

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF JERRY G. BOEHM  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)**

1 Q. What is the purpose of your testimony?

2 A. I am providing surrebuttal of Leon C. Bender's rebuttal testimony regarding  
3 the method used in developing the Company power spot market prices used in  
4 the production cost model.

5 Q. Are you sponsoring any schedules or data with this testimony?

6 A. Yes. One schedule is attached which demonstrates the results of a simple  
7 linear regression, comparing Company expenses provided to Staff to  
8 published historical natural gas market data. The nature of the regression will  
9 be discussed in more detail later in this testimony.

10 Q. Mr. Bender states in his rebuttal testimony (Page 2, Line 18 through 20) that,  
11 "the spot purchased power prices used by Aquila are forecasted prices based  
12 upon forecasted events and forecasted gas prices ..." Do you agree with Mr.  
13 Bender's statement?

14 A. No.

15 Q. Please explain.

16 A. Mr. Bender took exception to the Company's use of a forecasting tool to  
17 develop purchase power prices. The tool that we identified as MIDAS is  
18 commonly used to create forecasts. Like the production model RealTime,  
19 used by the Staff and the Company to estimate operating cost, MIDAS is not

1 time direction dependent and can be used to forecast, back-cast, or estimate  
2 for any time period. The time period of the model is established using inputs.  
3 Our model inputs were weather-normalized input values associated with the  
4 test year. Our model result was an estimate that was locked to the case's test  
5 period. The fact that a forecasting model was used to develop a spot market  
6 estimate should be as acceptable as the Staff's and Company's use of other  
7 forecast models to weather normalize load and calculate production cost  
8 estimates.

9 Q. Do you agree with Mr. Bender's assertion that the Company's spot market  
10 power price model used inputs that were "not known and measurable?"

11 A. No. I disagree with Mr. Bender's assertion. In my direct testimony I describe  
12 in detail the source of each fundamental driver that can be used as an input to  
13 the MIDAS model. To review, power plant operational data is collected from  
14 Platt's BASECASE database, which has as its source, regional power demand  
15 is given from NERC through the collection of EIA-411 2002 data annually  
16 submitted by all load-serving utilities. This information is readily available  
17 within the utility industry.

18 Q. Mr. Bender stated that Staff attempted to verify the inputs to the Company's  
19 average spot purchase power cost estimation model. Did the Staff request a  
20 copy of the input files to the purchase power model?

21 A. No.

1 Q. Mr. Bender stated that the Staff does not have a licensing agreement to view  
2 the data. Does the MIDAS licensing agreement prevent the Staff from  
3 viewing the input data?

4 A. No. While the Staff does not have licensing rights to access the data, there is  
5 nothing preventing them from viewing the input information to the MIDAS  
6 model. Due to its size and formatting this information in its raw form may be  
7 difficult to interpret.

8 Q. In his rebuttal testimony (Page 3, Lines 1-3) Mr. Bender cites the response to  
9 Staff Data Request No. MPSC-32. Was Staff Data Request MPSC-32 a  
10 request for the input files to Company's average spot purchase power cost  
11 estimation model?

12 A. No. The request stated, "Please provide documentation in support of the  
13 methodology used to develop the purchased power prices and available MWs  
14 used in RealTime©. The Company provided a written explanation of the  
15 methodology used to develop the purchase power prices."

16 Q. Did Staff at any other time request access to MIDAS modeling information?

17 A. Yes. In Staff Data Request MPSC-164 Staff member Cary Featherstone  
18 requested information associated with the MIDAS files. In response the  
19 Company stated that the files were too voluminous to render to hardcopy. In  
20 subsequent discussions with Mr. Featherstone the Company offered to allow  
21 Staff the opportunity to review the information at the Company's Raytown  
22 offices. Viewing the information on a MIDAS licensed computer would  
23 provide the Staff with an opportunity to view the information in a format more

1 legible than a view of the raw data. It would also allow the Staff to select  
2 hardcopy outputs of items of interest.

3 Q. Do you agree with Mr. Bender's conclusion that the purchased power curve  
4 used in the rate case overstates estimated expenses? (Leon C. Bender, rebuttal  
5 testimony, page 4 lines 9 through 11.)

6 A. No.

7 Q. Please explain.

8 A. To highlight why I disagree with this conclusion, a simple regression was  
9 performed. A regression analysis is a useful math tool to test for the sanity of  
10 data trends. I chose the regression function within the Microsoft Excel  
11 program to determine the regression results. A regressive trend test was  
12 performed on the costs supplied by Mr. Bender for the years 2000, 2001 and  
13 2002 relative to the average Platt's Gas Daily Henry Hub Price Index for the  
14 same years. Next, the average Henry Hub price of natural gas used in the  
15 model [\$5.14] is used with the output of the linear regression to estimate  
16 Company purchase power expenses. (Surrebuttal Schedule JGB-1 attached)  
17 The regression would estimate an annual average cost for purchase power to  
18 be \$38.87. This quick check is useful as an estimation tool and shows that the  
19 Company's \$37.23 estimate is much closer to historically correlated energy  
20 cost than the Staff's estimate of \$30.10. This test indicates that the  
21 Company's overall approach to developing production cost estimates is valid.

1 Q. How would you account for the differences between the Staff's expense  
2 estimate and the estimate proposed by the Company that Mr. Bender has  
3 discussed?

4 A. The primary difference between the Company and Staff expense estimates is  
5 based on the erroneous methods that the Staff uses to develop inputs to the  
6 production cost model. My understanding of the Staff method is that  
7 Company purchase expenses are used as an input to a model to estimate  
8 Company purchase expenses. On its face, this appears harmless. But it is  
9 wrong in that it takes the results of a process and uses them as the ingredients  
10 to the process. In simple terms, a production model mimics the process of  
11 production by taking ingredients, processing them and providing results. The  
12 results do not resemble the ingredients. Taking results and using them as  
13 ingredients is like taking a baked cake and sending it through the process of  
14 baking again. It will not work. The production cost model requires market  
15 commodity prices for an input in order to estimate Company expenses. The  
16 Company used market commodity price estimates for model inputs, both for  
17 spot power and natural gas. Therefore, the results of the simple regression  
18 given above show that the Company's overall method of expense estimation is  
19 more consistent with recent historical operational results than those based on  
20 the Staffs incorrectly developed model inputs.

21 Q. Does this conclude your testimony?

22 A. Yes.