Exhibit No.:	
Issues:	*Overview of Electric Generation; Fuel and Purchased Power Expense; Fuel Prices; Demand Charges-Fuel Inventories; Transmission Expense; Pipeline Reservation Charge; and Emission Allowances*
Witness:	*Graham A. Vesely*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*ER-2005-0436*
Date Testimony Prepared:	*October 14, 2005*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GRAHAM A. VESELY

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

CASE NO. ER-2005-0436

Jefferson City, Missouri
October 2005

****Denotes Highly Confidential Information****

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Electric Service Provided to Customers in Its MPS and L&P Missouri Service Areas.	))))	Case No. ER-2005-0436 Tariff No. YE-2005-1045

AFFIDAVIT OF GRAHAM A. VESLEY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Graham A. Vesely, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Graham A. Vesely

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

Notary

TONI M. CHARLTON
NOTARY SEAL
STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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CASE NO. ER-2005-0436

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and AQUILA NETWORKS-L&P - Electric

CASE NO. ER-2005-0436

Q. Please state your name and business address.

A. Graham A. Vesely, 615 East 13th Street, Kansas City, MO 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your education background.

A. In May of 1985, I received a Bachelor's degree in Civil Engineering from Saint Martins College, Olympia, Washington. In May of 1998, I completed an MBA degree with a focus in Accounting from Central Missouri State University, Warrensburg, Missouri. I am a Certified Public Accountant with a permit to practice in Missouri.

Q. Please describe your employment history.

A. In May of 1985, I was employed as a Facilities Maintenance Engineer by the United States Air Force. From March 1988 until May 1995, I was employed by the United States Army Corps of Engineers as a member of a construction management group. Subsequently, I began working with the engineering firm of Malsy & Associates, Lincoln, Missouri, as a Civil Engineer. On February 26, 1999, I began my current employment with the Commission.

Q. What is the nature of your duties while in the employ of this Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. With reference to Case No. ER-2005-0436 have you made an investigation of the books and records of Aquila, Inc. d/b/a Aquila Networks-MPS (MPS) and Aquila Networks-L&P (L&P), two divisions of Aquila Inc. (Aquila or Company) relating to the proposed rate application?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. Have you filed testimony previously?

A. Yes. Schedule 1 attached to this direct testimony identifies the cases in which I have participated.

EXECUTIVE SUMMARY

Q. Please summarize your testimony.

A. My responsibilities included: the price of coal and fuel oil entered into the fuel model to compute variable on-system fuel and purchased power expense; fixed fuel-related, and fixed capacity power contract charges added to the output of the Staff's fuel model; allocation among the MPS and L&P systems of the joint dispatch basis of the Staff's fuel model; computing the necessary investment in fuel inventories held at Aquila's power plants; the yearly expense and inventory level of sulfur emissions allowances from burning coal for electrical generation; the transmission expense for receiving power Aquila purchases from other utilities.

Q. What knowledge, skills, experience, training, or education do you have in these subjects?

A. I have acquired general knowledge of these topics through my experience in previous rate cases before this Commission. I was responsible for the determination of the overall fuel and purchased power expense in Aquila's last rate cases, Case Nos. ER-2004-0034 and HR-2004-0024. I have reviewed the testimony and work papers from the previous MPS and L&P cases. I have reviewed the Company's testimony, work papers, and data request responses related to these topics. In addition, my college coursework included accounting, auditing, and engineering classes. During my employ with the Commission I have attended formal training on regulatory issues and received training from senior audit Staff throughout the course of this and previous audits.

Q. What adjustments are you sponsoring in Case No. ER-2005-0436?

A. I am sponsoring the following adjustments to the Income Statement Accounting Schedule 9:

MPS: S-10.4, S-11.9, S-13.10, S-15.1, S-18.10, S-22.4, S-22.5, S-30.1, S-31.1, S-31.2, S-80.19, S-81.10, S-85.19, S-90.19

L&P (Electric): S-10.4, S-12.2, S-16.1, S-23.1, S-28.1, S-29.1, S-84.19

I am also sponsoring the following additions to Schedule 2-Rate Base: Coal and oil fuel inventories, and SO_2emissions allowances inventories.

OVERVIEW OF ELECTRIC GENERATION

Q. What generating facilities does the Company own and use for the production of electric power?

Missouri Public Service (MPS)

A. Aquila owns, wholly or in part, the following electrical power generating facilities the Staff has assigned to Aquila's MPS division:

Jeffrey Energy Center—Units 1, 2 and 3 (8% ownership share)

Sibley Units 1, 2 and 3 (100%)

Greenwood 1, 2, 3 and 4 (100%)

Nevada (100%)

Ralph Green (100%)

KCI (100%)

Q. Please describe each of these plants, including the type of units at each plant and the primary and secondary fuel sources for each.

A. The Jeffrey Energy Center (Jeffrey) is jointly owned by Westar Energy (Westar) and MPS, with MPS's ownership share being 8%, or 171 Mega Watts (MW). Westar is the operating partner of the three generating units at Jeffrey. Each of the Jeffrey units is a base load steam turbine using coal as fuel and No. 2 oil for start-ups and flame stabilization. The first unit at Jeffrey went into service in 1978 and the last unit went into commercial operation in 1983.

The Sibley generating base load station consists of three coal-fired steam turbines totaling 456MW. Sibley 1 and 2 went into service in 1960, and Sibley 3 went into service in 1969.

The Greenwood plant consists of four combustion gas turbines, totaling 240MW. The first went into service in 1975 and the last went into commercial operation in

1979. In 1996, this facility was converted from oil to natural gas as its primary fuel. Oil continues to be used mainly as an emergency backup fuel.

The Nevada generating facility, which consists of one 20MW oil-fired combustion gas turbine used for peaking purposes, went into service in 1974.

The Ralph Green plant went into commercial operation in 1981 and consists of one 69MW combustion gas turbine peaking unit.

The KCI plant was purchased by MPS in 1977, and consists of two combustion gas turbine peaking units totaling 31MW.

Light & Power (L&P)

L&P's generating facilities include the Lake Road station and the Iatan station. L&P owns 100% of the Lake Road station. Kansas City Power & Light Company (KCPL) is the operator and majority owner (70%) of the Iatan station, which went into commercial operation in May 1980. L&P owns 18% of the Iatan station, while The Empire District Electric Company owns the remaining 12%.

Q. Please describe the Iatan and Lake Road stations.

A. Iatan is a 670-megawatt (MW) base load unit with a steam turbine that uses low sulfur western coal for boiler fuel. No. 2 fuel oil is required for boiler start-ups and flame stabilization. Aquila's 18% ownership share of Iatan is 122MW

The Lake Road station consists of four steam turbines, three combustion gas turbines, six steam boilers and one heat recovery steam generator. The station's generating units demonstrated a combined net electric generating capacity of 247 MW during the test year. The station consists of three separate systems: a steam system operating at 900 pounds per

square-inch (PSI) of pressure, a steam system operating at 1,800 PSI, and a combustion gas turbine (CT) system. The 900 PSI system also supplies steam to industrial customers.

Q. What types of fuel do these systems use?

A. The 900 PSI system uses coal, oil, and natural gas. The 1,800 PSI system uses coal as the primary fuel and natural gas as the start-up fuel or as an alternative fuel. The CT system consists of CT No. 5 and two aircraft jet turbines. CT No. 5 uses natural gas and the jets burn No. 2 fuel oil.

FUEL AND PURCHASED POWER EXPENSE

Q. What was your responsibility in this case with regard to fuel and purchased power expense?

A. I was responsible for establishing the prices that the Staff would adopt in its case for coal and fuel oil burned in the Company's generating facilities; I also calculated the annual level of capacity expense Aquila incurs under its existing purchased power contracts. I provided MPS and L&P coal and fuel oil prices to Staff witness David W. Elliott (of the Engineering Section of the Energy Department) for input into the RealTime™ production cost model (production cost model or fuel model) on a joint dispatch basis. Staff witness Elliott input these prices to the fuel model to compute normalized net on-system fuel and purchased power expense (exclusive of purchased power capacity charges, cost of off-system sales to other electric utilities, and cost of energy exchanged). I then added purchased power capacity (demand) charges to the fuel model's results. I also added the following fixed costs to the fuel model's results to arrive at an overall total annualized level of on-system fuel and purchased power expense:

- Non-labor fuel handling costs
- Rail car expenses
- Fly ash removal
- Adders at mine

The RealTime™ production cost model is discussed in detail by Staff witness Elliott in his direct testimony. Labor costs related to fuel handling are addressed in Staff witness Lesley R. Preston's payroll annualization.

FUEL PRICES

Q. Were the coal prices the same for each plant?

A. No. The coal contracts currently in effect were signed at various dates and with a variety of different suppliers.

Q. How did the Staff determine the fuel prices for coal used in the Staff's analysis?

A. The delivered fuel prices were based on contractual coal and freight prices at June 30, 2005, as discussed below.

Sibley

The cyclone-type boilers at this plant were designed originally to run on Illinois coal with a heat content of about 10,900 Btu/lb. Due to eventual restrictions on sulfur emissions under the Clean Air Act of 1990, coal from that source was replaced in 1993 with a low-sulfur mix currently consisting of both bituminous (approx. 12,000 Btu/lb), referred to as high-Btu coal, and non-bituminous coal (8,800 Btu/lb) termed low-Btu, from mines in western states. Freight by railcar is provided by Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Aquila blends the two types of coal on location at Sibley taking into consideration

both boiler performance and the fact that the high-Btu bituminous coal is considerably more expensive due to its greater heat content. I provided Staff witness Elliott with prices and a blending percent for each coal, in accordance with the mix used historically at the plant.

Q. How did Staff determine the price for the high-Btu coal for purposes of this direct case?

A. The Staff did not use one single price for the bituminous (high-Btu) coal, but rather a range of prices. The lower end of the range is the price that was scheduled for the second year under the contract Aquila signed September, 2003 with C.W. Mining. The C.W. Mining contract became effective January 1, 2004. For a period, Aquila did receive coal deliveries, though incomplete, under this contract. However, in 2005 C.W. Mining terminated the contract citing labor disputes, as further described below. The top of the Staff's range of bituminous coal is the price included in an un-executed copy of the contract with Consolidation Coal Company that Aquila is negotiating and believes it will finalize by the October 31, 2005 true-up date of this case. As of the date of this direct filing, this contract is in draft form and has not been executed; the Staff is monitoring the progress of this coal agreement and will reflect the terms of the contract in the true-up filing if it is finalized. Handling the uncertainty of the price of the high-Btu bituminous coal in this manner is expected to fit with the Staff's recommendation of an interim energy charge (IEC) containing a range for all fuel and purchased power expenses.

Lake Road

As stated above in "Overview of Electric Generation", at this plant there are both steam and combustion turbines. Coal, natural gas, and oil can be used as fuel for generation of electricity. As I have previously stated above, Staff witness Charles R. Hyneman is

sponsoring the price for natural gas Staff used in its analysis. I have continued the practice adopted in past cases of using the price paid by Aquila in its most recent purchase of fuel oil as being appropriate for use in the Staff's analysis. I have provided this single price for inclusion into the Staff's fuel model.

With respect to coal burned at this plant, the situation is in some regards similar to that at Sibley. At Lake Road, Aquila uses a low-sulfur mix produced on location of bituminous (high-Btu) and non-bituminous (low-Btu) coals. Rail freight from coal mines in western states is provided by Union Pacific. I have provided for input to the Staff's fuel model the current contract price of rail freight and low-Btu coal. The price for high-Btu coal I am sponsoring is the same as for Sibley, and is expressed in a range for the same reason as explained above for Sibley.

Jeffrey Energy Center

At this plant, all fuel for generation is non-bituminous coal of 8,300 Btu/lb contract heating value originating in the Powder River Basin, Wyoming. The terms of the contract provide for a certain price per ton for the first specified level of tons per year of coal received ("Tier 1" price), and another price for all coal received beyond that amount ("Tier 2" price). These facts are reflected in my computation of coal prices provided to Staff witness Elliott for input to the Staff's fuel model. Freight is provided by either UP or BNSF.

Iatan

At this plant, all fuel for generation is low-sulfur, non-bituminous, 8,300 Btu/lb coal from one source and 8,500 Btu/lb coal from the second source under contract. Both sources are located in the Powder River Basin, Wyoming. Rail freight is provided by BNSF. I have

provided the coal and freight contract prices in effect at June 30, 2005 to Staff witness Elliott for input to the Staff's fuel model.

Natural Gas, Fuel Oil for Generation

In the section above titled "Overview of Electric Generation" I list the plants at which Aquila uses natural gas and/or fuel oil for generation, whether as a primary fuel source or as an alternate. To reiterate, I have provided the most recent fuel oil price Aquila paid to Staff witness Elliott for input to the fuel model. In his direct testimony, Staff witness Hyneman is sponsoring the natural gas prices that the Staff is using in this case.

TERMINATION OF C.W. MINING HIGH-BTU COAL CONTRACT

Q. Please describe how Aquila came to enter into a contract with C.W. Mining for the supply of high-Btu coal to be used at its Sibley and Lake Road plants?

A. In its response to Staff Data Request No. 287, Aquila indicated that it sent a request for proposal (RFP) to six firms in April 2003, one of which was C.W. Mining, seeking a suitable source of coal supply. The existing high-Btu coal contract with Genwal Coal Company was due to expire at the end of 2003.

Q. What responses did Aquila receive to the RFP?

A. Aquila received proposals from four suppliers, including C.W. Mining.

Q. What selection process did Aquila use before finally deciding to award the contract to C.W. Mining?

A. In its response to Staff Data Request 289 Aquila indicates that for reasons relating to either the proposed quantity or quality of the coal, the number of potential suppliers was narrowed down to Andalex Resources (Genwal), and C.W. Mining. The two

proposals were close in price, but C.W. Mining's coal performed better in the test burns and was ultimately selected.

Q. What were the terms of the C.W. Mining contract?

A. Aquila signed the contract in September, 2003 to commence ** _____ _____ _____ _____ _____ **

Q. Had Aquila previously purchased coal from C.W. Mining?

A. Yes. In response to Staff Data Request No. 303 Aquila indicated having previously purchased coal from C.W. Mining, at least as recently as November 1999.

Q. Briefly discuss how the contract progressed after signing.

A. Before the first coal delivery was even due, by letter dated ** _____ _____ _____ _____ _____ _____ **

Q. Did C.W. Mining provide any other contract status updates?

A. Yes. By letter dated ** _____ _____ _____

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_____

_____

_____ **

Q. In summary, is it correct that even before terminating the contract prematurely C.W. Mining made coal deliveries that failed to comply with the contract?

A. Yes. In addition to the above-cited correspondence by C.W. Mining documenting reduced coal deliveries, Aquila's letter of ** _____ _____ ** raised the issue of both unsatisfactory coal quantity and quality.

Q. Did Aquila dispute the termination of the contract and have its legal counsel notify C.W. Mining of its position?

A. Yes. By letter dated ** _____

_____ **

Q. Did Aquila take legal action against C.W. Mining?

A. Yes. On July 5, 2005 Aquila filed a law suit in the U.S. Circuit Court, District of Utah Central Division, seeking recovery of alleged damages from C.W. Mining.

Q. How has Aquila been impacted financially by C.W. Mining's failure to comply with the contract?

A. The contract price in 2004 was ** _____ ** per ton of coal. In May of 2004 Aquila made its first purchase of high-Btu coal to make up for shortfalls in the C.W. Mining contract; by this time the market price had increased to the point where, as indicated in Data Request 163, Aquila generally paid ** _____ ** per ton for coal of similar quality for the remainder of the year. Aquila did buy some coal from a source in Illinois for ** ___ ** per ton but its higher sulfur content made its ultimate cost higher and therefore purchases of this

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coal have been discontinued. As the market price for replacement coal went up further, Aquila increasingly began paying as much as ** _____ ** per ton in 2005 for a suitable coal from Consolidation Coal Company on a spot purchase basis. This is the same source for which Aquila has provided the Staff with the draft contract, mentioned above, that the Staff will use for setting the upper end of the range of the price of high-Btu coal if the contract is signed by the October 31, 2005 true-up date. Currently, this draft contract provides for _____ **. For comparison purposes, the C.W. Mining contract required coal to be delivered in 2005, 2006, 2007, and 2008 at a price/ton of ** _____ ** respectively.

Q. What is the Staff recommending be done with the financial impact of the C.W. Mining contract issue?

A. First of all, a distinction needs to be made between the impact under current rates and the impact on the new rates that the Commission may issue in this rate case. Current rates were set previously in Aquila's Case Nos. ER-2004-0034 and HR-2004-0024 wherein the Commission ordered that fuel and purchased power expenses incurred between April 22, 2004 and April 22, 2006 be trued up and any over-collections refunded to customers as computed under the terms of the IEC contained in that case. Therefore, the additional high-Btu coal costs incurred under current rates will tend to increase the amount of total fuel and purchased power expense that is subject to true-up and will, all else being equal, tend to decrease, or completely eliminate, the likelihood of customer refunds. Alternatively, it is possible that due to other factors not related to the C.W. Mining issue, Aquila's total fuel and purchased power expense on the IEC true-up date will be too high to permit full or even partial recovery of the additional cost of high-Btu coal. This

detrimental impact on Aquila's earnings would not be the result of any defect in the terms of the IEC as agreed upon by all parties and included in said previous rate case, but rather would be entirely due to the non-performance of the C.W. mining contract leaving Aquila in essence completely exposed to rising coal market prices in 2004 and 2005. Staff witness Cary G. Featherstone expands on this and other factors that will affect Aquila's cost recovery under the current IEC mechanism put in place in the previous case. Second, based on all the available evidence, new rates will be higher than they otherwise would be if the C.W. Mining contract had progressed as scheduled since the much lower prices included in that contract would have carried into 2006, 2007, and 2008. Specifically, the Staff recommends that the bottom of the IEC built into permanent rates be calculated using the price that Aquila would be paying for high-Btu coal if the C.W. Mining contract were still in effect according to its original terms. The Staff also conditionally recommends that the price of the more expensive replacement high-Btu coal necessitated by C.W. Mining's failure to deliver be used in computing the refundable top of the IEC proposed in this case.

Q. Under what conditions is the Staff recommending that the cost of the more expensive replacement high-Btu coal be made part of the IEC calculation in this case?

A. Since in a more normal course of business Aquila would be receiving coal at the lower prices included in the C.W. Mining contract instead of the higher prices it is actually paying, the Staff recommends that Aquila be required to diligently and exhaustively pursue recovery of all damages through the legal action it has brought against C.W. Mining before being allowed to pass any of these higher costs permanently on to ratepayers. Any funds Aquila recovers as a result of litigation must offset the cost of coal. If at a future date the Commission finds that Aquila did not adequately pursue recovery of its damages through

the legal process, some or all of the additional costs of high-Btu coal above those it was scheduled to pay under the C.W. Mining contract should be adjusted out of Aquila's recoverable fuel costs.

Q. How does the Staff recommend computing the monetary damages Aquila must seek recovery of in its legal action against C.W. Mining?

A. Aquila should pursue any and all additional costs traceable to C.W. Mining's failure to perform according to contract, but at a minimum these should include an assessment of direct coal costs, freight costs, emission allowance costs if due to higher sulfur content of replacement coal, and litigation costs.

DEMAND CHARGES-PURCHASED POWER CAPACITY CONTRACTS

Q. Please list all of Aquila's capacity contracts as of the end of the update period.

A. Aquila had contracted with the following organizations to secure firm purchased power arrangements:

MPS

- Nebraska Public Power District Cooper Nuclear Station (NPPD-CNS)-75MW
- Gray County Wind Energy (GCWE)-40 MW

L&P

- Nebraska Public Power District Gerald Gentleman Station Unit Participation Agreement NPPD-GGS- 100 MW
- Gray County Wind Energy (GCWE)-20 MW

Q. How did you reflect the fixed capacity (demand) costs in this case?

A. I annualized the demand costs Aquila pays under these contracts by multiplying the respective monthly demand charges by twelve and summing up the results.

FUEL INVENTORIES

Q. What was your responsibility in this case regarding fuel inventories?

A. My responsibility was to determine a normal, prudent value for fuel inventory to include in rate base. Aquila maintains inventories of coal at its Sibley, Jeffrey, Lake Road, and Iatan plants. It maintains fuel oil inventories for generation purposes at Greenwood, Nevada, and Lake Road. A small quantity of fuel oil for start-up is held in inventory at JEC and Iatan.

Q. What coal inventory levels have you included in this case?

A. The Staff has included a 61-day supply for coal inventories at the Sibley facility, a 72-day supply at the Jeffrey facility, a 58-day supply at the Iatan facility and a 75-day supply at the Lake Road facility. The numbers of days are consistent with the Company's inventory policies, deemed reasonable and necessary by the Staff, of Sibley, Jeffrey, Iatan and Lake Road generating facilities. The inventory tonnages represent coal quantities sufficient for the respective number of average-burn days, as per the results of the generation levels determined using the production cost model. A 13-month average cost and quantity ending June 30, 2005 has been used for fuel oil inventories in the Staff's case.

TRANSMISSION EXPENSE

Q. Please explain your adjustment in this area.

A. Aquila has contracts securing the ability to use the transmission lines owned by other companies or organizations, in order to be able to receive the power it purchases under certain firm commitments. For MPS I have annualized the fixed transmission expense

required to receive power under the GCWE and NPPD-CNS contracts. I have further included the costs of transmission-only contracts with AEC, JEC, and L&P. For L&P I have annualized the transmission expense required to receive power under the GCWE and NPPD-GGS contracts. I have further included the costs of transmission-only contracts with AEC and MPS. Lastly, I have used the test year level of transmission expense for other spot power purchases as representative of a normal level.

PIPELINE RESERVATION CHARGES

Q. Please explain your adjustment in this area.

A. To secure the ability to receive natural gas supply at its Greenwood and South Harper power plants, Aquila pays a fixed monthly cost to actually reserve a portion of the gas-carrying capacity of the respective pipelines serving those two plant sites. These monthly charges are separate from, and in addition to, the cost of any natural gas Aquila actually purchases and transports over the pipelines. I have adjusted the test year to reflect the annualized amount of these pipeline charges.

SO_2 EMISSIONS ALLOWANCES

Q. What were your responsibilities in this area?

A. I was responsible for including in the Staff's case the annualized level of expense Aquila pays to secure rights in accordance with federal regulations to produce sulfur dioxide emissions from its power plants as a result of burning fossil fuels. Aquila secures these rights in part by purchasing emission credits, or allowances, which are then held in reserve until they are either used up by Aquila or possibly, if not entirely needed for its operations, sold to other utilities. I have included the unused level of emissions allowances that Aquila carried on its books at June 30, 2005, on a 13-month average basis, in rate base.

Q. How did you compute the annualized expense of SO_2 allowances used each year due to the sulfur content of the fuel Aquila burns for electrical generation?

A. Aquila, like any other electric utility, is required to use one emission allowance credit for each ton of sulfur emitted in the process of burning fuel at its power plants. Almost all of the sulfur emissions produced result from burning coal. Each year the federal Environmental Protection Agency (EPA) issues a certain number of allowances to every electric utility at no cost. The EPA determined this allotment of no-cost allowances based on the amount of sulfur emissions that a utility produced during the 1985-1987 period. Under this approach any increased generation over the 1985-1987 levels required electric utilities to either refrain from also increasing their sulfur emissions (by burning cleaner coal or installing smokestack scrubbers), or to incur the cost of acquiring additional allowances. Aquila has offered that during the 1985-1987 period it was running its Sibley plant at a low percent of capacity because it was more economical instead to buy power from the much newer and more efficient Iatan and/or JEC plants. Because of this, the EPA has ever since issued Aquila relatively few no-cost sulfur allowances. Aquila has offered a similar explanation regarding the Lake Road plant it later acquired. However, since that time Sibley has undergone extensive modifications to increase its efficiency and permit it to use cleaner coal. The result has been that Aquila uses the Sibley plant much more than it used to; the response to Data Request 342 indicates the amount of coal used at Sibley, in terms of its heating value, has nearly tripled between 1985 and 2002. Though Sibley and Lake Road burn a lower sulfur coal than in the 1985-1987 period, the increased coal usage nonetheless now results in Aquila needing to buy additional SO_2 emission allowances beyond those allotted to it each year at no

cost by the EPA. I have computed the cost to Aquila of purchasing the additional allowances it requires for the amount sulfur emissions it produces at it power plants.

MPS SHARE OF JEC EXPENSE, L&P SHARE OF IATAN PENSION EXPENSE

Q. Please explain the Iatan pension expense adjustment.

A. Kansas City Power & Light operates the Iatan plant and charges Aquila-L&P its 18% share of all operating expenses, including employee pension expense. Aquila made this adjustment to agree its books to the pension account balance shown by KCP&L in order to correct an earlier error made in its bookkeeping. I have adopted the Company's adjustment as being correct.

Q. Please explain the adjustment to Aquila-MPS' share of JEC expense.

A. Westar is the operating partner at JEC and it bills Aquila for its 8% ownership share of operating expenses. Aquila has explained that in order to normalize its test year bookings of these shared expenses three out-of-period entries need to be removed. Additional adjustments were necessary to reflect a revised A&G expense loading rate, and true-ups for billings related to the test year received after the end of the year. I have accepted Aquila's negative adjustment in this area as correct.

Q. Does this conclude your direct testimony?

A. Yes, it does.

GRAHAM A. VESELY

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
5/13/1999	Maintenance Expense Normalization	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense Normalization	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense	GR99246	Direct	St. Joseph Light & Power Company
5/13/1999	Normalization	GR99246	Direct	St. Joseph Light & Power Company
3/1/2000	Pension Asset Transfer	GM2000312	Rebuttal	Atmos Energy Company and Associated Natural Gas Company
4/19/2001	Payroll	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Payroll Taxes	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Cash Working Capital	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Bonuses	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
12/6/2001	Payroll Taxes	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public

Date Filed	Issue	Case Number	Exhibit	Case Name
				Service
12/6/2001	Incentive Compensation	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Employee Benefits	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll Taxes	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Employee Benefits	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	EC2002265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	ER2001672	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public
8/16/2002	Fuel Inventory	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Fuel and Purchase Power	ER2002424	Direct	The Empire District Electric Company

Date Filed	Issue	Case Number	Exhibit	Case Name
10/16/2002	Fuel and Purchase Power Expense	ER2002424	Surrebuttal	The Empire District Electric Company
12/9/2003	Fuel and Purchase Power Expense	ER20040034	Direct	Aquila, Inc.
1/26/2004	Fuel and Purchase Power Expense	ER20040034	Rebuttal	Aquila, Inc.
2/4/2004	Fuel and Purchase Power Expense	ER20040034	Surrebuttal	Aquila, Inc.

INFORMAL CASES

Raytown Water Company

Timbercreek Sewer Company

Silverleaf Resorts

Taney County Utilities

Stockton Hills