank you.

20 Is there any cross-examination from the Office
21 of Public Counsel?

22 MR. MICHEEL: No.

23 JUDGE JONES: Is there any cross-examination
24 from Aquila?

25 MR. BOUDREAU: Yes. Thank you.

1 CROSS-EXAMINATION BY MR. BOUDREAU:

2 Q. Good afternoon, Ms. Preston. My name's Paul
3 Boudreau.

4 A. Good afternoon.

5 Q. I'm an attorney for Aquila.

6 I hate to do this to you again, but your
7 corrections to your Surrebuttal Testimony, could you walk me
8 through those again?

9 A. Okay. Sure. On page 6, there's a schedule.

10 Q. I see that.

11 A. Line 3 of that schedule says, Net effect.

12 Q. This is for MPS?

13 A. Correct.

14 Q. Okay.

15 A. It should read negative 2,297,186.

16 Q. And there was another correction to cost per
17 year per customer?

18 A. Yes. It is increased to 10.27.

19 Q. Okay. The number that you just corrected, the
20 2.297 number, does that correlate to the amounts that show
21 up in the reconciliation?

22 A. Yes, it should.

23 Q. Okay. So if we look, for instance -- let me
24 ask you this. Do you have a copy of the reconciliation with
25 you for MPS Electric?

1 A. Is there a certain date on that?

2 Q. I have as of 2/17/04.

3 A. I have that version, yes.

4 Q. Okay. And let me ask you this. I'm looking
5 at Item No. 8 under rate base --

6 A. That's correct.

7 Q. -- and Item No. 18 under expenses.

8 A. Yes.

9 Q. Those two numbers together correlate, I
10 believe, to the number that you've just corrected in your
11 testimony. Is that the way that works?

12 A. The number I've just corrected is based on the
13 reconciliation that was filed Friday, the 27th. But it does
14 include both of those numbers.

15 Q. The 27th. Okay. Thank you.

16 So the numbers have changed a little bit but
17 we're still talking about the basic same categories that
18 were in the earlier reconciliation?

19 A. That's correct.

20 Q. Okay. Thank you.

21 So in plain English, what we're talking about
22 here is about a \$2.3 million adjustment?

23 A. That's correct.

24 Q. Okay. I just have a few questions I want to
25 ask you.

1 First, I want to direct you to your Direct
2 Testimony, page 19. And I believe that's where your
3 discussion about the accounts receivable program commences?

4 A. Yes.

5 Q. And in your first answer you describe in
6 summary fashion what the nature of that program was. Do you
7 see that?

8 A. Yes, I do.

9 Q. I'm going to refer to that as the accounts
10 receivable sales program just to that -- or program for
11 short just so that we understand the dialogue. Is that okay
12 with you?

13 A. That's fine.

14 Q. Okay. What I wanted to ask you, first
15 question I have, is there any requirement under the law or
16 the Commission -- let me rephrase that.

17 Is there any requirement under law or
18 Commission order or rule of which you're aware that Missouri
19 utilities maintain an account receivable sales program?

20 A. Not that I'm aware of. It's their decision
21 whether or not to engage in a program.

22 Q. Okay. So you would agree with me Aquila's not
23 in violation of any law or rule or orders of the Commission
24 by virtue of the fact its account receivable sales program
25 was terminated in November of 2002?

1 A. Could you repeat the first part of that,
2 please?

3 Q. Yes. Would you agree with me that Aquila is
4 not in violation of any law or rule or order of the
5 Commission of which you're aware by virtue of the fact that
6 its account receivable sales program was terminated as of
7 November of 2002?

8 A. No, they're not in violation based on --

9 Q. Based on your knowledge?

10 A. Based on my knowledge, correct.

11 Q. Would you agree with me that during the time
12 that the account receivable sales program -- Aquila's
13 account receivable sales program was in place, that there
14 was a cost to the company associated with administering that
15 program?

16 A. Yes, I would.

17 Q. Would you agree that a portion of that cost in
18 previous cases has been allocated to MPS Electric
19 operations?

20 A. Yes, I would agree to that.

21 Q. Okay. Has Staff included any level of imputed
22 administrative cost to offset its recommended imputation of
23 the sales or the fees that it receives from this program?

24 A. Staff has included an adjustment to annualize
25 interest expense, administrative fees. And it is -- the

1 basis of the adjustment is to encompass all costs associated
2 with the program.

3 Q. So it does include an element of the costs
4 that would be associated with the operation of the program?

5 A. Yes.

6 MR. BOUDREAU: If I could have just a minute,
7 I may be about ready to wrap up.

8 JUDGE JONES: Yeah. Might as well stop now
9 and you can have 15 minutes. So we'll come back at 3:00 and
10 see if we can go straight through until 5:00. At this time
11 the hearing is adjourned.

12 (A recess was taken.)

13 JUDGE JONES: Okay. Let's go back on the
14 record. Mr. Boudreau?

15 MR. BOUDREAU: Thank you.

16 BY MR. BOUDREAU:

17 Q. I believe where we had left off is I had asked
18 you whether or not certain administrative expenses
19 associated with the program had been included in your
20 adjustment. And I believe your answer was yes, they had?

21 A. Yes. To my knowledge, right.

22 Q. To ask you a somewhat more specific question,
23 are you aware that when the program was in place, that
24 CitiBank charged a 1 percent administrative fee on the
25 average outstanding balance at any time?

1 A. I believe that was included in part of a
2 response to a data request.

3 Q. Okay. Was that fee included as part of the
4 administrative expenses to which you just referred?

5 A. To my knowledge, they have been.

6 Q. Okay.

7 A. Staff has calculated the adjustment for the
8 program interest and fees as they have in the previous
9 cases.

10 Q. Okay. Thank you.

11 I want to direct you again back to the same
12 location of your Direct Testimony where we started. And you
13 describe in general terms what the account receivables -- or
14 accounts receivable sales program is. Do you see that at
15 the top of page 19?

16 A. Yes, I do.

17 Q. And correct me if I mischaracterize this, but
18 I think you state that to some extent it serves as a
19 substitute for short-term loans. Would that be a fair
20 characterization?

21 A. Yes, it would.

22 Q. Do you have a view about whether or not the
23 use of the accounts receivable sales program is an
24 inexpensive way of raising short-term capital as compared to
25 other customary methods of doing so? And I'll give you a

1 few examples, standard commercial paper or credit revolver.
2 Do you have any view on that topic?

3 A. I believe that the company would not have
4 engaged in a program if it did not have economic benefit to
5 them.

6 Q. Do you know why -- I believe your testimony
7 reflects the fact that, to your knowledge, no other Missouri
8 utilities have a similar program; is that correct?

9 A. That's accurate, yes.

10 Q. Do you know why the other utilities don't have
11 such a program if there's an economic advantage to doing so?

12 A. It's been their choice whether or not to
13 participate in a program.

14 Q. As far as the nature of Staff's proposal,
15 which is to impute the existence of this program for
16 purposes of calculating revenue requirement, can you tell me
17 how much longer, in Staff's view, this sort of adjustment's
18 going to be a feature in Aquila rate cases?

19 I know they're recommending the adjustment in
20 this case. My question is, is this going to be a permanent
21 feature of the landscape in all subsequent rate cases
22 because they at one time had this program in place?

23 A. I don't know what the Staff's position would
24 be in a future rate case, for instance -- the Staff will
25 look at each item on a case-by-case basis.

1 MR. BOUDREAU: Very good. I don't have any
2 further questions for this witness. Thank you.

3 JUDGE JONES: Thank you, Mr. Boudreau.
4 Commissioner Murray?

5 COMMISSIONER MURRAY: I'm not sure.

6 QUESTIONS BY COMMISSIONER MURRAY:

7 Q. Hi.

8 A. Hi.

9 Q. Is it Staff's position that because the
10 company did have the accounts receivable at one point, that
11 that should be imputed to them in the future? Is that the
12 position you're taking?

13 A. Staff is taking the position in this case that
14 the accounts receivable program should be imputed because it
15 was terminated due to nonregulated business adventures,
16 failure of the financial condition, their credit rating fell
17 below investment grade so the program was no longer to be
18 able to continue.

19 Q. Is it customary for utilities to maintain such
20 a program?

21 A. Not that I'm aware of. Aquila, though, has
22 maintained this since the late 1980's, this type of program.

23 Q. I have to say that almost reminds me of when I
24 was growing up and you used to learn to do something new,
25 like make the beds or something, and I had to be real

1 careful what I learned because thereafter I'd be expected to
2 do it. So is that one of those instances where Aquila was
3 going beyond what was expected, but now that they can no
4 longer do that, they're being required to do it?

5 A. I think it's an instance where they've created
6 the standard for themselves and because of their association
7 with their nonregulated, the regulated now is unable to sell
8 their receivables. And we're trying -- the Staff has taken
9 the position that they want to avoid seepage from their
10 nonregulated venture, like any costs associated with that,
11 into the regulated operations.

12 COMMISSIONER MURRAY: Okay. Thank you.
13 That's all I have.

14 THE WITNESS:

15 QUESTIONS BY JUDGE JONES:

16 Q. I just want -- well, first, let me clear this
17 up. It seems on the Surrebuttal, page 6, where you made the
18 correction, the correction was to net effect or revenue
19 requirement impact of cash working capital?

20 A. The net effect, which is also the overall
21 revenue requirement impact.

22 Q. So to line 3, you've changed that number to
23 2,297,186?

24 A. That's correct.

25 Q. Did lines 1 or 2 change?

1 A. Line 1 would have changed.

2 Q. To what? Well, I'm sure I could probably
3 figure that out.

4 A. Right. It could be backed into.

5 Q. But you don't know that number without me
6 having to add and subtract?

7 A. I don't have it in front of me. I apologize.

8 Q. That's fine. That's fine.

9 Also, the way I understand it is right now the
10 company does not sell its accounts receivables?

11 A. That's correct.

12 Q. But Staff wants to treat this case as if they
13 do?

14 A. That's accurate, yes.

15 Q. Because they used to?

16 A. Because they used to and because it was
17 terminated due to their non-investment grade credit rating.

18 Q. How long ago do you know -- do you know how
19 long ago this program was terminated?

20 A. I believe it was in November of 2002.

21 JUDGE JONES: Okay. Thank you. I have no
22 further questions.

23 Is there any recross based on questions from
24 the Bench?

25 MR. BOUDREAU: I just have one question. And

1 I think I may have misstated this myself and I apologize.

2 RE-CROSS-EXAMINATION BY MR. BOUDREAU:

3 Q. In answer to the question you just got from
4 the Bench about when the program was terminated, I believe
5 you said it was November of 2002. And I may have said the
6 same thing. My question to you is, was it terminated
7 instead in November of 2001? Is that the correct date?

8 A. It appears in Data Request 421, it says it was
9 concluded on November 1st of 2002.

10 MR. BOUDREAU: I'll leave it at that. Thank
11 you.

12 JUDGE JONES: Will there be redirect from the
13 Staff of the Commission?

14 MR. BATES: Yes, your Honor.

15 May I have one moment, your Honor?

16 JUDGE JONES: That's fine. I should go ahead
17 and state right now, Mr. Clayburn, you can be excused.

18 MR. BATES: Thank you, your Honor.

19 REDIRECT EXAMINATION BY MR. BATES:

20 Q. Ms. Preston, I have one question for you. Is
21 the Staff's recommendation in this case consistent with
22 Aquila's commitment to exclude the impact of its
23 deteriorated financial condition resulting from its
24 nonregulated operations?

25 A. That would be a fair statement, yes.

1 MR. BATES: Thank you.

2 JUDGE JONES: Ms. Preston, you may step down.

3 At this time we'll move on to the issue of Bad
4 Debt Expense.

5 MR. SWEARENGEN: Your Honor, Mr. Dottheim and
6 I are going to pick up where we left off yesterday afternoon
7 trying to settle a couple of issues. If I could take you
8 back on the list to the issue entitled Service Quality and
9 Reliability.

10 JUDGE JONES: Yes, sir.

11 MR. SWEARENGEN: We have now entered into an
12 agreement which I think is acceptable to all of the parties.
13 It's been reduced to writing. And it may be appropriate if
14 your Honor so chooses to have it marked as an exhibit and we
15 would just simply offer it into evidence as the settlement
16 of the Service Quality and Reliability issue.

17 JUDGE JONES: That will be fine.

18 MR. SWEARENGEN: Thank you.

19 JUDGE JONES: That will be marked as
20 Exhibit 164.

21 MR. SWEARENGEN: And for the record, Judge,
22 it's a document dated March 2nd, 2004 entitled Service
23 Quality and Reliability. Thank you.

24 MR. MICHEEL: Could I see the document just to
25 ensure it's the one I believe it is? Thank you, sir.

1 (Exhibit No. 164 was marked for
2 identification.)

3 MR. SWEARENGEN: Judge, I'm advised then if
4 you return to the miscellaneous issue list, and you
5 indicated the next issue was Bad Debt Expense, I'm advised
6 that we have reached an agreement in principle on that issue
7 as well, although I do not believe that it has been reduced
8 to writing. And I am not able at this time to articulate
9 the terms of that settlement, but we will attempt to get
10 that issue reduced to writing and present it to the
11 Commission.

12 JUDGE JONES: With that being so, we should
13 move on to the next issue.

14 MR. SWEARENGEN: And I would make the same
15 statement with respect to the next two issues, Property
16 Taxes and Pension FAS 87. I believe that the parties have
17 reached an agreement in principle with respect to those two
18 issues and that agreement -- those agreements will be
19 reduced to writing and presented to the Commission at the
20 earliest opportunity.

21 JUDGE JONES: Okay.

22 MR. SWEARENGEN: Which takes us to the issue
23 of Corporate Restructuring. We're prepared to go ahead and
24 litigate that issue at this time. And I would call Bev Agut
25 to the witness stand.

1 JUDGE JONES: All right. Ms. Agut, you remain
2 under oath. You may be seated.

3 BEVERLEE AGUT testified as follows:

4 DIRECT EXAMINATION BY MR. SWEARENGEN:

5 Q. Ms. Agut, just for the record, your Direct
6 Testimony in this proceeding has been identified as Exhibit
7 No. 1017 and your Rebuttal Testimony has been identified as
8 Exhibit 1018. Is that your understanding?

9 A. That's my understanding.

10 Q. And I believe both pieces of testimony have
11 been received into evidence.

12 Could you state for the record with respect to
13 the issue this afternoon, does your Rebuttal and Direct
14 Testimony concern that issue or is it restricted to one
15 piece or the other?

16 A. It would be restricted to just my Direct
17 Testimony.

18 Q. Just your Direct Testimony. Thank you.

19 MR. SWEARENGEN: I would tender the witness
20 for cross-examination.

21 JUDGE JONES: Are there any cross-examination
22 from the Office of Public Counsel?

23 MR. MICHEEL: No.

24 JUDGE JONES: Is there any cross-examination
25 from the Staff of the Commission?

1 MR. DOTTHEIM: Yes.

2 CROSS-EXAMINATION BY MR. DOTTHEIM:

3 Q. Good afternoon, Ms. Agut.

4 JUDGE JONES: Just a moment, Mr. Dottheim.

5 Okay. Go right ahead.

6 MR. CONRAD: I'm sorry. Thank you.

7 BY MR. DOTTHEIM:

8 Q. Good afternoon.

9 A. Good afternoon.

10 Q. If I could refer you to page 3, line 10 of
11 your Direct Testimony where you make reference to the use of
12 a Massachusetts formula.

13 A. I see that.

14 Q. Are there any alternatives to the
15 Massachusetts formula that could have been used instead?

16 A. As in -- we used a direct assignment of costs,
17 we used specific cost drivers and there's variations of the
18 Massachusetts formula.

19 Q. And when you say "variations of the
20 Massachusetts formula," what do you mean by variations?

21 A. Well, the origination of the Massachusetts
22 formula kind of goes back to I believe a formula used by the
23 State of Massachusetts and it's in an allocation of income
24 taxes, as I recall.

25 Q. Which variation, if it has a name or

1 characterization, that Aquila uses?

2 A. We could call it the Aquila formula.

3 Q. How was the Aquila formula of the variation of
4 the Massachusetts formula chosen?

5 A. We believed it would be most representative of
6 a general allocator, which is what we were trying to find.
7 The components of it being payroll charged to expense, net
8 plant and gross margin.

9 If you have a general cost, we were trying to
10 find something that would be representative of allocating
11 those general costs so there would be a relationship to the
12 entire business. We thought those three components would be
13 the best representation of the general allocator.

14 Q. Was judgment involved in the selection of the
15 Aquila variation on the Massachusetts formula?

16 A. Its origination, frankly, is a little before
17 my time, so I'm not sure the people that decided upon that
18 allocator, what judgment they were using at the time.

19 Q. I'd like to refer you to page 5, lines 9 to 11
20 of your Direct Testimony.

21 A. I have that.

22 Q. You make reference to Aquila continually
23 reviewing the allocation process, do you not?

24 A. Yes, I do.

25 Q. How frequently is continually? Can you

1 provide some further explanation of that term as you use it?

2 A. Sometimes that's daily, weekly. The financial
3 management group continually is looking at costs to ensure
4 that they're being allocated properly.

5 Q. Is there any formal process in existence as
6 far as changing the allocation process or modifying it in
7 any manner?

8 A. In modifying the drivers that are being used
9 and in modification of the target business units receiving
10 allocations, yes, there is a -- a formal process.

11 Q. Who was involved in that formal process? Are
12 there certain individuals or certain job positions that are
13 involved?

14 A. Generally, it would be the financial
15 management group within the networks as well as the general
16 accounting department.

17 Q. And are you involved in the process?

18 A. Yes. From time to time.

19 Q. Is judgment used in reviewing the allocation
20 process and making any changes or modification?

21 A. Most certainly.

22 Q. I'd like to refer you to page 7 of your Direct
23 Testimony, line 17 to 20 --

24 A. Yes. I have that.

25 Q. -- where you identify six departments that

1 were removed from the allocations adjustment, do you not?

2 A. Yes, I do.

3 Q. How were those six departments selected?

4 A. First, I would talk to the department owners,
5 if they were still employed by the company, and questioned
6 exactly what their day-to-day activities were. For example,
7 the chief executive officer, who at the time I was preparing
8 the adjustment had resigned from the company, basically I
9 talked to individuals such as Mr. Empson and Mr. Keith Stamm
10 as to further costs that we would expect to be incurred.

11 Q. Who was involved in the selection process of
12 these six departments or the number of departments that
13 would be removed from the allocations adjustment?

14 A. There were several of -- several of us that
15 talked about what would be appropriate to remove from the
16 process.

17 Q. Can you identify those individuals and their
18 job positions?

19 A. Certainly myself. I believe I made the
20 initial recommendation. It was then reviewed with Mr. Denny
21 Williams of our regulatory services group, Mr. Jon Empson,
22 who's now in charge of our regulatory services department
23 and other operations of the company, and I believe at times
24 he would have reviewed them with Mr. Keith Stamm.

25 Q. And can you identify a time when that review

1 occurred and the decisions were made to remove those
2 departments from the allocations adjustment?

3 A. It was mainly during the time frame of April
4 and May, as I recall, 2003.

5 Q. Were there departments other than those six
6 adjustments -- six departments that were looked at?

7 A. Yes.

8 Q. Can you identify those departments?

9 A. Yes. If you'll give me a moment.

10 Q. Yes.

11 A. Takes a while. There's about 140 of these to
12 go through and I don't remember them all off the top of my
13 head.

14 Q. Well, I'm not going to ask you to go through
15 all 140. I think you're identifying the number themselves.
16 What is the universe? There are 140 departments that were
17 looked at or considered?

18 A. Yes.

19 Q. So is 140 the universe?

20 A. And I'm giving approximately 140. I could
21 count them. I don't know if I have exactly counted them.
22 Maybe somewhere. Do you want me to count them?

23 Q. No. That's not necessary. If we can talk in
24 these general numbers, I think that will be adequate.

25 A. All right. I also looked for departments

1 that -- I knew because of our reorganization to a
2 state-based structure, there were certain departments that
3 were no longer in existence in April, May 2003 when I was
4 preparing the adjustment but were in existence in 2002
5 during the test year.

6 I looked at those departments to ask myself
7 two questions. One was, is that function no longer in
8 existence? At which point I went to eliminate those
9 dollars. I also asked myself the question, Could they
10 possibly -- the costs are still in existence and are
11 recurring but they maybe would have been moved into other
12 departments? So --

13 Q. Again, you've identified approximately
14 140 departments. Was that the universe itself or is there
15 like maybe 500 departments but you only looked at 140?

16 A. I also looked within the Missouri operations
17 specifically -- in this case I guess MPS Electric is what
18 we're talking about -- of their specific, their direct
19 departments that are within those operations, to also look
20 at that structure to see if any of those costs had shifted,
21 if any departments were eliminated.

22 Q. Were there any departments that were excluded
23 from your review?

24 A. I did not look at operations in Kansas or
25 Colorado or Iowa, Michigan, Minnesota, those direct business

1 units.

2 Q. The six departments that were selected
3 ultimately, was that the initial recommendation where -- was
4 some set of departments other than the six that was finally
5 chosen first reviewed before the six were finally selected?

6 A. I'm sorry. Could you rephrase that for me?

7 Q. Six departments were the final selection as
8 far as being treated from removal from the allocations
9 adjustment. Was there a recommendation at any point of some
10 group of departments other than the six that were finally
11 decided upon?

12 A. We also eliminated a department we call
13 TransUCU, which held our corporate aircraft and -- because
14 we no longer have that corporate aircraft, we sold them,
15 that department was also eliminated.

16 Q. Any others?

17 A. I mean, other than there's a few -- they're
18 small dollars, but again, those were a lot of the
19 departments that there's no longer services being provided.
20 They're not listed in my testimony, but they're in my
21 adjustment in my work papers that have been reviewed by the
22 parties.

23 Q. And how many departments might that be again?
24 Can you quantify that?

25 A. That's probably another six departments,

1 approximately.

2 Q. And do you recall those offhand?

3 A. There's one called the Gas Supply Services
4 Financial Accounting. That function is -- was the work of
5 that group is now being done within another group so those
6 were no longer in existence so we took out those costs.

7 Energy Delivery Products and Services, which I
8 think was more of a -- I don't want to call it a marketing
9 function, that wouldn't be appropriate, but they had some
10 products and services to customers that we weren't doing
11 that anymore.

12 We had a Customer Operations Unit vice
13 president, we also eliminated that. Consumer Energy
14 Program, Customer Choice Programs, UED Principal Markets,
15 Retail Services. Let's see. Southeast Region Sales
16 Leadership. A lot of the sales and marketing, I would
17 say --

18 Q. Okay.

19 A. -- functions.

20 Q. If I could refer you again to your Direct
21 Testimony, page 8, lines 7 to 10.

22 A. Yes, I have that.

23 Q. You state there that with removal of the six
24 departments and miscellaneous adjustments to other
25 departments, that approximately \$17.4 million was removed

1 from the allocation pool; is that correct?

2 A. Yes, that's correct.

3 Q. What was the total dollar amount in the
4 allocation pool prior to the exclusion of the \$17.4 million?

5 A. I don't think I have that with me.

6 Q. Do you have a general number, approximate
7 number?

8 A. I honestly cannot remember off the top of my
9 head.

10 Q. No recollection as to within a range of what
11 multiple of maybe 17.4?

12 A. Definitely in the millions. I -- I do not
13 remember.

14 MR. DOTTHEIM: Okay. Thank you very much.

15 I have no further questions at this time.

16 JUDGE JONES: Commissioner Murray, do you
17 have --

18 COMMISSIONER MURRAY: I have no questions.

19 Thank you.

20 QUESTIONS BY JUDGE JONES:

21 Q. In general terms I'm trying to get a grasp on
22 what the value of this issue is, how much money is involved
23 with this issue.

24 A. And I believe that has been spelled out in our
25 reconciliation schedule under Corporate Overhead

1 Allocations.

2 Q. So this is a cost item then?

3 A. It is. The Office of the Public Counsel and
4 the Staff had made recommendations to further eliminate
5 additional costs in addition to the ones that I made
6 adjustments for. And I believe Mr. Empson is going to be
7 the company witness on that issue. My testimony dealt with
8 just the -- the adjustments that I made.

9 Q. Okay. And, again, speaking generally, I have
10 to admit I have very limited understanding of accounting
11 principles and probably should have failed all those courses
12 in school but for the grace of my professors.

13 It seems if a company restructures itself,
14 there has to be some benefit to that other than -- there has
15 to be some added value to assets even. Is there? I don't
16 know. Is it just a cost issue? Does it only have to do
17 with cost or does it have anything to do with assets at all?

18 A. We -- we used to have a stronger, I guess if
19 you want to say, employee base, but we're still utilizing
20 the same assets that we had before the restructure with the
21 exception of the corporate aircraft, of course.

22 Q. And when you say a stronger employee base, you
23 mean more employees so there are fewer employees as a result
24 of the restructuring?

25 A. Yes. That's correct.

1 Q. Is that savings taken into consideration in
2 coming up with these numbers?

3 A. In the payroll adjustment done by Aquila
4 Witness Ron Klote, when we did the update to the
5 September 30th, 2003 known and measurable period, the way he
6 prepared that adjustment was based on head count at that
7 time, which was substantially reduced from the head count we
8 had in our test year. And he did reflect that in his
9 update.

10 Q. It sounds like you're saying -- my question is
11 specific to the question of payroll, but it has to in some
12 way impact corporate restructuring also, doesn't it, as far
13 as payroll component of corporate restructuring?

14 A. I think payroll is a component of it. It's
15 probably -- I would believe the -- one of the major
16 components.

17 JUDGE JONES: Okay. Thank you. Is there any
18 recross?

19 MR. MICHEEL: Yes, there is.

20 JUDGE JONES: Public Counsel?

21 RE-CROSS-EXAMINATION BY MR. MICHEEL:

22 Q. Judge Jones just asked you a question about
23 the payroll and you responded saying that Mr. Klote updated
24 his testimony for the 2003 known and measurable reduced
25 employee count. Do you remember that answer?

1 A. Yes.

2 Q. Isn't it correct that Mr. Klote did not in
3 that calculation reflect the payroll savings from the
4 employees that had been terminated by the company?

5 A. That's not my understanding of the way he
6 computed that adjustment, but he might be a better witness
7 to ask that question to.

8 Q. So you don't know whether he did or didn't?

9 A. I believe he had, but I might be mistaken.

10 Q. Do you know if he included the savings related
11 to the reduction in OPEB and things like that, retirement?

12 A. I do not know the answer to that.

13 MR. MICHEEL: Thank you very much.

14 JUDGE JONES: Any recross from the Staff of
15 the Commission?

16 MR. DOTTHEIM: Judge in response to a question
17 that you asked as far as the value of the issue, I have a
18 copy of what I believe is the most current reconciliation,
19 which was filed on Friday of last week. And I can -- if I
20 may approach the witness, hand her a copy and maybe she
21 might be able to identify the value at least on the most
22 current what I believe -- what I believe is the most current
23 reconciliation.

24 JUDGE JONES: Yes, you may.

25 THE WITNESS: There are two lines on here that

1 may relate to this issue. Line 20, corporate restructuring
2 costs, labor/non-labor values 900,651. Line 19, state-based
3 restructuring severance costs, values 868,633. And this I
4 believe is the Staff's reconciliation.

5 Turning to the second page, OPC's issues, line
6 28 has 1,021,927 listed under OPC's issues -- excuse me,
7 1 million -- I wasn't trying to cut you short -- 1,021,927.

8 RE-CROSS-EXAMINATION BY MR. DOTTHEIM:

9 Q. Ms. Agut, are you aware of another issue that
10 remains to be heard, Severance?

11 A. Yes, I am aware of that issue.

12 Q. And Mr. Klote is the witness on that issue?

13 A. Yes, he is.

14 Q. Okay. And that might be one of the line items
15 that you mentioned first when you first identified
16 restructuring and another line item, adjustment severance?

17 A. Yes.

18 MR. DOTTHEIM: No further questions.

19 JUDGE JONES: Thank you.

20 Is there any redirect from Aquila?

21 MR. SWEARENGEN: I have no redirect. Thank
22 you.

23 JUDGE JONES: Okay. You may step down,
24 Ms. Agut.

25 MR. SWEARENGEN: I would call Mr. Ron Klote to

1 the witness stand at this time

2 (Witness sworn.)

3 JUDGE JONES: You may be seated.

4 RONALD KLOTE testified as follows:

5 DIRECT EXAMINATION BY MR. SWEARENGEN:

6 Q. Mr. Klote, you have caused to be prepared and
7 filed in this case three pieces of testimony; is that
8 correct?

9 A. Yes.

10 Q. And do you have that testimony with you on the
11 witness stand this afternoon?

12 A. Yes, I do.

13 Q. And is it your understanding that your Direct
14 Testimony has been marked as Exhibit 1046, your Rebuttal as
15 Exhibit 1047, and your Surrebuttal as Exhibit 1048?

16 A. That's correct.

17 Q. Are there any changes you need to make in any
18 of that testimony at this time?

19 A. Yes, there is.

20 Q. Would you go ahead and do that, please?

21 A. In my Rebuttal Testimony page 5, line 14, the
22 number 370,873 should be changed to 371,336. On line 18,
23 the number 550,769 should be changed to 391,950. That
24 sentence should continue, For MPS Electric cost of service
25 filing, period, and rest of that sentence striked.

1 Q. Are there any other changes in your Rebuttal
2 Testimony?

3 A. Yes, there is. Page 9, line 21, the number
4 267,3 -- 703 should be changed to 26,736. Line 23, the
5 number 39,655 should be changed to 28,220. Page 14, line 13
6 the word "ordered" should be changed to "calculated."

7 Q. Are there any other changes in your Rebuttal
8 Testimony?

9 A. No, there are not.

10 Q. Are there any changes that you need to make
11 with respect to your Surrebuttal Testimony?

12 A. No, there is not.

13 Q. Now, you understand Mr. Klote that the issue
14 before the Commission this afternoon concerns the topic of
15 Corporate Restructuring?

16 A. Yes, I do.

17 Q. Although your testimony covers other matters,
18 some of which will be heard later in this proceeding. Is
19 that your understanding?

20 A. Yes.

21 Q. Thank you very much.

22 MR. SWEARENGEN: With that, I would offer into
23 evidence Exhibits 1046, 1047 and 1048, and tender the
24 witness.

25 (Exhibit Nos. 1046, 1047 and 1048 were

1 received into evidence.)

2 JUDGE JONES: Is there any cross-examination
3 from Sedalia Industrial Engineer Users' Association?

4 MR. CONRAD: No, sir.

5 JUDGE JONES: Any cross-examination from the
6 Office of Public Counsel?

7 MR. MICHEEL: Just a little bit.

8 CROSS-EXAMINATION BY MR. MICHEEL:

9 Q. Mr. Klote, could you direct me to the portion
10 of your pre-filed testimony that deals with this issue?

11 A. Sure. In respect to the labor costs
12 associated with the restructuring adjustment, we did not
13 propose adjustments other than the ones that were reflected
14 by Ms. Agut in her testimony. I adopted the eliminations
15 that she adopted. So my Direct Testimony it would be the
16 payroll annualization and specifically --

17 Q. Starting on page 9, CS 10 restructuring
18 adjustment?

19 A. Actually, in my Direct it's on -- begins on
20 page 3 and discusses the payroll annualization adjustment.

21 Q. So the only part -- what I'm trying to
22 understand, Mr. Klote, is all you did was the calculations;
23 isn't that correct?

24 A. Yes. I adopted the eliminations that Ms. Agut
25 adopted in her study, yes.

1 Q. Other than that, you have no testimony with
2 regard to this issue; is that correct?

3 A. Yes.

4 MR. MICHEEL: Thank you.

5 JUDGE JONES: Is there any cross-examination
6 from the Staff of the Commission?

7 MR. DOTTHEIM: No cross-examination on this
8 issue for Mr. Klote, but he will remain, I believe, for
9 another issue, Severance, which the Staff does have
10 cross-examination on.

11 JUDGE JONES: Thank you.

12 Commissioner Murray, do you have questions?

13 COMMISSIONER MURRAY: I have none. Thank you.

14 JUDGE JONES: Is there any redirect?

15 MR. SWEARENGEN: I have no redirect, your
16 Honor.

17 JUDGE JONES: Thank you, Mr. Klote. You may
18 step down.

19 MR. SWEARENGEN: I would call Mr. Jon Empson
20 to the stand at this time.

21 (Witness sworn.)

22 JUDGE JONES: You may be seated.

23 JON EMPSON testified as follows:

24 DIRECT EXAMINATION BY MR. SWEARENGEN:

25 Q. Mr. Empson, good afternoon.

1 A. Good afternoon.

2 Q. Have you caused to be prepared certain
3 Rebuttal and Surrebuttal Testimony in connection with this
4 proceeding?

5 A. Yes, I have.

6 Q. And do you have copies of that testimony with
7 you this afternoon on the witness stand?

8 A. Yes, I do.

9 Q. And do you happen to know what exhibit numbers
10 have been assigned to your Rebuttal and your Surrebuttal?

11 A. I'll have to defer to you, counsel.

12 Q. Well, thank you. And I'll have to defer to my
13 co-counsel here.

14 MR. MICHEEL: 1044 and 1045.

15 MR. SWEARENGEN: Thank you.

16 BY MR. SWEARENGEN:

17 Q. I assume 1044, Mr. Empson, is your Rebuttal
18 Testimony?

19 A. That's correct.

20 Q. And 1045 is your Surrebuttal Testimony?

21 A. Correct.

22 Q. Are there any changes that you need to make
23 with respect, first of all, to your Rebuttal Testimony?

24 A. Yes. Just have one change.

25 Q. If you'd refer us to the page, please.

1 A. Page 13, line 6, the sentence currently reads,
2 Of the 54 remaining ESF departments, 42 continue to be
3 allocated. The lines -- it should read 52 and 39. And then
4 on line 8 it says, Contained within the 42 departments.
5 That should be 39.

6 Q. Are there any other changes you need to make
7 to your Rebuttal Testimony at this time?

8 A. No, there are not.

9 Q. With respect to your Surrebuttal Testimony,
10 are there any changes you wish to make?

11 A. There are not.

12 Q. Thank you.

13 MR. SWEARENGEN: With that, your Honor, I
14 would offer into evidence Exhibits 1044 and 1045 and tender
15 the witness. Thank you.

16 JUDGE JONES: Thank you. Exhibits 1044 and
17 1045 are admitted into the record.

18 (Exhibit Nos. 1044 and 1045 were received into
19 evidence.)

20 JUDGE JONES: Mr. Empson, I just want to be
21 clear I got your corrections. You said at page 13, line 6
22 the numbers 54 and 52 appear and those numbers should be 52
23 and 39?

24 THE WITNESS: Correct.

25 JUDGE JONES: And what was the second change?

1 THE WITNESS: Line 8, that 42 appears again.
2 It should be 39.

3 JUDGE JONES: Thank you.

4 Is there any cross-examination from the Office
5 of Public Counsel?

6 MR. MICHEEL: Yes, indeed.

7 CROSS-EXAMINATION BY MR. MICHEEL:

8 Q. Would you agree with me, Mr. Empson, that
9 Aquila currently uses exception reporting for the costs
10 associated with the departments that Mr. Dittmer has
11 requested be disallowed?

12 A. I would agree that the -- Aquila currently
13 uses exception reporting in allocations.

14 Q. Could you define exception reporting for me,
15 sir?

16 A. Sure. If someone is spending time dealing
17 with a specific operation, for example, if I were assigned
18 to do a project internationally, at the time I'm doing that
19 project, I'd assign my cost to international operations. So
20 we ask the people to -- any time they're not doing utility
21 work, basically to assign their time to the projects they're
22 working on.

23 Q. Would you agree with me that Aquila does not
24 use positive time reporting?

25 A. Do you want to define for me what you believe

1 positive time reporting is?

2 Q. Why don't you define for me what you think
3 positive time reporting is?

4 A. Just reviewing the testimony of Mr. Dittmer,
5 would be every -- be like a lawyer. Every minute of the day
6 you would keep track of how you're spending that time.

7 Q. So you're familiar with what positive time
8 reporting is?

9 A. I'm familiar with the concept, yes.

10 Q. Has that issue been raised in previous Aquila
11 cases?

12 A. Yes, it has.

13 Q. Would you agree with me that Aquila does not
14 use positive time reporting?

15 A. Universally I cannot agree. There were some
16 settlements that we had within our gas supply group where
17 they do use positive time reporting, so I think there are
18 selective groups that do positive time reporting within the
19 company.

20 Q. Let's narrow that down. Would you agree with
21 me with respect to the corporate overheads that we're
22 talking about, Aquila does not use positive time reporting?

23 A. I think for the majority of them, yes.

24 Q. Yes, you do not use positive time reporting --

25 A. Yes, we do not.

1 Q. -- or, yes, you use --

2 A. Yes, we do not use positive time reporting.

3 MR. MICHEEL: May I approach the witness, your
4 Honor?

5 JUDGE JONES: Yes, you may.

6 BY MR. MICHEEL:

7 Q. Let me hand you a copy of the Report and Order
8 in Case ER-97-394 in the matter of Missouri Public Service,
9 division of UtiliCorp United. It's your '97 rate case. And
10 ask you to turn to page 52, sir, if you would. And does
11 that indicate ESF time reporting is an issue there?

12 A. Yes, it does.

13 Q. And could you, sir, look over to page 53 of
14 that order, sir?

15 A. Yes.

16 Q. Does that order on page 53 indicate -- well,
17 why don't you read in the last paragraph there right above
18 the J?

19 A. As this issue bears no monetary amount, the
20 Commission will make no ordered finding. The Commission
21 will, however, strongly suggest to UtiliCorp it adopt
22 positive time keeping as recommended by the Staff and
23 accounting procedures with adequate-- which adequately
24 separate and track cost associated with the operation of the
25 MPS regulated service area.

1 Q. Would you agree with me that with respect to
2 these corporate overheads, that Aquila did not take the
3 Commission's strong recommendation to adopt positive time
4 reporting?

5 A. I will agree that we didn't do the full
6 positive time reporting. Many of those functions do
7 directly assign to the other business units.

8 Q. Is it correct that you're the senior vice
9 president in charge of regulation for Aquila, among other
10 various duties?

11 A. Yes, it is.

12 Q. Is it correct that you're the person in charge
13 of all regulatory matters for Aquila?

14 A. Yes, it is.

15 Q. Is it correct that Aquila receives positive
16 time reporting from its outside counsel such as Brydon,
17 Swearngen and England?

18 A. Yes, it is.

19 Q. Does Aquila receive positive time reporting
20 from all of its outside counsel?

21 A. Yes, we do. Well, I take that back. We have
22 another that's on just retainer and does not do positive
23 time reporting. We've just contracted for a certain fee for
24 all the hours we can take.

25 Q. So Aquila at some point does require positive

1 time reporting from some of its vendors; is that correct?

2 A. That is correct.

3 Q. Would you agree with me that Aquila's still in
4 a precarious financial position?

5 A. I would not define it as precarious at this
6 point in time.

7 Q. Let me ask you this. Is Aquila an investment
8 grade utility?

9 A. No, it is not.

10 Q. It is a non-investment grade utility?

11 A. Yes, it is.

12 Q. And is that generally thought of -- when a
13 company is non-investment grade, is that thought of as a
14 healthy company or an unhealthy company in the investment
15 community?

16 A. I don't know if they attach healthy or
17 unhealthy. When I look at the strength of the financials of
18 the company, I'm looking primarily at liquidity when you
19 talk about precarious. Be more concerned do we have
20 adequate liquidity to meet our daily needs, monthly needs,
21 annual needs, and we do have that adequate liquidity.

22 Q. Let me ask you this. Are your creditors
23 requiring you to pre-pay for things because of your
24 financial condition?

25 A. Many are.

1 Q. Is that just because you're in a precarious
2 financial condition?

3 A. That's because we are non-investment grade.

4 Q. Are you -- and when I say "you," I mean the
5 company. Is the company paying higher interest rates on
6 lending that it otherwise would because it's non-investment
7 grade?

8 A. Yes, we are.

9 Q. And that's because the company is more risky;
10 isn't that correct?

11 A. I would assume that would be the
12 interpretation from the lenders, that's correct.

13 Q. And that means that there's a greater chance
14 of default for your company, isn't that correct, then if you
15 were, say, a triple B rated, which is an investment grade
16 company; isn't that correct?

17 A. I wouldn't relate the two statements together.
18 I mean, just because we're paying higher interest rate does
19 not mean that because of our liquidity position we're at a
20 greater risk of default. We demonstrate to the market on a
21 regular basis what our current liquidity position is.

22 Q. I didn't ask you about your liquidity,
23 Mr. Empson. I understand that you want to tell me what --
24 let me ask you this, because you seem to want to get it out
25 today. Does Aquila currently have enough liquidity to meet

1 its current obligations?

2 A. Yes, it does. That's why I couldn't accept
3 your word that we might be more likely to default. We do
4 have adequate liquidity.

5 Q. Is it correct that the top management is
6 focused on extracting Aquila from its current non-investment
7 grade rating?

8 A. Top management is focused on transitioning
9 back to a seven-state utility. During that transition, we
10 believe we'll be able to regain our non-inv-- we'll be able
11 to gain our investment grade.

12 Q. Let me ask you this. Is it important for
13 Aquila it be an investment grade company?

14 A. Yes, it is.

15 Q. And why is that?

16 A. Investment grade does enable us to get lower
17 cost of debt at the time we have to issue the debt.

18 Q. Does it enable you not to have to pre-pay for
19 items?

20 A. Yes, it does.

21 Q. Does it enable you to be able to get market
22 rate interest rates?

23 A. Would you repeat that one again?

24 Q. Does it enable the company to get market rate
25 interest rates?

1 A. Yes, it does.

2 Q. Would it enable the company to enter into, for
3 example, an accounts receivable program with CitiBank?

4 A. Not necessarily.

5 Q. Would it enable the company to do short-term
6 commercial paper lending?

7 A. Could.

8 Q. Can the company do that right now?

9 A. Can't say for sure. We're looking at those
10 options now given the state of our liquidity whether we can
11 go back to lenders and possibly do that.

12 Q. Have you been able to do it during the past
13 year?

14 A. No, we have not.

15 Q. And why is that?

16 A. Because of the non-investment grade rating we
17 currently had and the concerns they had a year and a half
18 ago when we started this transition in selling assets. But
19 as we've been able to execute this plan, there's more
20 confidence now by the lenders and the markets in our
21 financial ability.

22 Q. What does it mean if a company is
23 non-investment grade?

24 A. It means that its debt's going to be rated
25 lower and, therefore, the interest rate higher.

1 Q. Can, for example -- if you know, can
2 retirement funds and things like that own non-investment
3 grade corporate security?

4 A. I couldn't answer that question.

5 Q. Would you agree with me that Aquila will need
6 to secure financing for its \$430 million term loan that
7 expires in '06?

8 A. Yes, we will.

9 Q. Would you agree with me that that's going to
10 take a significant amount of time?

11 A. I can't agree with that. I think we have to
12 determine as we move through the next few years -- because
13 we already have people approaching us on maybe the
14 possibility of doing it earlier than even that point in
15 time. So I cannot agree that it's going to take a
16 significant amount of time. And if it does, it will be a
17 few targeted people.

18 Q. Would you agree with me that one of those
19 targeted people will be the chairman and CEO?

20 A. I would agree that he'd be involved. I think
21 the primary person will be our chief financial officer and
22 our treasurer that typically to the initial work on that
23 under the direction of the CEO and chairman.

24 Q. That was my next question. Would you agree
25 with me that the general counsel's office will be involved?

1 A. The general counsel's office will be involved
2 in checking the documents and making sure they're adequately
3 prepared.

4 Q. Would you agree with me that the Board of
5 Directors will be involved?

6 A. Yes.

7 Q. And, indeed, the company just acquired a
8 \$430 million term loan, did it not?

9 A. Approximately about nine or ten months ago,
10 yes.

11 Q. And would you agree with me that the chairman
12 and CEO was extensively involved in that?

13 A. At that point in time I would agree.

14 Q. Would you agree with me that the chief
15 operating officer, Mr. Dobson, was extensively involved in
16 that in his department?

17 A. Mr. Dobson is our chief financial officer. I
18 would agree the chief financial officer was involved as much
19 as the chief operating officer.

20 Q. I'm sorry. The chief financial officer, was
21 he involved?

22 A. Yes.

23 Q. And the people that worked for him?

24 A. I don't know how deep it would have been from
25 the people that are working for him. I do know that he

1 personally was heavily involved.

2 Q. Was the chief operating officer involved?

3 A. I don't believe he had much involvement.

4 Q. Would you agree with me that Mr. Perritt,
5 general counsel, was deeply involved?

6 A. I think he had an active involvement in
7 reviewing the documents. I don't believe he was as actively
8 involved negotiating the terms and conditions as Mr. Dobson
9 would have been.

10 Q. Would you agree with me that Mr. Brad Bacon,
11 who was in his department, and various underlings of
12 Mr. Perritt were actively involved in negotiating that?

13 A. I think there were some. I don't know the
14 number.

15 Q. Would you agree with me that the Board of
16 Directors was involved?

17 A. Well, the Board of Directors would be involved
18 in reviewing it. I don't believe they're involved in the
19 negotiations or the details of what the term loan was, just
20 what the content would have been.

21 MR. MICHEEL: I need to get an exhibit marked,
22 your Honor, and it is a highly confidential exhibit. I
23 believe it will be Exhibit 165. And it would be response to
24 Public Counsel Data Request 1019.

25 (Exhibit No. 165-HC was marked for

1 identification.)

2 JUDGE JONES: Are you going to be asking
3 questions from this exhibit?

4 MR. MICHEEL: I am indeed, your Honor.

5 JUDGE JONES: Should we go in-camera?

6 MR. MICHEEL: I think out of an abundance of
7 caution, we should.

8 JUDGE JONES: Is there anybody in the room
9 that needs to leave? I don't know.

10 MR. MICHEEL: They all look like the usual
11 suspects to me, your Honor. They all look okey-dokey.

12 JUDGE JONES: We'll go in-camera at this time.

13 (At this time, an in-camera session was held,
14 which is contained in Volume No. 12, pages 851 through 857
15 of the transcript.)

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1 BY MR. MICHEEL:

2 Q. So just based on that, it's your testimony
3 today that the chief executive officer, the chief financial
4 officer and the general counsel will not be primarily
5 focused on attempting to return Aquila to an investment
6 grade company?

7 A. No. That is not what I stated. I said that
8 they're going to be primarily focused on the transition back
9 to the seven-state utility and the strength of the utility,
10 because that's what's going to get us back to investment
11 grade, and dealing with some of the residual debt we will
12 have on our balance sheet.

13 Q. Well, it seems to me to be a chicken and an
14 egg item. First, wouldn't you agree with me that you have
15 to extract yourself from this debt and get those things in
16 place? Wouldn't you agree that the upper management of
17 Aquila is going to focus at least some time on that?

18 A. I agree that they will be focusing some time
19 on it, but I don't agree to the extent that the adjustments
20 have been made in this case to throw out 50 percent -- an
21 arbitrary 50 percent of some of those costs.

22 Q. Is it correct that in including the costs that
23 Aquila included for those departments, they didn't do a time
24 study; is that correct?

25 A. We did not do a time study, that is correct.

1 What we looked at is what do we believe -- there was two
2 things that we looked at and you've already cross-examined
3 Bev Agut, but two things we looked at.

4 Not only what were some of the incremental
5 costs that we incurred as we're transitioning back, but also
6 as we move forward, what is the character of our company
7 going to be and what do we need to be a seven-state utility?

8 Q. And to do that, the company exercised
9 judgment; isn't that correct?

10 A. There is some judgment that was exercised,
11 that is correct.

12 Q. And it couldn't be based on how these
13 individuals specifically spent their time because Aquila
14 doesn't keep track of that, isn't that correct, because they
15 don't do positive time reporting?

16 A. We do not do positive time reporting, but as
17 Bev mentioned, we do talk to the people and I interact with
18 them on a daily basis to see how they do spend their time.

19 Q. Well, Ms. Agut indicated that the former CEO
20 was no longer at the company, so --

21 A. But that department --

22 Q. -- how did you talk to the former CEO?

23 A. That was an easy one because his department
24 was eliminated, so there was 100 percent of that. But the
25 adjustments that are being made now are for people that are

1 in existing positions.

2 Q. So it's your testimony sitting there today
3 that 100 percent of the CEO department was eliminated?

4 A. The individual was eliminated.

5 Q. I was asking you about the department. Is the
6 CEO department 100 percent eliminated from rates?

7 A. I have to defer back to Bev Agut on the total
8 adjustment that was made, but a significant part of that.
9 Because at the time the CEO left, we had a chairman and a
10 CEO and a COO. So we did make adjustments in the CEO's
11 department but maintained the chairman's office who is now
12 the CEO. So it's my understanding that most of the costs in
13 that CEO department were eliminated.

14 Q. When you say "most of the costs," give me a
15 percentage.

16 A. I can't give you --

17 Q. Over 50 percent if it's most of the cost,
18 Mr. Empson?

19 A. My recollection from the meetings we had after
20 Ms. Agut got done with the review was that, yes, that's the
21 case. Take a minute, I can probably look here to see if I
22 have more information to let you know that. Now that I'm
23 making you wait, I hope I can find it, Mr. Micheel.

24 Q. You seem eager to give me the answer, so I'm
25 allowing you --

1 JUDGE JONES: While he's looking for that, I
2 do have a question that I'll put for anyone in the room by
3 Aquila who can answer this. Tomorrow Mr. Frank DeBacker is
4 going to testify. He has 30 schedules that are attached to
5 his testimony. Have these schedules changed since his
6 original filing in light of the L&P issue? Do you know that
7 answer, Mr. Swearengen, or is there anyone here that knows
8 that answer?

9 MR. SWEARENGEN: My understanding is those
10 schedules have not changed.

11 JUDGE JONES: Okay. Thank you.

12 THE WITNESS: I cannot answer that question
13 right now. I have to take a little more time to study the
14 exhibit, but for sure the payroll cost was eliminated. I
15 can't tell what kind of non-payroll costs were.

16 BY MR. MICHEEL:

17 Q. I guess my question was, is it your testimony
18 that the CEO department was eliminated 100 percent from
19 rates in this case?

20 A. Mr. Bob Green's salary, who was the CEO, was
21 eliminated, so that's all I can attest to.

22 Q. But I'm asking you about the department. And
23 your testimony sitting there today is you don't know about
24 the department -- the CEO department; is that correct?

25 A. Yeah. I'd have to defer back to Bev Agut who

1 did the detailed analysis.

2 MR. MICHEEL: Thank you very much.

3 JUDGE JONES: Thank you.

4 Is there cross from the Staff of the
5 Commission?

6 MR. DOTTHEIM: Yes.

7 CROSS-EXAMINATION BY MR. DOTTHEIM:

8 Q. Good afternoon, Mr. Empson.

9 A. Good afternoon, Mr. Dottheim.

10 Q. I'd like to refer you to your --

11 (Hearing interrupted.)

12 THE WITNESS: Excuse me. My apologies. My
13 wife knows she caught me at an improper time.

14 BY MR. DOTTHEIM:

15 Q. I'd like to refer you to your Rebuttal

16 Testimony that's been marked as Exhibit 1044.

17 A. Yes, sir.

18 Q. And I'd like to direct you to page 10,
19 line 9 --

20 A. Yes, sir.

21 Q. -- of your Rebuttal Testimony where you use
22 the word "we" in that sentence on lines 9 and 10. There are
23 two basic principles that we made a concerted effort to
24 apply to a review of our rate case filing. Who is "we"?

25 A. The "we" would be myself and then in

1 consultation with Denny Williams, Gary Clemens and Bev Agut
2 and whoever Bev Agut might -- I believe Alison Moton, who is
3 one of her staff audit consultants. So those would be the
4 primary people.

5 Q. On page 10 I'd like to refer you to line 19
6 where the phrase there, We wanted to at least use our
7 professional judgment in making further adjustments.

8 Again, who would "we" be?

9 A. The "we" would be the same people. I think
10 when Bev complete her initial study, we sat around and
11 reviewed it item by item and asked questions if there was
12 some other areas that we should be looking at to make
13 adjustments before making this filing.

14 Q. And would you please define the term
15 "professional judgment" as you've used it in that sentence?

16 A. In this case it would be our -- given our
17 day-to-day involvement in the business operations what
18 things do we think should be looked at to try to be
19 eliminated out of the costs that we included in this case.

20 So, for example, we looked at the CEO's
21 office. We had a CFO, we also had someone that was
22 reporting to that CFO that had both responsibilities for
23 domestic and US -- or domestic and international networks
24 and reporting to that person we had a person that focused on
25 just domestics.

1 So we eliminated basically those two people,
2 the CFO, and the inter-- the overall person that had both
3 international and domestic so that going forward, we would
4 have in the costs anyway just the CFO person for the
5 domestic utility.

6 Q. Again, on page 10 I'd like to refer you to
7 lines 23 to 25 where you make reference to six departments
8 were removed from the allocation pool and many miscellaneous
9 adjustments made to other allocated departments. Who
10 determined the six departments to be removed from the
11 allocation pool?

12 A. Well, initially we asked Ms. Agut to go
13 through all of the departments, identify which she felt
14 would be the best ones to focus on. And then she came back
15 with the recommendation to myself, Denny Williams, Gary
16 Clemens. And then I did visit with both Keith Stamm and
17 Rick Green to say, Here's what we're looking at. We believe
18 it would be important to make these adjustments in getting
19 their approval.

20 Q. Do you recall her recommendation? Was it
21 specifically for those six departments?

22 A. I believe in her testimony that's what her
23 re-- we -- we gave -- her recommendations we accepted.

24 Q. Do you know what criteria was used for the
25 selection of those departments?

1 A. Well, just the criteria we used above. First
2 of all, we wanted to try to eliminate the costs that would
3 be -- during this transition that could be associated with
4 us moving back to a seven-state utility. And, second, if
5 there was some things that we felt or departments that we
6 felt would not be needed to support that seven-state
7 utility, we'd go ahead and try to eliminate those costs at
8 this time.

9 Q. And on page 10 again, lines 24 and 25, the
10 reference to many miscellaneous adjustments made, who made
11 those many miscellaneous adjustments?

12 A. Again, Ms. Agut identified those that she was
13 recommending to us and then we gave her the approval to make
14 the adjustments that were then passed -- some of them were
15 passed to Mr. Klote and some by Ms. Agut in her testimony.

16 Q. And the criteria was that which you previously
17 identified?

18 A. Yes, it was.

19 Q. I'd like to refer you to page 11, lines 15 to
20 16, and in particular, the reference to activity codes.
21 Could you identify what is meant in that sentence by
22 activity codes?

23 A. Well, it's in our accounting coding system, so
24 you'd have a department that gets involved in certain
25 activities. So the activity codes would be related to

1 its -- I assume in this case whether it's like an employee
2 expense, travel, consultants, some type of thing that would
3 be identified in a much lower level than an overall
4 department.

5 Q. And, again, on page 11 I'd like to refer you
6 to lines 19 to 21. You state that, Through November 2003
7 Aquila spent \$33 million on divestiture and restructuring
8 activities and retained this cost at the corporate level.

9 Does any of that \$33 million include payroll
10 costs?

11 A. In reviewing the work-up for that cost, there
12 are line items that say -- that say internal labor and
13 loadings dealing with the anonymous letter, there's
14 interior -- internal labor and loadings dealing with the
15 contingency planning, but most of it is going to be dealing
16 with outside consultants, non-labor expense.

17 There's also some internal labor and loadings
18 dealing with bank consents, merchant litigation, regulatory
19 investigations. So there are some that are listed in that
20 total of \$33 million.

21 Q. Do you have a figure or an amount?

22 A. Well, under like contingency planning it looks
23 like it's about \$163,000, under the restructuring, it's
24 about \$437,000, under bank consents there's about 75,000,
25 76,000 dollars, under merchant litigation about \$70,000, and

1 under anonymous letter it looks like there's about \$9,000.

2 So I don't have a total, but just those line items.

3 Q. Then the total would be comprised of those
4 line items?

5 A. From what I can tell from this schedule, those
6 are the only ones that are labeled internal labor and
7 loadings.

8 Q. I'd like to refer you to page 13, line 7 to 9,
9 and also page 14 of your Rebuttal Testimony. And, in
10 particular, on page 14 the chart which is shown on the first
11 half of the page. Do any of the departments shown on the
12 chart on page 14 have dollars allocated by Aquila to
13 nonregulated businesses?

14 A. Yes.

15 Q. On page 14, lines 10 to 11, the bottom of the
16 page, you state that, The cam is intended to describe the
17 general functions of departments over time and does not
18 necessarily constitute these specific activities performed
19 by each department, do you not?

20 A. Yes, I do.

21 MR. DOTTHEIM: Okay. I'd like to approach the
22 witness and hand him a copy of his Rebuttal Testimony in
23 Case No. EF-2003-0465, which is Aquila's encumbrance or
24 collateralization case.

25 JUDGE JONES: You may approach the witness.

1 BY MR. DOTTHEIM:

2 Q. Mr. Empson, can you identify the document that
3 I just provided you a copy of?

4 A. This is Surrebuttal Testimony of Jon R. Empson
5 on behalf of Aquila, Inc. The issue is encumbrance of
6 Missouri assets, Case No. EF-2003-0465 filed September 26,
7 2003.

8 Q. Do you recognize that document?

9 A. Yes, I do.

10 Q. And it's marked highly confidential, but I
11 don't think I'm going to need to address any of the
12 information that is contained in there that is marked highly
13 confidential.

14 I'd like to refer you to page 26 of your
15 Surrebuttal Testimony.

16 A. I have that.

17 Q. And I'd like to refer you to line 24, also 23
18 where you make reference to having attached as Surrebuttal
19 Schedule JRE-3 a copy of Aquila's brief before the Iowa
20 Commission.

21 Have I read that correctly?

22 A. Yes, you have.

23 Q. And I'd like to refer you to that schedule,
24 JRE-3. The cover page of that schedule -- Surrebuttal
25 Schedule JRE-3, page 1 of 35 --

1 A. Yes.

2 Q. -- indicates that this document is the initial
3 brief of Aquila, Inc., d/b/a Aquila Networks in State of
4 Iowa, Department of Commerce, Utilities Division before the
5 Utilities Board, Docket No. SPU-03-7?

6 A. That's correct.

7 Q. I would like to direct you to page 25 of that
8 brief and the second full paragraph. And I'd like to ask
9 you to read into the record the second full paragraph on
10 page 25.

11 A. A second important component to Aquila's
12 continuing commitment to the enhancement of regulatory
13 transparency is Aquila's corporate cost allocation manual,
14 transcript page 12. Aquila maintains a detailed cost
15 allocation manual that is revised as necessary and at least
16 annually, transcript 16.

17 The manual was audited by an independent
18 auditor as recently as 2002, transcript 16. As the
19 independent auditor observed in the audit, comma, quote,
20 appropriate cost allocation is high on, bracket, Aquila's,
21 end of bracket, list of priorities, end of quote, transcript
22 16.

23 Q. Thank you.

24 Did you charge any time to Case
25 No. EF-2003-0465?

1 A. Did I personally charge any time?

2 Q. Yes.

3 A. No, I did not. I charged incremental expenses
4 that were incurred when we traveled to Ohio just like we did
5 when we traveled to Missouri.

6 Q. And what did you charge time to?

7 A. It would have been into the normal allocator,
8 so it would have gone out -- well, in this case it was
9 probably charged directly to the State of Iowa. But
10 typically my time gets into an allocator unless I'm
11 specifically working in a state.

12 Q. And I was referring to the Missouri case,
13 EF-2003-0465.

14 A. No, I did not charge my time to that specific
15 case.

16 Q. Okay. And in not charging your specific time
17 to that case, the Missouri case, what did you charge your
18 time to?

19 A. It would have just gone into an allocation
20 pool or it would have been directly assigned to the state.
21 I'm not sure for that time period what my time sheets would
22 have shown, but that would have been the approach that --
23 incremental costs we took and assigned it to the special
24 account where it would not be charged back to the utility.

25 Q. Your Surrebuttal Testimony in EF-2003-0465,

1 you indicate throughout that document, do you not, having
2 spent a great amount of time on the encumbrance cases, the
3 collateralization cases which Aquila had in various states
4 before the Public Service Commissions, did you not?

5 A. Yes, I did. And the reason I did not charge
6 time because we were looking at what our needs would be on
7 an ongoing basis.

8 Q. Thank you, Mr. Empson. You've answered my
9 question.

10 I believe on page 1 of your Rebuttal
11 Testimony, you've identified that you've been with UtiliCorp
12 United/Aquila since 1986; is that correct?

13 A. That is correct.

14 Q. And in your history at UtiliCorp/Aquila, was
15 its organizational structure ever a state-based company
16 organization rather than centrally organized?

17 A. It wasn't -- it was not a purely state-based
18 organization. It was a utility-based organization because
19 we grew through a series of utility purchases. So, for
20 example, Peoples Natural Gas, when they were acquired,
21 operated as Peoples Natural Gas and had five different
22 states. We had Kansas Public Services as a separate
23 acquisition even though we overlapped in the state with --
24 between Peoples and KPS. KPS stayed as a utility-based. So
25 it was more of a utility-based organization all with their

1 own independent accounting systems, payroll systems,
2 HR systems.

3 MR. DOTTHEIM: Can I have a moment, please?

4 JUDGE JONES: Yes, you may.

5 BY MR. DOTTHEIM:

6 Q. Mr. Empson, if you know, did the Staff in this
7 case make any adjustment to allocate any of the costs of
8 your corporate overhead department to Aquila's corporate
9 financial restructuring operations?

10 A. It would be my understanding in reading
11 Mr. Hyneman's testimony that he is disallowing 75 percent of
12 one department, 50 percent of others and 25 percent and
13 really assigning indirectly those costs to our restructuring
14 effort believing we have understated the amount of
15 adjustment made in Bev Agut's testimony.

16 Q. If I could refer you to page 14 of your
17 Rebuttal Testimony, the page with the chart on it.

18 A. Yes.

19 Q. In particular, the departments which are shown
20 for adjustment by Mr. Hyneman.

21 A. Yes.

22 Q. Is your department among those departments
23 that are shown for disallowance?

24 A. No, it is not.

25 Q. One moment, please.

1 MR. DOTTHEIM: Thank you, Mr. Empson. I have
2 no further questions at this time.

3 JUDGE JONES: Commissioner Murray, do you have
4 any questions?

5 COMMISSIONER MURRAY: Just very briefly.

6 QUESTIONS BY COMMISSIONER MURRAY:

7 Q. Good afternoon, Mr. Empson.

8 A. Good afternoon.

9 Q. On page 14 of your Rebuttal Testimony you have
10 a chart there that, as I understand it, you are showing the
11 department's -- an additional adjustment suggested by either
12 Staff or Office of Public Counsel; is that correct?

13 A. That's correct.

14 Q. And, for example, the chairman and CEO, Aquila
15 had not provided for any adjustment there; is that right?

16 A. On the personal time and then there were
17 probably some of the adjustments that Ms. Agut talked about
18 where we had some consultants that might have been in the
19 non-payroll budget. That would have been adjusted out if
20 they were reflected in that office's non-payroll budget, but
21 we did not make any adjustments on the payroll side.

22 Q. Okay. And then on the COO, the 100 percent
23 adjustment Aquila had made was on the non-payroll only side.
24 Right?

25 A. That's correct.

1 Q. And you had not made any adjustment for
2 general counsel?

3 A. That is correct.

4 Q. Or what about anyone else in general counsel's
5 office? No counsel adjustment at all?

6 A. No. The general counsel's office does do --
7 as I mentioned earlier, do some direct assignment of costs
8 to special projects that they're working on. And that might
9 have been when we were going down the list of the
10 \$17 million -- or the \$33 million worth of adjustments, some
11 of those labors and loadings might have been reflected in
12 that department.

13 Q. Is there any way to quantify those?

14 A. We could go back, I assume, and try to
15 quantify. I'm not aware that it's in the record anywhere at
16 this point in time.

17 Q. Okay. So we can't look at the record and see
18 anywhere that you made an adjustment for general counsel?

19 A. Unless it would have been in -- the work
20 papers for Bev Agut's testimony would be the place.

21 Q. Which we don't have in the record; is that
22 right?

23 A. I don't know if the work papers are in the
24 record or not at this point in time, Commissioner.

25 Q. And then same thing with Board of Directors?

1 We wouldn't be able to look at the record and see where you
2 might have made some adjustments or did you make any
3 adjustments anywhere?

4 A. Again, the only adjustments would have been
5 made if there were costs for outside consultants that would
6 have been brought in to advise the board. On our financial
7 situation, we'd have taken those out, but we did not take
8 out any Board of Directors fees, for example. They would
9 have still been in.

10 Q. So that would be true of any of those
11 categories which you had made no adjustment; is that right?

12 A. That is correct.

13 Q. And then the category of chief financial
14 officer where you had taken 100 percent as an adjustment --

15 A. That is correct. We took out the entire chief
16 financial officer department.

17 Q. And Office of Public Counsel did not recommend
18 any adjustment for that; is that right?

19 A. My understanding is they accepted our
20 100 percent adjustment, so they didn't have to add any for
21 an additional adjustment.

22 Q. All right. What's the total difference in
23 revenue requirement on this issue, do you know?

24 A. My recollection is it's -- I might have the
25 sheets here. Since there's two adjustments, one made by the

1 department and one made by -- or one by the Office of Public
2 Counsel and one by the Staff, that on the MPS side it's
3 about \$887,000 that the Staff has recommended. And then --
4 my understanding is it's an incremental \$1,035,000 that OPC
5 has recommended. So that the total is about 1 million 9, if
6 I recall correctly.

7 Q. So those two numbers would have to be added?

8 A. That is my understanding, that they are --
9 they are additive.

10 Q. And that is a revenue requirement numbers?

11 A. Yes, it is.

12 Q. And that's in addition to a revenue
13 requirement adjustment of how much that the company had
14 initially made?

15 A. We initially took \$17 million out of the
16 allocation pool that would have been charged or could have
17 been allocated out. And that allocation pool then,
18 depending on the percentage coming to MPS, would have been
19 reduced in the filing.

20 Q. Do you know what that -- what difference that
21 would have been made in revenue requirement?

22 A. Let me -- let me -- can I check just for a
23 minute --

24 Q. Sure.

25 A. -- and see if I have that?

1 I don't have the exact number, but the -- the
2 allocation of costs generally coming to MPS would be about
3 30 percent of the cost.

4 Q. Okay. So when you say you took 17 million out
5 of the allocation pool, it would be -- would that be
6 30 percent of that --

7 A. 30 percent of that would be the jurisdictional
8 amount. Then we'd have to split it between the gas and
9 electric so you would end up with about 86 percent of that
10 30 percent that would actually go to MPS Electric. I
11 believe the worksheets -- again, they're in Ms. Agut's
12 testimony -- might have that calculation.

13 COMMISSIONER MURRAY: Thank you. That's all I
14 have.

15 JUDGE JONES: Is there any recross based on
16 questions from the Bench?

17 MR. MICHEEL: Yes, your Honor.

18 RECROSS-EXAMINATION BY MR. MICHEEL:

19 Q. Mr. Empson, Commissioner Murray asked you some
20 questions about the chart that appears on page 14 of your
21 Rebuttal Testimony. Do you recall those questions?

22 A. Yes, I do.

23 Q. And I want to focus on Witness Dittmer's
24 proposed adjustments there just so we're clear. Would you
25 agree with me that, for example, for the chairman and chief

1 executive officer position, that Mr. Dittmer is proposing a
2 disallowance of 50 percent of the allocable costs to MPS for
3 the chairman and chief executive officer?

4 A. That is correct.

5 Q. So he is not recommending whatever the CEO
6 makes -- and I'm sure it's a lot of money -- that 50 percent
7 of that be cut out; isn't that correct? It's just the
8 allocable costs?

9 A. That is correct. Essentially with these
10 higher level areas, most of that cost is allocated. So
11 typically the way we are right know, maybe 6 percent of it
12 would go nonregulated, maybe 94 percent might come over to
13 the regulated side. So by disallowing 50 percent, he's
14 essentially disallowing all of it unless there were some
15 other direct assigned costs that would offset the overall
16 payroll.

17 Q. It is just 50 percent -- let's make it easy.
18 Let's say that the allocable cost for the CEO is \$100 to
19 MPS. Witness Dittmer is saying disallow \$50 of the \$100; is
20 that correct?

21 A. That is correct.

22 JUDGE JONES: Is there any redirect -- I'm
23 sorry. Does Staff have recross?

24 MR. DOTTHEIM: No questions from the Staff.

25 JUDGE JONES: Okay. Thank you. Redirect from

1 Aquila?

2 MR. SWEARENGEN: Yes, your Honor. Just a few.

3 REDIRECT EXAMINATION BY MR. SWEARENGEN:

4 Q. Mr. Empson, just to follow up on Mr. Micheel's
5 question, and referring to the chart on page 14 of your
6 Rebuttal Testimony, he asked you about Mr. Dittmer's
7 adjustment for the chairman and the chief executive officer
8 and the example he used was the 50 percent.

9 Does that same theory hold true with respect
10 to Mr. Hyneman's adjustment? In other words, Mr. Hyneman is
11 eliminating 75 percent of the allocable costs associated
12 with the chairman and chief executive officer. Is that your
13 understanding?

14 A. That's my understanding.

15 Q. Earlier this afternoon Mr. Micheel was asking
16 you some questions about positive time reporting or positive
17 record keeping. Do you recall those questions?

18 A. Yes, I do.

19 Q. And in response to one of his questions you
20 indicated that those particular functions were directly
21 assigned to other business units. Do you recall that
22 response when you, in response to one of his questions, said
23 those functions are directly assigned to other business
24 units?

25 A. Right. I was trying to differentiate between

1 the exception and positive these -- a lot of these groups
2 will as -- if they work internationally, directly assign it
3 internationally that so we do have some positive time
4 reporting for targeted involvement in other activities.

5 Q. And can you give me some other examples of
6 that other than the international that you just mentioned?

7 A. Sure. If they're working on some part of the
8 merchant activity, they would assign it to that business or
9 Everest Telecom business, they would assign it to that. So
10 they try to identify those businesses where they're spending
11 significant time and then directly charge.

12 Q. And those dollars then would not end up in the
13 allocation pool; is that correct?

14 A. That is correct.

15 Q. And so they would not be allocated to Missouri
16 MPS, for example?

17 A. That is correct.

18 Q. Mr. Micheel also asked you some questions
19 about the focus of Aquila's top management and got into a
20 discussion with you about the possibility of a new term loan
21 being entered into. Do you recall those questions?

22 A. Yes, I do.

23 Q. And what was the time frame that you indicated
24 might be on the horizon for the new term loan?

25 A. Well, the term loan expires in May of 2006.

1 But given the progress that we are making on liquidity, we
2 start to re-examine when we might be able to do that sooner.
3 So we've already been engaged in some discussions at this
4 point in time on whether or not there would be some
5 opportunities to retire that earlier possibly or to do some
6 other things to restructure.

7 Q. I think in response to one of his questions,
8 you indicated that you felt that with respect to negotiating
9 a new term loan, that top management might not be as heavily
10 involved as they were with respect to negotiating the term
11 loan that's now in place. Do you recall making that
12 statement?

13 A. Yes, I do.

14 Q. And can you explain why?

15 A. Sure. When this first term loan was put into
16 place, it was very critical that we have it done by April of
17 2003. It was something that was kind of a milestone for us
18 financially.

19 Now that we have that term loan in place,
20 we're now looking at retiring some other debt and so the
21 pressure given our current liquidity situation is a lot
22 different. So you end up kind of returning to more
23 traditional practices where your chief financial officer and
24 treasurer are out there looking in the market, working with
25 people.

1 And whether it's, you know, debt right now
2 assigned to the utility that's going to retire or this term
3 loan, they're out there in the markets all the time trying
4 to do a better deal for the company and lower the overall
5 costs.

6 Q. You had some questions from both Mr. Micheel
7 and Mr. Dottheim about the exercise of judgment on behalf of
8 the company or you, in particular, or other Aquila
9 employees, in particular, in deciding how some of these
10 costs should be allocated. Do you recall those questions?

11 A. Yes, I do.

12 Q. And I think you began to explain how you
13 personally in the past have exercised your judgment in
14 connection with deciding where certain costs should be
15 allocated. Can you expand on that and explain how, in fact,
16 you personally have done that? You indicated, for example,
17 that you visit or talk to people that are involved to see
18 what they're actually doing. Can you expand on that?

19 A. Sure. I think there's two different
20 components, two different elements. First of all, since I'm
21 part of the leadership team, I interact on a regular basis
22 with the senior officers of the company. So I know what
23 kind of business activities they're engaged in on a
24 day-to-day basis and where the focus of the majority of
25 those senior management personal, which are really

1 represented by that chart on page 14, several of them, are
2 spending their time, where their attention is.

3 The second element on judgment was the -- I
4 think the question I received from Mr. Dottheim on how I
5 charge my time for those debt collateralization. What we
6 looked at at that point in time for the regulatory group,
7 this was kind of anomaly in time. It was a one-year
8 experience that we were going through. And if you're
9 looking at your ongoing operations, it's highly unlikely
10 that we'll ever experience that again.

11 So, in effect, was trying to normalize that
12 out and say that on an ongoing basis, my time is going to be
13 spent virtually 100 percent working on utility operations.
14 So we did use some judgment to say on the payroll side
15 anyway -- just like in this rate case where the Staff might
16 use three-year averages for bad debt costs or maintenance
17 costs, we used some judgment on how -- who should be
18 charging their time to the various activities and whether
19 they were ongoing utility operations or not.

20 Q. You were asked some questions about the chart
21 on page 14 of your Rebuttal Testimony. Are there any
22 documents that one could look at to assist in determining
23 how the time involved with the people represented on that
24 chart should be allocated?

25 A. Any documents in the record of this proceeding

1 or documents within the company itself?

2 Q. Any documents within the company itself.

3 A. The documents I think typically you try to go
4 back is first look at an organization chart to see the
5 number of people that are in those functions, get the job
6 descriptions to see what they would be doing to support the
7 ongoing business operations. And maybe look at some
8 month-end reports to see how they're spending their time.

9 Q. Is that the type of information that would
10 have been available to the Staff and the Public Counsel in
11 this proceeding?

12 A. Yes, it would have.

13 Q. And do you recall whether or not the Staff or
14 the Public Counsel asked to see those types of documents?

15 A. I'm not aware that they did.

16 Q. Are there any other types of documents that
17 one might look at that would lead one to make certain
18 decisions with respect to the amount of time that people are
19 spending on various projects?

20 A. My think Mr. Hyneman looked at some of the
21 documents. He was looking at some of the annual reports,
22 the board minutes, the SEC filings and then the news
23 releases that were issued by the company.

24 What we're looking at that point in time is
25 looking back in time. We're not looking going forward. And

1 what I found, for example, he looked at news releases. It
2 appears when he looked at 2002, 2003, he went to our website
3 to see what kind of news releases had been issued.

4 What he ignored was the fact that many of our
5 news releases for the utility are issued at the state level
6 by our central corporate function. So while disallowing
7 50 percent, I believe, of external communications and trying
8 to use news releases as an indicator of the attention, he
9 left out over 300 news releases that were issued in 2003
10 alone just to support our utility operations in the many
11 communities we have in our seven states.

12 So I did not feel that looking at news
13 releases was any indication of where top management was
14 spending their time. And the other elements that he looked
15 at I felt were more backward looking than forward looking.

16 Q. Turning for a minute to page 11 of your
17 Rebuttal Testimony, I think Mr. Dottheim asked you a
18 question about a statement there at line 21 where you use
19 the phrase "retained at the corporate level."

20 A. That sentence, yes.

21 Q. Do you recall Mr. Dottheim asking you about
22 that?

23 A. I recall him talking about that sentence, yes.

24 Q. What does that mean, "retained at the
25 corporate level"?

1 A. Retained and not allocated out. So that means
2 it was basically assigned to the shareholders.

3 Q. And then turning to -- back again to the chart
4 on page 14, Mr. Dottheim asked you some questions about that
5 and you indicated that the departments on that chart have
6 costs that are allocated to the nonregulated portion of the
7 business?

8 A. That is correct.

9 Q. And is that true with respect to all of the
10 departments indicated on that chart, that some of those
11 costs are allocated to the nonregulated portion?

12 A. Every -- every one that I'm aware of on that
13 chart -- the only one that I could not find an allocator for
14 was department 6131, but all the rest of them did have
15 allocated to the nonregulated side.

16 Q. Mr. Dottheim asked you about the time that you
17 charged in connection with the encumbrance case here in
18 Missouri and also with respect to the similar cases that the
19 company prosecuted in other jurisdictions. Why did you --
20 how did you charge that time?

21 A. Basically just as a standard charge of the
22 utility business.

23 Q. And why did you do that?

24 A. Again, it was -- the judgment used is that
25 that was an anomaly that took place in a one-year period of

1 time that is basically behind us.

2 So for those individuals that were spending
3 time on that transaction, we kind of -- we averaged it out
4 effectively and just took the non-payroll costs that were
5 incremental and assigned those back to the corporate cost --
6 back to the corporate pool and maintained those that we knew
7 were going to be ongoing and focused virtually 100 percent
8 on the utility in the cost to accurately reflect what it
9 took to support utility operations.

10 Q. Finally, in response to a question from
11 Mr. Dottheim, you indicated that in the past you had a
12 utilities-based organization. And I think you gave the
13 example of Peoples Natural Gas and Kansas Public Service
14 Company?

15 A. Yes.

16 Q. In that same time frame were there other
17 utilities within the UtiliCorp organization?

18 A. Yes, there were.

19 Q. And what were those?

20 A. We'd have Michigan Gas Utilities up in
21 Michigan, we had both Peoples Natural Gas and Northern
22 Minnesota Utilities up in Minnesota, we had West Plains
23 Energy in Colorado and in Kansas on the electric side. Of
24 course, we had Missouri Public Service here in the state of
25 Missouri on the electric side, gas side. And we had St. Joe

1 Light & Power that we would have had recently on the
2 electric side and steam side.

3 Q. And would those all be examples of
4 utility-based organizations?

5 A. Yes, they would.

6 MR. SWEARENGEN: Fine. Thank you. That's all
7 I have. Thank you.

8 JUDGE JONES: Okay. It's almost five o'clock
9 so we'll have to continue tomorrow with Mr. Hyneman and then
10 we'll move on to the Aries power plant issue as is scheduled
11 for tomorrow.

12 As some of you may know, the preliminary order
13 prohibition issued by Judge Brown has been vacated by
14 himself. I don't know if that makes these proceedings more
15 complicated or not, but that's an issue you all might want
16 to think about. I don't want to discuss it because all of
17 the attorneys aren't present.

18 So you all may, for lack of a better word,
19 think of that overnight and I will too. And after we finish
20 with the issue of Corporate Restructuring, then we might
21 move on to a discussion of how that might affect the
22 proceedings from here on out.

23 Just to throw something out initially, I think
24 we should certainly continue as we are now with the schedule
25 we've already set. We should continue with that schedule

1 and perhaps come back to issues that have already been
2 discussed that may have touched upon L&P issues and discuss
3 those at a later date. That's just a suggestion by myself
4 from the hip, and I will certainly invite input from all of
5 the attorneys. So what I will do is e-mail all of the
6 attorneys of record to that issue.

7 With that, is there anything anyone would like
8 to add on the record before we go off?

9 With that, we'll adjourn the hearing for
10 today.

11 WHEREUPON, the hearing was adjourned until
12 8:30 a.m., March 3, 2004.

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