

*Exhibit No.:* 1033  
*Issues:* Cash Working Capital  
*Witness:* Lesley R. Preston  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* ER-2004-0034

*Date Testimony Prepared:* February 13, 2004 as modified February 27, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**LESLEY R. PRESTON**

**FILED<sup>2</sup>**

**FEB 27 2004**

**Missouri Public  
Service Commission**

**AQUILA, INC.,  
d/b/a AQUILA NETWORKS - MPS (Electric**

**CASE NO. ER-2004-0034**

*Jefferson City, Missouri  
February 2004*

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

In the matter of Aquila, Inc. d/b/a Aquila Networks    )  
L&P and Aquila Networks MPS to implement a    ) Case No. ER-2004-0034  
general rate increase in electricity.                    )

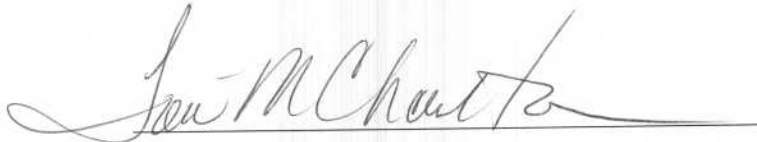
AFFIDAVIT OF LESLEY R. PRESTON

STATE OF MISSOURI    )  
                                  )    ss.  
COUNTY OF COLE    )

Lesley R. Preston, of lawful age, on her oath states: that she has participated in the preparation of the following surrebuttal testimony as modified on February 27, 2004, in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following surrebuttal testimony as modified on February 27, 2004, were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Lesley R. Preston

Subscribed and sworn to before me this 27 day of February 2004.

  
\_\_\_\_\_



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

1 **SURREBUTTAL TESTIMONY OF**

2 **LESLEY R. PRESTON**

3 **AQUILA, INC.,**

4 **d/b/a AQUILA NETWORKS - MPS (Electric)**

5  
6 **CASE NO. ER-2004-0034**

7  
8 Q. Please state your name and business address.

9 A. My name is Lesley R. Preston, 3675 Noland Road Suite 110, Independence,  
10 Missouri 64055.

11 Q. Are you the same Lesley R. Preston who previously filed direct testimony in  
12 this case?

13 A. Yes. I filed direct testimony on December 9, 2003.

14 Q. What is the purpose of your surrebuttal testimony?

15 A. This testimony will address the rebuttal testimony of Aquila, Inc (Aquila or  
16 Company) d/b/a Aquila Networks-MPS (MPS) witness  
17 Dennis R. Williams on the issue of cash working capital.

18 **CASH WORKING CAPITAL**

19 Q. Have you reviewed the rebuttal testimony of Mr. Dennis R. Williams?

20 A. Yes, I have.

21 Q. What does Mr. Williams disagree with?

22 A. Mr. Williams' disagreement lies within the Staff's inclusion of the accounts  
23 receivable program (Program) to calculate the collection lag portion of the revenue lag.

Surrebuttal Testimony of  
Lesley R. Preston

1 Q. Does an account receivable program exist?

2 A. No, not at this time.

3 Q. Please explain why the Staff has included the Program.

4 A. As addressed in my direct testimony, the Staff has included the Program in  
5 order to isolate the customer from costs associated with Aquila's non-regulated financial  
6 problems.

7 Q. On page 7 of Mr. Williams's rebuttal testimony he states "Aquila has no  
8 accounts receivable program in place and no plans to reinstate it." Do you have any  
9 comments on this statement?

10 A. Yes. His statement appears to be contrary to a data request response. In Data  
11 Request No. 421, answered by Richard O. Clayburn, Jr., the Staff asked for "a description of  
12 Aquila's expectation about using the AR Program in the future." Aquila's response was  
13 "Aquila is in the early stages of negotiations and expects to have a new program with a  
14 different provider in place by year-end 2003 and its use would be dependent upon the terms of  
15 the facility and the Company's need for liquidity."

16 Q. Mr. Williams states, on pages 8 and 9 of his rebuttal testimony that the Staff  
17 has never imputed an accounts receivable sales program for the other regulated utilities in  
18 Missouri. Can you explain why the Staff has never imputed an accounts receivable sales  
19 program?

20 A. Yes. Staff has never imputed a Program for any other regulated utility because  
21 no other utility has participated in such a Program to the Staff's knowledge. The Staff's  
22 examination has been focused on Aquila and its activities, not other regulated utilities in  
23 Missouri.

Surrebuttal Testimony of  
Lesley R. Preston

1           Q.     Mr. Williams states on page 9 of his rebuttal testimony that it “only makes  
2 sense to set rates based upon existing, traditional activities.” In past rate cases, did the  
3 Company include the costs associated with the sale of the accounts receivable in its cost of  
4 service?

5           A.     Yes. The Program has been in place since the late 1980s, and had become an  
6 traditional source of funding at Aquila, until the Company’s credit rating fell below  
7 investment grade, terminating the Program.

8           Q.     On page 8 of Mr. Williams’s rebuttal testimony he states that an account  
9 receivable program is a “non-traditional funding mechanism.” Do you agree with this  
10 statement?

11          A.     No. Mr. Williams argues that the Program is non-traditional because other  
12 regulated companies do not use such financing. An accounts receivable program may be a  
13 unique, non-traditional form of financing for other companies, but is traditional for Aquila.

14          Mr. Rick Dobson, Senior Vice President and Chief Financial Officer, in his direct  
15 testimony, from Case No. EF-2003-0465, on page 2, discusses Aquila, (then UtiliCorp  
16 United, Inc) and the strategy of “domestic utility” expansion occurring from 1984-1993. It is  
17 during this same time period that the accounts receivable program was implemented at the  
18 corporate level, while the focus was still on domestic utility operations and acquisitions.

19          While the Program may be a non-traditional form of financing to other companies, it is  
20 traditional to Aquila because it has been used for not only a long period of time, but also when  
21 Aquila’s strategy was on domestic utility operations.

Surrebuttal Testimony of  
Lesley R. Preston

1 Q. Mr. Williams, on page 9 of his rebuttal testimony, states “all parties appear to  
2 agree that customers should be insulated from Aquila’s past non-traditional activities, it only  
3 makes sense to set rates based upon existing, traditional activities.” Please comment.

4 A. The Staff has attempted to isolate costs associated with the financial condition  
5 arising from Aquila’s non-regulated ventures. Several Company witnesses in the current case  
6 and in Case No. EF-2003-0465 have also asserted that the Company would attempt to isolate  
7 the impact of Aquila’s financial condition. Mr. Keith G. Stamm, Aquila Vice President and  
8 Chief Operating Officer, states on page 2 line 19 through page 3 line 3 of his direct testimony:

9 ...There is likely to be a presumption on the part of some of our  
10 constituents that this is an attempt to take advantage of our customers  
11 and restore financial viability that has been threatened as a result of  
12 our investments outside of the utility sector.

13 However, this is simply not the case. This request for rate relief stands  
14 on the merits of the need of Missouri regulated operations alone,  
15 isolated and insulated from the impacts of our non-regulated activities.

16 Mr. Dobson, in his direct testimony in Case No. EF-2003-0465, states “First, we had  
17 to continue to maintain a focus on providing service to our utility customers, and ensure that  
18 the steps we take to restore Aquila’s financial stability would not have any adverse impact on  
19 the utility business or its customers.”

20 In addition to this statement, Mr. Jon R. Empson, Senior Vice President of Regulated  
21 Operations, in his rebuttal testimony for the current case posed the following question and  
22 answer:

23 Q. When Aquila prepared the rate cases that were filed with the  
24 Commission, what guidance did you give the regulatory team?

25 A. There were two basic principles that we made a concerted  
26 effort to apply to a review of our rate case filing.

27 First, our utility customers should not bear any of the costs associated  
28 with Aquila’s exiting or winding down of our non-regulated and  
29 international businesses. In other words, as stated by Aquila witness  
30 Beverlee Agut in her direct testimony, our intention and desire was to

1                   insulate the customer from these activities and not include these costs  
2                   in the cost of service in this case...

3                   Mr. Empson has also made similar comments in Case No. EF-2003-0465, when he  
4 states, “However, while Aquila accepts full responsibility for its past strategy, Aquila is also  
5 taking full responsibility for restoring financial stability without adversely impacting the  
6 customer.”

7                   Since the late 1980’s Aquila has sold the utility accounts receivable for financial  
8 purposes and reaped the benefits of having access to the funds more rapidly than if the  
9 account receivables were processed internally. Due to the recent financial troubles the  
10 Company is experiencing, it can no longer sell the accounts receivable. In the past, the Staff  
11 took a portion of the benefits and passed those benefits onto ratepayers through the reduction  
12 to the collection lag. Now that Aquila is in financial distress and can no longer sell the  
13 receivables and receive the corporate benefit, the Company wants to pass the increased costs  
14 of financing back to the ratepayer. This is detrimental to the ratepayers; the same ratepayers  
15 the Company witnesses have sworn would be protected from the Company’s financial  
16 downturn.

17                   The accounts receivable program is unique in its nature. Both the Company and  
18 ratepayer have been able to receive the benefit of the Program for over 10 years. The  
19 ratepayer should not have to bear the cost associated with the discontinued Program. Since  
20 the ratepayer has been able to benefit for over 10 years, to stop the Program ultimately results  
21 in an increased cost that will have to be borne by the ratepayer.

22                   Line 1 of the schedule below lists the impact that the shorter collection lag has on the  
23 electric divisions. Line 2 is the revenue requirement impact of the interest expense calculated  
24 and included that is associated with the Program. The net effect of Line 1 and Line 2 is

Surrebuttal Testimony of  
Lesley R. Preston

1 illustrated in Line 3. The number of customers in Line 4 includes the annualized customer  
2 levels included in this case, and Line 5 demonstrates the cost impact per customer if the  
3 Program was not in place.

		<b>MPS</b>
4		
5	1 Revenue Requirement Impact of CWC	(\$2,914,147)
6	2 Program Interest Expense	\$ 686,495
7	3 Net Affect	(\$2,227,652)
8	4 Number of Customers	223,702
9	5 Cost Per Year Per Customer	\$ 9.96

10 Q. Does this conclude your surrebuttal testimony?

11 A. Yes, it does.