Exhibit No.:
Issues: Pensions,
L&P Transition &
Transaction Cost and
Chapter 100 Financing
Witness: H. Davis Rooney
Sponsoring Party: Aquila Networks-MPS
& L&P
Case No.: ER-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

H. Davis Rooney

TABLE OF CONTENTS

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF H. DAVIS ROONEY
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-________

Q. Please state your name and business address.

A. My name is Davis Rooney. My business address is 10750 E. 350 Highway, Raytown, MO 64138.

Q. What is your occupation?

A. I am employed by Aquila, Inc. ("Aquila" or "Company") as Director of Accounting and Finance.

Q. Would you briefly describe your educational training and professional background?

A. I graduated from the University of Kansas. I received a B.A., with distinction, in Mathematics (1982), and a B.S., with distinction, in Business (1983), with majors in Accounting and Business Administration and a concentration in Computer Science. I obtained my Certified Public Accountant certificate in 1983 and practiced in public accounting from 1983 to 1992. In 1992 I joined Aquila as Controller of its WestPlains Energy division and have held several positions focused on financial management and analysis.

Q. What is the purpose of your testimony in this proceeding before the Missouri Public Service Commission ("Commission")?

A. I will provide support for the Company's position on pensions; Chapter 100 fees and PILOTs; and transition and transaction costs.

Pensions

Q. How have the pension contribution liability, pension cost, prepaid pension amortization and prepaid pension been reflected in this case?

A. The pension contribution liability, pension cost, prepaid pension amortization and prepaid pension have been reflected in accordance with the stipulation set forth in Case No. ER-2004-0034 ("the stipulation").

Q. What is the pension contribution liability?

A. In Case No. ER-2004-0034, the Company was authorized to collect certain amounts for pension contribution expense. These amounts were intended to provide for such minimum contributions as might be required under the ERISA rules. The stipulation agreement provided that if these amounts were not required to be actually contributed to the pension plan under the ERISA minimum rules, the amounts should be recorded as a regulatory liability.

Q. What treatment did the stipulation provide for this regulatory liability?

A. The stipulation provided that the regulatory liability should be refunded over a five-year period.

Q. Did the Company comply with the stipulation agreement?

A. Yes. The Company has made no contributions to the pension plan since the effective date of rates. The amounts collected were recorded as a regulatory liability. The regulatory liability has been reflected as a component of rate base (reducing rate base). This reduction is reflected in Adjustment RBO-100 on Schedule SKB-2 sponsored by Aquila witness Susan Braun. Cost of service has been reduced by an amount equal to amortizing the regulatory liability over five years. This reduction in cost of service is reflected in Adjustment CS-13a on Schedule SKB-4 sponsored by Aquila witness Susan Braun.

Q. What is pension cost?

A. Pension cost is the amount allowed in rates for employee pension costs.

Q. How has pension cost been determined?

A. As one component of settling pensions in Case No. ER-2004-0034, Staff and Company agreed to use Staff's calculation of pension expense. The calculation in the stipulation was based on a five-year average of actual pension contributions. The pension cost included in this case has also been calculated based on a five-year average of pension contributions, consistent with the agreed to stipulation in ER-2004-0034. This calculation and amount has been included with the prepaid pension amortization and is reflected in Adjustment CS-13 on Schedule SKB-4 sponsored by Aquila witness Susan Braun.

Q. What is the prepaid pension amortization?

A. As one component of settling pensions in Case No. ER-2004-0034, Staff and Company agreed that a portion of prepaid pensions would be included in rate base. Staff and Company agreed that the rate base portion of prepaid pensions would be amortized. This amortization would be included in rates.

Q. What treatment did the stipulation provide for this prepaid pension amortization?

A. The stipulation specified the amount of the annual amortization.

Q. Has the Company complied with the stipulation agreement?

A. Yes. The Company has included in cost of service the prepaid amortization amounts agreed to the stipulation agreement. These amounts are reflected in the adjustment at Adjustment CS-13 on Schedule SKB-4 sponsored by Aquila witness Susan Braun.

Q. What is prepaid pension?

A. Prepaid pension included in rate base is the amount included in rate base and amortized in accordance with the stipulation agreement in ER-2004-0034.

Q. How has prepaid pension been included in rate base?

A. As one component of settling pensions in Case No. ER-2004-0034, Staff and Company agreed that a portion of prepaid pensions would be included in rate base. Staff and Company agreed that the rate base portion of prepaid pensions would be amortized. The unamortized balance at the end of the test year, consistent with the stipulation, has been included in rate base. This amount is reflected in the adjustment at Adjustment WC-21 on Schedule SKB-2 sponsored by Aquila witness Susan Braun.

Chapter 100

Q. What is Chapter 100?

A. Chapter 100 refers to the Missouri State Statutes that pertains to industrial development projects.

Q. Please briefly describe Aquila's Chapter 100 project.

A. Aquila and the City of Peculiar entered into a 30-year economic development agreement under Sections 100.010 to 100.200 of the Revised Statutes of Missouri. Under that agreement, Aquila incurred and deferred certain costs and agreed to make certain future payments in lieu of taxes ("PILOTs") associated with developing the South Harper project near the City of Peculiar ("the City"). In return the project is eligible for abatement of property taxes and sales taxes on the project.

Q. Please describe the deferred costs.

A. Industrial revenue bonds were issued by the City as part of the economic development agreement. Aquila agreed to pay an issuance fee to the City, to pay for the cost of the City's financial advisor and to pay for the cost of the City's bond counsel. The total cash outlay for these costs was $925,000 at December 31, 2004.

Q. How has the Company handled these deferred costs?

A. The deferred costs have been included in rate base. The Company has made a cash outlay that will benefit rate payers, through tax abatement, over a 30-year period. The increase to rate base for this outlay is reflected in Adjustment RB-101 on Schedule SKB-2 (MPS only) sponsored by Aquila witness Susan Braun.

Q. How will the Company recover these costs?

A. These costs and are being amortized over the 30-year term of the economic development agreement. Amortization will begin when the South Harper plant goes into service. This will match the costs of the economic development project with the period of tax abatement on the project. The adjustment to reflect this amortization in cost of service is reflected in Adjustment CS-101 on Schedule SKB-4 (MPS only) sponsored by Aquila witness Susan Braun.

Q. What are the PILOTs?

A. In addition to the bond issuance costs described above, the Company agreed to pay a schedule of payments in lieu of taxes ("PILOTs"), sometimes also referred to as "Grants".

Since legal title to the project is held by the City, the project is exempt from all property taxes. The PILOTs are intended to replace some of the taxes abated. In this way the tax abatement on the project will be less than 100%. The schedule of payments is set forth in Exhibit C to the Economic Development agreement. In general, the schedule calls for $241,832 per year to be paid with the first payments to be made in 2005. As the test year ended December 31, 2004 does not reflect this costs, we have included in cost of service the annual amount of $241,832 (before jurisdictional adjustments). See Adjustment CS-91 on Schedule SKB-4 (MPS only) sponsored by Aquila witness Susan Braun.

Q. Will Aquila shareholders benefit from paying the PILOTs instead of normal property taxes?

A. No. The lower tax cost is flowed to the utility customers in this rate case.

Transition and Transaction Costs

Q. What are transition and transaction costs?

A. When a merger occurs costs are incurred to accomplish the merger. Additionally, after the merger is accomplished, costs may be incurred to align staffing, coordinate systems, and implement other changes that will allow synergies and economies of scale to be brought about. Transition and transaction costs were incurred by Aquila when it acquired St. Joseph Light & Power Company ("SJLP").

Q. Are these costs part of the premium incurred by Aquila when it acquired SJLP?

A. No.

Q. Are these costs a sharing of the synergies?

A. No. These are costs that helped create the synergies, not the synergies themselves.

Q. Are there synergies in the test period?

A. Yes. MPS and L&P continue to benefit from jointly dispatched energy. MPS continues to benefit from the allocated fixed costs of Aquila being distributed over a greater allocation base than if L&P had not been acquired.

Q. In the course of the merger proceedings and in subsequent cases did the Commission Staff support recovery by Aquila, in principle, of such costs?

A. Yes. Several Staff witnesses have acknowledged that some Costs to Achieve the Synergies are acceptable.

Q. Please provide the citations of Staff witnesses addressing transaction and transition costs.

A. Some of the citations are as follows:

> Staff witness Oligschlaeger on page 3, line 4 of his rebuttal in Case No. ER-2001-672 indicates "The Staff is not opposed in general to recovery of merger transition costs, if the recovery is in the form of an amortization of these costs to expense."

> Staff witness Oligschlaeger in rebuttal testimony in the Merger Case (Case No. EM-2000-292) on page 39, lines 16-18, "to the extent that assignment of a reasonable portion of merger savings to MPS would mean that a similar portion of prudent above-the-line merger costs (i.e., "costs to achieve") should also be assigned to MPS, the Staff would support such an assignment."

> Staff witness Hyneman in rebuttal testimony in Case No. ER-2001-672 on page 33, lines 6-15, "transition costs, if prudent and reasonable, typically are included in a utility's cost of providing service…the Staff does not believe it is reasonable to exclude, in rates, the actual costs incurred to achieve the merger savings (transition costs), while simultaneously flowing through all the merger savings in rates to the ratepayers. Consistent with this belief is the Staff's position that reasonable and prudent transition costs actually incurred should be reflected in rates to be recovered from ratepayers."

> Staff witness Fischer at page 64 of her rebuttal in Case No. ER-2001-672, lines 11-12 in the section on transition costs, indicates that Staff is not opposed to their recovery, although she did dispute three specific items.

Q. What costs to achieve the synergies were incurred by Aquila?

A. Aquila incurred approximately $18 million of transaction and transition costs.

Q. In the course of the merger proceedings or subsequent cases, did Staff recommend excluding any types of costs?

A. Yes. Staff recommended excluding transaction costs for officer severances, retentions, supplemental executive retirement benefits, investment banker fees, and transaction costs incurred by SJLP and SJLP Advisory Board fees.

Q. Do you agree that such costs should be excluded from recovery?

A. No. The transaction costs opposed by Staff total about $11 million. These are all costs that were necessary to complete the SJLP merger and create the synergies.

Q. How have these costs been handled?

A. For purposes of this case, the transaction costs opposed by Staff have not been included in the costs being sought for recovery in this case. Only those types of costs not challenged by Staff in its previous reviews have been included in this case.

Q. Have transition and transaction costs ever been approved for recovery in rates in Missouri?

A. Yes. In Case No. EM-96-149, involving AmerenUE, the Commission approved a Stipulation and Agreement that reads in part as follows:

> "Actual prudent and reasonable merger transaction and transition costs . . . shall be amortized over ten years beginning the date the merger closes. The annual amortization of merger transaction and transition costs will be the lesser of : (1) the Missouri jurisdictional portion of the total Ameren amount of $7.2 million; or (2) the Missouri jurisdictional portion of the total Ameren unamortized amount of actual merger transaction and transition costs incurred to date. *No rate base treatment of the unamortized costs will be included in the determination of rate base for any regulatory purposes in Missouri."* *See* 176 P.U.R. 4th 201, 211-212 (emphasis

added).

Q. Has the Company included the unamortized costs in rate base?

A. No. This is consistent with the treatment approved in the Ameren case.

Q. Are the Company's transition and transactions costs being amortized?

A. Yes. These costs are being amortized to expense. As noted above this is the treatment recommended by Staff witness Oligschlaeger. The costs are being amortized over 10 years beginning with the closing date of the SJLP merger. This is consistent with the treatment and period approved in the Ameren case. This amortization is reflected in Adjustment CS-84 on Schedule SKB-4 sponsored by Aquila witness Susan Braun.

Q. Can you summarize Company's position on transition and transaction costs?

A. Company incurred over $18 million in costs to implement the merger. Company has attempted to move fully to Staff's position on total costs by not including in this case nearly $11 million of valid costs opposed by Staff. Additionally, prior ordered rates have not included these costs. Company omitted these costs from prior filings, expecting to pay for these costs through an on going synergy sharing that never occurred. By the end of 2005, the Company will have expensed 50% of the remaining $7 million of costs. This only leaves approximately $3.5 million (20%) of the original $18 million for recovery from rate payers. The annual amortization is approximately $500,000 for MPS and $170,000 for L&P.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS and Aquila Networks-L&P area	))))))	Case No. ER-________

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF H. DAVIS ROONEY

H. Davis Rooney, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of H. Davis Rooney;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

H. Davis Rooney
____
H. Davis Rooney

Subscribed and sworn to before me this 24th day of May, 2005.

Terry D. Lutes
____
Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008
____

Notary Public Notary Seal State of Missouri

TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008