

Exhibit No.:

Issues: Test Year & True-up,
Plant and Reserve,
AAO,
Materials and Supplies,
Fuel Inventory,
SO₂ Inventory, Revenue,
Off-System Sales,
PSC Assessment,
Rate Case Expense and
Depreciation

Witness: Susan K. Braun

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Susan K. Braun

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF SUSAN K. BRAUN
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Susan K. Braun and my business address is 10700 East 350 Highway, Kansas
3 City, Missouri.

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

5 A. I am presently employed by Aquila, Inc. (“Aquila” or “Company”) as Manager of Electric
6 Regulatory Services.

7 Q. Please describe your educational background and professional experience.

8 A. I graduated from Friends University in December 1989 with a Bachelors of Science
9 Degree in Business Administration with a major in Accounting. Prior to employment
10 with Aquila, I held the position of Senior Accountant with Sunflower Electric Power
11 Corporation and as Accountant with IBP, Inc.

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

14 A. The purpose of my testimony is to present certain schedules and to describe varies
15 accounting adjustments made to Aquila Networks – MPS (“MPS”) and Aquila Networks
16 – L&P (“L&P”) rate case filing.

17 Q. Please identify the schedules and any adjustments that you are sponsoring.

18 A. I am sponsoring the following adjustments for MPS and L&P:
19 Rate Base

- 1 • Plant in Service (MPS and L&P)
- 2 • Accumulated Reserve for Depreciation (MPS and L&P)
- 3 • RB-10 Plant Additions (MPS Only)
- 4 • RB-30 Jeffrey Energy Center (“JEC”) Common Plant adjustment (MPS Only)
- 5 • RB-40 Accounting Authority Orders (“AAO”) (MPS Only)
- 6 • WC-10 Materials & Supplies (MPS and L&P)
- 7 • WC-30 Fuel Inventories (MPS and L&P)
- 8 • WC-40 SO₂ (Sulfur Dioxide) Emission Allowance Inventory (MPS and L&P)

9 Revenue

- 10 • R-10 Revenue Normalization (MPS and L&P)
- 11 • R-30 Eliminate Inter-company Off-System Revenue (MPS and L&P)

12 Cost of Service

- 13 • FPP-30 Eliminate Inter-company Off-System Fuel and Purchased Power (MPS
- 14 and L&P)
- 15 • CS-40 PSC Assessment (MPS and L&P)
- 16 • CS-50 Rate Case Expense (MPS and L&P)
- 17 • CS-95 Depreciation Expense (MPS and L&P)

18 **TEST YEAR**

19 Q. What test year did Aquila use to develop the revised tariffs that are the subject of this
20 case?

21 A. Aquila used the test-year ending December 31, 2004 for the purposes of its rate case
22 filing. In addition, we made certain adjustments to reflect changes through June 30, 2005

1 to make this test period more representative of the periods during which the requested
2 rates would actually be in effect.

3 Q. Should the adjusted test period used to develop revised rates be updated in this case?

4 A. No. Aquila will be asking for a true-up because of the large capital addition, South
5 Harper power plant, therefore, updating the test period is not necessary. Aquila
6 recommends that in this case the Commission use a historical test year ending December
7 31, 2004 adjusted and updated for any known and measurable changes through June 30,
8 2005.

9 Q. Are there any other additional items past June 30, 2005, which you are seeking the
10 Commission to consider in the final rate order in this rate case filing?

11 A. Yes. We will ask for a “true-up” to include certain items that will be known as of
12 November 30, 2005.

13 **TRUE-UP**

14 Q. Is Aquila requesting a true-up audit and hearing if necessary?

15 A. Yes.

16 Q. What is the purpose of a true-up?

17 A. A true-up of financial information to a date closer to the effective date of the revised
18 tariffs often provides a better match of rate base, operating revenues and operating
19 expenses.

20 Q. Why is Aquila requesting a true-up in this proceeding?

21 A. Aquila’s additional plant for the South Harper peaking facility in an effort to include
22 major construction during the true-up period. South Harper power plant will be in-
23 service and final costs will be known by this date.

1 Q. Are there any other reasons a true-up is needed?

2 A. Yes. The volatility of the costs of fuel is another reason a true-up is needed. The true-up
3 will allow fuel costs that most represent those that will be in effect during the period these
4 new rates, if changed, will be in place.

5 Q. What items should be included in the true-up audit?

6 A. A true-up should recognize all significant increases and decreases that have occurred
7 through the true-up date. Some of those key items are listed below:

8 (1) Plant and reserve

9 (2) Revenues

10 (3) Cost of fuel and purchased power

11 (4) Payroll and payroll taxes

12 (5) Depreciation expense

13 (6) Corporate allocations

14 Q. Are there any other items that need to be updated?

15 A. Aquila anticipates that it will work with the other parties in the case to determine a final
16 list of items to be included in the true-up.

17 Q. What true-up period are you requesting?

18 A. The above items should be trued-up through November 30, 2005.

19 **SCHEDULES**

20 Q. Have you included Schedule's SKB-1 through SKB-4 for MPS and L&P electric in your
21 direct testimony?

22 A. Yes. The accounting schedules for both MPS and L&P electric are attached to my direct
23 testimony.

1 Q. Please describe Schedule SKB-1.

2 A. Schedule SKB-1 represents the revenue deficiency calculated with a return on equity of
3 11.5%. Aquila witness Samuel C. Hadaway supports the return on equity and capital
4 structure.

5 Q. What information is included on Schedule SKB-2?

6 A. This Schedule illustrates the detailed components of rate base. Rate base is Aquila's
7 investment to provide safe and reliable service to customers in the MPS and L&P service
8 territory.

9 Q. Please describe Schedule SKB-3.

10 A. Schedule SKB-3 is the adjusted income statement, which reflects the net income
11 available after all known and measurable changes have been made.

12 Q. Are you sponsoring all of the adjustments on Schedule SKB-4?

13 A. No. There will be several other Aquila witnesses sponsoring various adjustments.

14 **PLANT IN SERVICE**

15 Q. Please explain how Plant in Service was derived.

16 A. The MPS and L&P direct plant in service starts with per book electric balances at
17 December 31, 2004. These balances are derived from the fixed asset system, which
18 details asset records at Aquila.

19 Q. Explain what you mean by "direct plant in service".

20 A. Direct plant in service represents assets that specifically relate to MPS or L&P and are
21 useful in providing electric utility service to their respective customers. Direct plant is
22 inclusive of generation assets used to produce power, transmission assets, and distribution

1 facilities. In addition, direct plant includes a portion of common utility plant, such as
2 vehicles, equipment, and service buildings that are allocated to electric operations.

3 Q. Continue your testimony on deriving plant in service.

4 A. MPS and L&P allocated common plant in service also begins with per book balances at
5 December 31, 2004. Once again, the balances are derived from the Aquila fixed asset
6 system, which details the asset records of Aquila.

7 Q. Explain what is meant by “allocated common plant in service”.

8 A. Allocated common plant in service assets include assets that support Aquila’s overall
9 infrastructure. These assets include items such as Aquila’s general ledger system and its
10 billing system. These assets serve to benefit all operations of Aquila and are
11 subsequently allocated to operating units and divisions within the Aquila corporate
12 umbrella in accordance with Aquila’s allocations policy. Aquila witness Ronald A. Klote
13 address the corporate allocation method.

14 Q. Are any other allocations employed?

15 A. Yes. In the case of MPS, a jurisdictional allocation factor is applied based on functional
16 asset class to compute the MPS’ jurisdictional plant in service balance. In the case of
17 L&P, an allocation methodology is applied to the electric generation assets in an effort to
18 segregate and allocate appropriately the portion of generation plant used in both the
19 production of electricity and the production of industrial steam. The factors utilized for
20 the MPS jurisdictional allocation and the L&P industrial steam allocation are included in
21 the direct testimony of Company witness Ronald A. Klote.

22 Q. What do you mean by “jurisdictional allocation”?

1 A. MPS has five wholesale customers whose rates are regulated by the Federal Energy
2 Regulatory Commission ("FERC"). These five customers are allocated a portion of
3 MPS's total rate base and cost of service based on the jurisdictional allocation factors.

4 Q. What is the amount of jurisdictional direct and allocated plant in service for MPS and
5 L&P filed in this rate case?

6 A. Please see my schedule SKB-2 for MPS and L&P's direct and allocated plant in service
7 balances that have been included in this rate filing.

8 **ACCUMULATED RESERVE FOR DEPRECIATION**

9 Q. Please explain how the accumulated reserve for depreciation was derived.

10 A. MPS and L&P direct accumulated reserve for depreciation begins with per book electric
11 balances derived from Aquila's fixed asset ledger system at December 31, 2004.

12 Q. Does the accumulated reserve for depreciation follow the same reporting methodology as
13 the gross plant in service?

14 A. Yes.

15 Q. Does the reserve also follow the utility and jurisdictional allocation methods used in
16 deriving gross plant in service?

17 A. Yes.

18 Q. What is the jurisdictional direct and allocated accumulated reserve for depreciation for
19 MPS and L&P?

20 A. Please see my schedule SKB-2 included in this direct testimony for MPS and L&P's
21 direct and allocated accumulated reserve for depreciation that has been included in this
22 rate filing.

PLANT ADDITIONS

1

2 Q. Please explain the purpose of Adjustment No. RB-10.

3 A. This adjustment projects additional plant for the South Harper peaking facility in an effort
4 to include major construction work in progress that is expected to be placed in service
5 prior to the true-up described earlier in my testimony. As proposed in the true-up actual
6 plant and reserve, as of November 30, 2005, should be used to determine rate base. South
7 Harper power plant will be in-service and final costs will be known by this date.

8 Q. Please explain the methodology used to develop this adjustment.

9 A. For the purpose of this rate filing, only those projects related to the construction of the
10 South Harper peaking facility in MPS' service territory have been included in this
11 adjustment. The budgeted project costs of approximately \$155 million was used in the
12 direct filing. The actual costs of the project will be determined in the true-up audit and be
13 used in setting final rates.

14

JEC COMMON PLANT

15 Q. Please explain the JEC common plant adjustment made to MPS's jurisdictional electric
16 plant in service.

17 A. Adjustment RB-30 is necessary to include the balance of JEC common plant in FERC
18 account 101 plant in service for MPS only, consistent with the Commission's order in
19 Case No. ER-83-40.

20 Q. Why is this adjustment necessary?

21 A. The JEC common plant adjustment is necessary to reverse a FERC compliance audit
22 entry recorded on MPS's books in 1984. The entry was made, subsequent to the 1983
23 rate proceeding, after a FERC compliance audit indicated all Allowance for Funds Used

1 During Construction (“AFUDC”) and property taxes that had accumulated while the
2 investment was in CWIP should be transferred from account 101 to account 186,
3 miscellaneous deferred debits. The JEC common plant adjustment entry reverses the
4 FERC compliance audit entry so that treatment of the plant is consistent with orders
5 previously granted by the Commission.

6 Q. Was the accumulated reserve for depreciation also adjusted?

7 A. Yes. Accumulated reserve for depreciation was calculated through December 31, 2004
8 and also transferred to the accumulated reserve account 108.

9 Q. Was the JEC common plant adjustment made in MPS’ prior electric rate cases?

10 A. Yes. This adjustment has been consistently approved by the Commission in prior MPS
11 cases.

12 **ACCOUNTING AUTHORITY ORDERS**

13 Q. What is the purpose of your discussion of accounting authority orders (“AAO”)?

14 A. The purpose is to explain the necessity of rate case recovery of costs deferred by the
15 AAO’s issued to MPS by the Commission in Case Nos. EO-90-114, EO-91-358 and EU-
16 2002-1053, in connection with MPS’ Sibley Rebuild Program, the Sibley Western Coal
17 Conversion Project and the Ice Storm Damage from 2002.

18 Q. What is an AAO and what is its purpose?

19 A. An AAO is an order issued by the Commission that permits the requesting utility to defer
20 certain costs on its books (outside of a rate case) with the opportunity to subsequently
21 recover these costs through rates as opposed to being required to expense these costs in
22 the current period. This treatment spreads the effect of an event over a period of time,

1 thereby reducing the impact on customers, and can lessen the effect of regulatory lag, or
2 the time between incurring costs and the recovery of those costs in rates.

3 Q. Please discuss the AAO's issued to MPS which are the subject of your testimony.

4 A. In Case Nos. EO-90-114 and EO-91-358, MPS requested and was granted AAO's for the
5 previously mentioned Sibley Rebuild Program and Sibley Western Coal Conversion
6 Project.

7 Q. Please discuss these projects.

8 A. Both projects were and are critical to MPS' ability to continue to provide reliable electric
9 service to its customers at a reasonable cost. Briefly, the Sibley Rebuild Program
10 extended the life of its three generating units by 20 years. Without this rebuild program,
11 MPS would have had to find alternative sources of energy before Sibley Units 1 and 2
12 were retired from use in 1990 and Sibley Unit 3 by the mid-1990's. The Sibley Western
13 Coal Conversion Project allowed MPS to achieve significant reductions in sulfur dioxide
14 ("SO2") emissions at the Sibley Generating Station. This project allowed MPS to stay in
15 compliance with the Clean Air Act Amendments and to protect the environment.

16 Q. What costs are being deferred by MPS in rate base Adjustment No. RB-40?

17 A. MPS' AAO addition to rate base includes deferred depreciation and carrying costs
18 (interest) associated with the plant-in-service resulting from the previously discussed
19 Sibley projects at December 31, 2004. A jurisdictional factor was applied to each AAO
20 to ensure only the portion affecting MPS' electric jurisdictional operations was included
21 in rate base.

22 Q. What has been the treatment of the unamortized balance of the Sibley-related AAO's and
23 amortization expense in past rate proceedings involving MPS?

1 A. In Case Nos. ER-90-101 and ER-93-37, MPS has been allowed the recovery of both the
2 unamortized balance of AAO's and the related amortization expense related to the Sibley
3 AAO's.

4 Q. Did MPS secure an additional AAO as a result of the 2002 Ice Storm?

5 A. Yes. In addition to the Sibley-related AAO's, Aquila filed an application for an AAO in
6 April 2002 with respect to incremental expenses incurred due to a severe ice storm in
7 January 2002. Aquila requested that the Commission grant an order authorizing it to
8 defer and record the incremental operating expenses incurred as the result of the ice
9 storm. Both the Commission Staff ("Staff") and Public Counsel agreed that the AAO
10 should be issued and the Commission granted the request, effective July 7, 2002.

11 Q. What is the total amount of operating expenses being deferred pursuant to the ice storm
12 AAO?

13 A. MPS is amortizing a total of \$8,244,893 in operating expenses related to the ice storm
14 that are being amortized over a 5-year period.

15 Q. What is the Company's treatment of the Ice Storm AAO in the current rate filing?

16 A. The treatment of the Ice Storm has been included in both the unamortized balance of rate
17 base and the related amortization expense.

18 **MATERIALS & SUPPLIES**

19 Q. Why are materials and supplies ("M&S") inventories included in rate base?

20 A. M&S is considered working capital which is defined as the economic input of funds, in
21 excess of the amount used to provide for utility plant, which is necessary to operate the
22 business.

23 Q. Please explain the computation of the M&S rate base adjustment.

1 A. A thirteen-month average is used for most working capital items. For M&S, the month-end
2 balances of Federal Energy Regulatory Commission accounts 154 (Materials and Supplies)
3 and 163 (Stores Expense) were averaged for the months of December 2003 through
4 December 2004. By their general ledger product code, they were designated by utility
5 (electric, gas, steam, common or non-regulated) and function (generation, transmission or
6 distribution).

7 Q. Please explain why a thirteen-month average calculation was selected.

8 A. The use of a thirteen-month average is a better measure than the investment at any one single
9 month since monthly amounts fluctuate, and no one single month is representative. The
10 application of thirteen-month averaging has been utilized in previous cases by MPS/L&P and
11 the Staff.

12 Q. Please continue with your explanation of the M&S adjustment.

13 A. Next, jurisdictional utility allocation factors were applied based on functional class. For
14 common M&S inventories, the net plant-in-service electric allocation factor was used. A
15 blended jurisdictional allocation factor based on the average of transmission and
16 distribution jurisdictional allocation factors was used to jurisdictionalize the electric
17 portion of common pertaining to MPS.

18 **FUEL INVENTORIES**

19 Q. Please explain the purpose of working capital Adjustment No. WC-30 for fuel inventory
20 for MPS and L&P.

21 A. Fuel inventories are properly includable in the working capital computation. A utility
22 must carry the appropriate level of fuel stock to ensure that customer service is not
23 interrupted. As a result of maintaining minimum levels of fuel stock, the utility incurs

1 carrying costs. By including fuel stock in rate base, the utility is appropriately allowed to
2 earn a return on those fuel inventory levels.

3 **MPS:**

4 Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in rate
5 base?

6 A. MPS' recommendations in this case for coal inventory levels at Sibley and the Jeffrey
7 Energy Center ("JEC") are equivalent to a 61-day and 72-day burn, respectively. First,
8 the annualized fuel price and number of tons of coal for the annualization were obtained
9 from the MPS fuel run for both Sibley and JEC and were used to calculate an annualized
10 price per ton of coal. After quantifying the tons of coal burned for the 61-day and 72-day
11 inventory levels recommended at Sibley and JEC, the quantity of coal burned for the
12 inventory levels mentioned above was multiplied by the annualized price per ton of coal
13 to arrive at the annualized amount of fuel inventory to include in rate base for Sibley and
14 JEC.

15 Q. Please explain why a 61-day supply of coal for Sibley and a 72-day supply of coal for
16 JEC were chosen as the target levels of coal inventory to include in rate base.

17 A. The 61-day and 72-day target inventory levels for Sibley and JEC were used by both
18 Aquila and the Staff in MPS' last two rate proceedings before this Commission, Case
19 Nos. ER-01-672 and ER-2004-0034.

20 Q. Has there been any policy change in the targeted levels?

21 A. No.

22 Q. How much No. 2 oil inventory is being included in rate base for the Greenwood, Nevada
23 and JEC plants?

1 A. No. 2 oil inventory has been included in rate base for Greenwood, Nevada and JEC using
2 a thirteen-month average. The monthly ending balances were averaged for the period
3 December 2003 through December 2004.

4 Q. Please explain why a thirteen-month average calculation was selected.

5 A. Generally, a thirteen-month average is used to smooth out the month-to-month volatility
6 in fuel inventory balances.

7 Q. What level of total fuel inventory has MPS included in rate base for purposes of this rate
8 proceeding?

9 A. The total level of fuel inventory included in this case as a component of rate base is
10 provided in my Schedule SKB-2.

11 **L&P:**

12 Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in rate
13 base?

14 A. L&P utilized the same method as MPS in determining the level of fuel inventory to
15 include in rate base for coal. L&P's recommendation in this case for coal inventory
16 levels at Iatan and Lake Road is equivalent to a 58-day and 75-day burn, respectively.

17 Q. Please explain why a 58-day supply of coal for Iatan and a 75-day supply of coal for Lake
18 Road were chosen as target levels of coal inventory to include in rate base.

19 A. L&P is a joint owner of Iatan. The operator, Kansas City Power & Light Company
20 ("KCPL"), manages the coal inventory level at the plant and has selected a 58-day supply
21 of coal as their target inventory level. The coal supply target inventory for Iatan was
22 provided to MPS by KCPL. A 75-day supply was selected for Lake Road coal inventory.
23 The level of coal inventory for Lake Road is consistent with what was used by both

1 Aquila and the Staff in the Company's last rate proceeding, Case No. ER-2004-0034.

2 This level is believed to be adequate but not excessive for the risks assessed for the Lake
3 Road facility to ensure that customers are protected against disruption of service.

4 Q. What method was used to calculate the No. 2 oil inventory being included in rate base for
5 the Iatan and Lake Road units?

6 A. For the same reasons as MPS, L&P employed a thirteen-month average for Iatan and
7 Lake Road oil inventory. The monthly balances were averaged for the period December
8 2003 through December 2004.

9 Q. What level of fuel inventory has L&P included in rate base for purposes of this
10 proceeding?

11 A. The total level of fuel inventory included in this case as a component of rate base is
12 provided in my Schedule SKB-2.

13 **SO2 (SULFUR DIOXIDE) EMISSION ALLOWANCE INVENTORY**

14 Q. Please explain the purpose of working capital Adjustment No. WC-40 for SO2 emission
15 allowance inventory for MPS and L&P.

16 A. Aquila Networks is required to obtain rights from the Federal Government for the
17 production of sulfur dioxide emissions resulting from fossil fuel consumption in their
18 power plants. These rights are secured through the acquisition of emission allowances,
19 which are consumed as the various plants operate. Adjustment No. WC-40 is based on a
20 thirteen-month average of the sulfur dioxide emission allowance inventory (FERC
21 Account 158.1) maintained by MPS and L&P for the period December 2003 through
22 December 2004.

1 Q. What are the total levels of sulfur dioxide emission allowance inventory for the purposes
2 of this case?

3 A. The total level of sulfur dioxide emission allowance inventory included in this case as a
4 component of rate base is provided in my Schedule SKB-2.

5 **REVENUE NORMALIZATION**

6 Q. Please summarize the revenue normalizations done for the test year ending December 31,
7 2004 for MPS and L&P.

8 A. The per books revenue are adjusted for MPS and L&P for several items. The Interim
9 Energy Charge ("IEC") eliminates the existing IEC revenue. This interim energy charge
10 expires April 22, 2006. The unbilled revenue adjustment eliminates per books unbilled
11 revenue. Rates for the last Missouri rate case (Case No. ER-2004-0034) were effective
12 April 22, 2004. An adjustment was made that calculated a full year of revenue based on
13 the tariffs from that case. A billing correction was made for a MPS customer that was
14 billed on a secondary metering rate MO730 but should have been billed on a primary
15 metering rate MO735 during the test year. The other normalization adjustments to
16 revenue, which includes a weather-related unbilled adjustment (calendar month-billing
17 month; change in unbilled), leap year adjustment, customer annualization adjustment,
18 large customer load adjustment and weather normalization as explained in the direct
19 testimony of Company witness Eric L. Watkins.

20 **ELIMINATE INTER-COMPANY OFF-SYSTEM REVENUES**

21 Q. Please explain the purpose of revenue Adjustment No. R-30 made to MPS and L&P for
22 purposes of this rate proceeding.

1 A. The purpose of Adjustment No. R-30 is to eliminate the inter-company revenue
2 transactions between MPS and L&P that were recorded during the 12 months ended
3 December 31, 2004.

4 Q. Please explain how Adjustment No. R-30 was calculated.

5 A. The inter-company revenues recorded to FERC account 447030 (SFR Off-System Sales)
6 during the 12 months ending December 31, 2004 were obtained for both MPS and L&P
7 and were eliminated from test year per books. In the case of MPS, a jurisdictional
8 allocation factor was applied to the inter-company revenue amount to determine the
9 amount applicable to MPS' retail operations.

10 Q. What is the adjustment amount in this case for elimination of inter-company off-system
11 revenue?

12 A. Please refer to my schedule SKB-4 for the adjustment amounts.

13 **ELIMINATE INTER-COMPANY OFF-SYSTEM FUEL & PURCHASED POWER**

14 Q. Please explain the purpose of cost of service Adjustment No. FPP-30 made to MPS and
15 L&P for purposes of this rate proceeding.

16 A. The purpose of Adjustment No. FPP-30 is to eliminate the corresponding inter-company
17 fuel and purchased power expense associated with any energy purchase or sale between
18 the MPS and L&P that was recorded during the test year.

19 Q. Please explain how Adjustment No. FPP-30 was calculated.

20 A. The amount of fuel and purchased power expense recorded for the 12 months ended
21 December 31, 2004 related to inter-company sales transactions between MPS and L&P
22 was obtained from the following FERC accounts: 501030 (Fuel Off-System Steam),
23 547030 (Fuel Off-System Other Production) and 555030 (Purchased Power Off-System).

1 The amounts recorded during the test year have been eliminated from both MPS and
2 L&P's cost of service. In the case of MPS, a jurisdictional allocation factor has been
3 applied to MPS's fuel and purchased power off-system accounts to ensure only the
4 portion related to MPS's retail operations has been eliminated from this rate filing.

5 Q. What is the adjustment amount in this case for elimination of inter-company off-system
6 fuel and purchased power expense?

7 A. The adjustment amounts for FPP-30 for both MPS and L&P can be found in my schedule
8 SKB-4.

9 Q. Are there any margins generated between MPS and L&P from the interchange sales?

10 A. No.

11 **PSC ASSESSMENT**

12 Q. Please explain the purpose of Adjustment No. CS-40.

13 A. Adjustment No. CS-40 annualizes the Commission's assessment for the fiscal year
14 beginning July 1, 2004 through June 30, 2005.

15 Q. How was the annualized assessment computed?

16 A. The actual assessment for the fiscal year beginning July 1, 2004 was obtained from the
17 Commission's letter of assessment notice. The total electric assessment, as stated on the
18 letter of assessment notice, was compared to per books data for the test year. Since it is
19 known that this cost will be incurred, an adjustment was made for the difference to
20 account for the increase over the prior year's assessment. Current assessments are known
21 and measurable and should be reflected in the rates established in this case.

22 Q. What is the adjustment amount in this case for Commission assessment?

1 A. The adjustment amounts for CS-40 for both MPS and L&P can be found in my schedule
2 SKB-4.

3 **RATE CASE EXPENSE**

4 Q. Please explain Adjustment No. CS-50.

5 A. This adjustment is an estimate of rate case expense that MPS and L&P expects to incur
6 during this electric rate proceeding. The estimate is based on the level of actual expenses
7 incurred in MPS and L&P's prior case, Case No. ER-2004-0034. The estimated amount is
8 amortized over a three-year period.

9 Q. Why was a three-year amortization period chosen?

10 A. Based on MPS and L&P's rate case history over the past ten years, a three-year average
11 seems most indicative of future rate case proceedings.

12 Q. What is the adjustment amount in this case for rate case expense?

13 A. The adjustment amounts for CS-50 for both MPS and L&P can be found in my schedule
14 SKB-4.

15 **DEPRECIATION EXPENSE**

16 Q. Please explain the depreciation adjustment.

17 A. This adjustment computes the annualized depreciation expense on MPS and L&P's plant
18 in service for both direct and allocated plant at December 31, 2004. Earlier in my
19 testimony I discussed the definition of direct and allocated plant.

20 Q. How was the plant-in-service computed for the depreciation calculation?

21 A. The plant-in-service for the depreciation calculation is calculated using the ending
22 balance of gross plant, both direct and allocated, at December 31, 2004.

23 Q. What depreciation rates are used in your depreciation calculation?

1 A. The rates used for the depreciation annualization calculation for MPS and L&P direct
2 plant are from depreciation studies performed by Foster Associates, Inc. using actual
3 plant data at December 31, 2001. A separate depreciation study was performed by Foster
4 Associates, Inc. for Aquila's corporate assets using plant data forecasted through
5 December 31, 2002. This separate study and corresponding rates are applied to all
6 allocated corporate plant. Aquila witness Ronald E. White of Foster Associates, Inc. filed
7 testimony in Case No. ER-2004-0034 and HR-2004-0024 on the actual rates and the
8 methodology applied in calculating these rates.

9 Q. Were any changes made to the rates used in the Foster Associates study?

10 A. Yes. The Jeffery Energy Center ("JEC"), which Aquila has an eight percent ownership,
11 rates was changed to reflect a life change to 2040. Westar is the majority owner, provided
12 the life change in April 2005.

13 Q. Were any other changes made from the deprecation rates filed in ER-2004-0034 and HR-
14 2004-0024?

15 A. Yes. Aquila adjusted the rates to exclude net terminal salvage to reflect the recent policy
16 change by this Commission as discussed in the Empire rate order in Case No. ER-2004-
17 0570.

18 Q. Are there any adjustments to depreciation expense?

19 A. Yes. There is an adjustment to eliminate from the computed annualized depreciation
20 expense the costs associated with the depreciation of transportation equipment charged to
21 capital projects.

22 Q. What is the amount of the depreciation expense adjustment for MPS and L&P?

- 1 A. Please see my schedule SKB-4 for MPS and L&P's electric depreciation expense
- 2 balances that have been included in this rate filing.
- 3 Q. Does this conclude your testimony?
- 4 A. Yes.

Aquila Networks - MPS
Case No. ER-
Twelve Months Ended December 31, 2004

Revenue Requirement

Line		Low	Mid	High
		8.728%	8.979%	9.200%
		Return	Return	Return
	(a)	(b)	(c)	(d)
1	Net Orig Cost of Rate Base (Sch 2)	\$ 833,641,918	\$ 833,641,918	\$ 833,641,918
2	Rate of Return	8.728%	8.979%	9.200%
3	Net Operating Income Requirement	\$ 72,758,599	\$ 74,852,708	\$ 76,691,722
4	Net Income Available (Sch 7)	\$ 23,422,493	\$ 23,422,493	\$ 23,422,493
5	Additional NOIBT Needed	49,336,106	51,430,215	53,269,229
6	Additional Current Tax Required	\$ 30,740,341	\$ 32,045,138	\$ 33,190,991
7	Gross Revenue Requirement	80,076,448	83,475,353	86,460,220

Aquila Networks - L&P (Electric)
Case No. ER-
Twelve Months Ended December 31, 2004

Revenue Requirement

Line	(a)	Low	Mid	High
		9.406% Return	9.643% Return	9.881% Return
	(b)	(c)	(d)	
1	Net Orig Cost of Rate Base (Sch 2)	\$ 187,577,582	\$ 187,577,582	\$ 187,577,582
2	Rate of Return	9.406%	9.643%	9.881%
3	Net Operating Income Requirement	\$ 17,643,547	\$ 18,088,294	\$ 18,534,541
4	Net Income Available (Sch 7)	\$ 12,290,875	\$ 12,290,875	\$ 12,290,875
5	Additional NOIBT Needed	5,352,673	5,797,419	6,243,666
6	Additional Current Tax Required	\$ 3,335,250	\$ 3,612,372	\$ 3,890,429
7	Gross Revenue Requirement	8,687,923	9,409,791	10,134,095

Aquila Networks - MPS
Case No. ER-
Twelve Months Ended December 31, 2004

Rate Base

Line No.	Line Description	Amount
	(a)	(b)
Total Plant :		
1	Total Plant in Service-MPS Only (Sch 3)	1,390,328,725
1a	Total Plant in Service-MPS' Share of UCU (Sch 3a)	52,247,695
	Total Plant	1,442,576,420
Subtract from Total Plant:		
2	Depr Reserve-MPS & UCU Share (Sch 5)	537,151,523
	Total Depreciation Reserve	537,151,523
	Net (Plant in Service)	905,424,897
Add to Net Plant:		
3	Cash Working Capital	(8,923,614)
4	Materials and Supplies	20,110,170
5	SO2 Emission Allowances	1,090,518
6	Prepayments	11,936,049
7	Fuel Inventory - Oil	2,003,310
8	Fuel Inventory - Coal	9,287,816
9	Fuel Inventory - Coke	-
10	AAO Def Sibley Rebuild & Western Coal 1990	1,149,863
11	AAO Def Sibley Rebuild & Western Coal 1992	1,239,512
12	AAO Ice Storm 2002	3,436,029
13	Chapter 100 Fees (South Harper)	919,987
Subtract from Net Plant:		
14	Customer Advances for Construction	7,638,702
15	Customer Deposits	3,681,854
16	Deferred Income Taxes	101,687,827
17	Deferred Income Taxes - AAO	-
18	Unamortized Investment Tax Credit	-
19	Regulatory Liability - ERISA Minimum Tracker	1,024,236
	Total Rate Base	833,641,918

Aquila Networks - L&P (Electric)
Case No. ER-
Twelve Months Ended December 31, 2004

Rate Base

Line No.	Line Description (A)	Amount (B)
Total Plant :		
1	Total Plant in Service-L&P Only (Sch 3)	345,763,091
1a	Total Plant in Service-L&P' Share of UCU (Sch 3a)	18,472,884
	Total Plant	364,235,975
Subtract from Total Plant:		
2	Depr Reserve-L&P Share (Sch 5)	193,571,063
	Total Depreciation Reserve	193,571,063
	Net (Plant in Service)	170,664,912
Add to Net Plant:		
3	Cash Working Capital	(1,966,878)
4	Materials and Supplies	6,874,297
5	SO2 Emission Allowances	573,845
6	Prepayments	31,527,801
7	Fuel Inventory - Oil & Propane	560,463
8	Fuel Inventory - Coal	2,726,173
Subtract from Net Plant:		
9	Customer Advances for Construction	3,600
10	Customer Deposits	631,009
11	Deferred Income Taxes	22,742,792
12	Regulatory Liability - ERISA Minimum Tracker	5,629
	Total Rate Base	187,577,582

Aquila Networks - MPS
Case No. ER-
Twelve Months Ended December 31, 2004

Income Statement

Line No.	Description	Total Electric	Electric Non-Juris	Electric Jurisdictional	Adjustment	Jurisdictional As Adjusted
	(A)	(B)	(C)	(D)	(E)	(F)
1	Operating Revenue	367,169,125	1,764,895	365,404,230	6,334,596	371,738,826
2	Operating & Maintenance Expenses:					
3	Production	198,925,967	996,512	197,929,455	16,133,995	214,063,450
4	Transmission	9,805,416	50,694	9,754,722	2,142,691	11,897,413
5	Distribution	17,909,009	101,725	17,807,284	322,972	18,130,256
6	Customer Accounting	8,463,297	1	8,463,296	845,563	9,308,859
7	Customer Services	423,465	(0)	423,465	10,937	434,402
8	Sales	233,004	0	233,004	(32,038)	200,966
9	A & G Expenses	31,606,487	164,074	31,442,413	2,554,817	33,997,230
10	Total O & M Expenses	267,366,644	1,313,005	266,053,639	21,978,937	288,032,576
11	Depreciation Expense	34,325,263	186,043	34,139,220	14,601,970	48,741,190
12	Amortization Expense	2,014,762	10,921	2,003,841	10,289	2,014,130
13	Taxes other than Income Tax	13,796,941	74,635	13,722,306	330,008	14,052,314
14	Net Operating Income before Tax	49,665,515	180,291	49,485,224	(30,586,608)	18,898,616
15	Income Taxes	6,616,596	24,019	6,592,578	(10,327,317)	(3,734,739)
16	Income Taxes Deferred	2,483,542	13,461	2,470,081	(2,478,493)	(8,412)
17	Investment Tax Credit	(784,981)	(4,255)	(780,726)	-	(780,726)
18	Total Taxes	8,315,157	33,225	8,281,933	(12,805,810)	(4,523,877)
19	Total Net Operating Income	41,350,357	147,066	41,203,291	(17,780,799)	23,422,493

Aquila Networks - L&P (Electric)
Case No. ER-
Twelve Months Ended December 31, 2004

Income Statement

Line No.	Description	Total Electric	Adjustment	Jurisdictional As Adjusted
	(A)	(B)	(C)	(D)
1	Operating Revenue	110,300,865	1,960,443	112,261,308
2	Operating & Maintenance Expenses:			
3	Production	53,516,793	(1,770,357)	51,746,436
4	Transmission	5,451,289	668,458	6,119,747
5	Distribution	5,845,920	176,445	6,022,365
6	Customer Accounting	2,692,570	332,193	3,024,763
7	Customer Services	183,248	7,742	190,990
8	Sales	65,034	(5,579)	59,456
9	A & G Expenses	11,089,076	2,852,478	13,941,554
10	Total O & M Expenses	78,843,931	2,261,381	81,105,312
11	Depreciation Expense	10,016,422	1,592,252	11,608,675
12	Amortization Expense	87,074	811	87,885
13	Taxes other than Income Tax	4,813,881	(8,788)	4,805,093
14	Net Operating Income before Tax	16,539,556	(1,885,213)	14,654,343
15	Income Taxes	825,777	2,019,986	2,845,763
16	Income Taxes Deferred	(166,496)	62,826	(103,670)
17	Investment Tax Credit	(378,625)	-	(378,625)
18	Total Taxes	280,656	2,082,812	2,363,468
19	Total Net Operating Income	16,258,900	(3,968,025)	12,290,875

Aquila Networks - MPS
Case No. ER-
Description of Adjustments to Net Operating Income
Twelve Months Ended December 31, 2004

Adj No.	Description of Adjustment	Witness	Increase (Decrease)
	(A)		(B)
R-10	Revenue Normalization Adjustment This adjusts test period revenues to reflect normal cooling and heating degree days, annualizes customers and adjusts other miscellaneous revenue. R-10 - IEC Revenue R-10 - Unbilled Revenue R-10 - Tariff Revenue R-10 - Sprint R-10 - Weather Normalization R-10 - Customer Annualization Adjustment R-10 - Unbilled Revenue Adjustment (weather related) R-10 - Leap Year Adjustment R-10 - Large Customer Load Adjustment	E. Watkins S. Braun	\$ 10,157,836
R-30	Inter-company Off-System Revenue This eliminates inter-company off-system revenue between MPS and L&P.	S. Braun	\$ (3,674,995)
FPP-10	Fuel and Purchased Power Energy This adjustment annualizes fuel and the energy component of purchased power along with fuel adders for the test year.	J. Boehm R. Klote	\$ 23,331,067
FPP-17	SO2 Allowances This adjustment annualizes the test year SO2 allowances.	R. Klote	\$ 2,986,042
FPP-20	Purchased Power (Capacity) This adjustment annualizes the demand component of purchased power capacity.	M. Apprill R. Klote	\$ (6,658,656)
FPP-30	Inter-company Off-System Fuel & Purchased Power This eliminates inter-company off-system fuel & purchased power between MPS and L&P.	S. Braun	\$ (3,674,999)
FPP-50	Reservation Charge This adjustment annualizes the test year reservation charge.	R. Klote	\$ (1,270,827)
CS-5	Payroll This adjustment annualizes payroll expense for the test year.	A. Murray	\$ 1,181,522
CS-6	Incentive This adjustment annualizes incentive expenses for the test year.	A. Murray	\$ 19,439
CS-11	Benefits This adjustment annualizes benefits for the test year. CS-12 - Medical, Dental & Vision CS-13 - Pension CS-13a - Pension Costs - Annual provision and ERISA minimum CS-14 - OPEB SFAS 106 CS-15 - 401 (k) CS-16 - ESOP Contribution CS-17 - LTIP	D. Rooney A. Murray	\$ 1,089,353
CS-20	ESF/IBU Adjustments	R. Klote	\$ 703,172

Aquila Networks - MPS
Case No. ER-
Description of Adjustments to Net Operating Income
Twelve Months Ended December 31, 2004

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	This adjustment updates the ESF and IBU corporate allocation factors to December 2004 drivers.		
CS-21	Insurance This adjustment annualizes insurance for the test year.	A. Murray	\$ 215,791
CS-26	Major Maintenance This adjustment annualizes major maintenance for the test year.	B. Owens	\$ 1,669,325
CS-30	Injuries and Damages This adjustment annualizes injuries and damages for the test year.	R. Klote	\$ 175,014
CS-35	Bad Debt This adjusts bad debt expense to an annualized level based on a three year average rate times annualized revenue.	R. Klote	\$ 439,071
CS-40	PSC Assessment This adjustment annualizes the PSC assessment to the most current assessment received.	S. Braun	\$ (22,647)
CS-45	Customer Deposit - Interest This adjustment annualizes the interest expense related to customer deposits.	B. Owens	\$ 220,911
CS-50	Rate Case Expense This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 3 years.	S. Braun	\$ (4,205)
CS-57	Fixed Transmission Expense This adjustment annualizes fixed transmission expense for the test year.	R. Klote	\$ 484,261
CS-60	Dues and Donations This adjustment eliminates all dues and donations except EEI, EPRI and Power Pool dues.	R. Klote	\$ (343,225)
CS-65	Advertising This adjustment eliminates all advertising except safety and informational .	R. Klote	\$ (75,012)
CS-76	RTO This adjustment annualizes the on-going level of RTO transmission membership dues.	R. Klote	\$ 1,612,947
CS-82	MPS' Share of JEC Expense This adjustment annualizes MPS' share of JEC expense in the test year.	B. Owens	\$ (539,205)
CS-83	Miscellaneous Test Year Adjustment This adjustment eliminates miscellaneous expenses in the test year.	A. Murray	\$ (84,629)
CS-84	Transition and Transaction Costs This adjustment amortizes transition and transaction costs associated	D. Rooney	\$ 501,795

Aquila Networks - MPS
Case No. ER-
Description of Adjustments to Net Operating Income
Twelve Months Ended December 31, 2004

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	with the St. Joe merger.		
CS-85	Payroll Taxes This adjustment annualizes FICA and Medicare tax expense for the test year.	A. Murray	\$ (56,501)
CS-91	Pilot Payments - Chapter 100 This adjustment annualizes Chapter 100 pilot payments based on plant in service adjusted in this case.	D. Rooney	\$ 240,521
CS-95	Depreciation This adjustment annualizes depreciation expense for plant balances as adjusted.	S. Braun	\$ 14,601,970
CS-101	South Harper Chapter 100 - Fees This adjustment annualizes South Harper Chapter 100 - fees for the test year.	D. Rooney	\$ 30,666
TAX-1	Current Income Tax Expense This adjustment annualizes the current income tax based on adjusted net operating income.	R. Klote	\$ (10,327,317)
TAX-1	Deferred Income Tax Expense This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences.	R. Klote	\$ (2,478,493)

Aquila Networks - L&P (Electric)
Case No. ER-
Description of Adjustments to Net Operating Income
Twelve Months Ended December 31, 2004

Adj No.	Description of Adjustment (A)	Witness (B)	Increase (Decrease) (C)
R-10	Revenue Normalization Adjustment This adjusts test period revenues to reflect normal cooling and heating degree days, annualizes customers and adjusts other miscellaneous revenue.	E. Watkins S. Braun	\$ 4,850,424
	R-10 - IEC Revenue		(1,528,939)
	R-10 - Unbilled Revenue		(684,177)
	R-10 - Tariff Revenue		928,812
	R-10 - Sprint		-
	R-10 - Weather Normalization		2,796,398
	R-10 - Customer Annualization Adjustment		1,237,646
	R-10 - Unbilled Revenue Adjustment (weather related)		(73,812)
	R-10 - Leap Year Adjustment		(204,778)
	R-10 - Large Customer Load Adjustment		2,379,273
R-30	Inter-company Off-System Revenue This eliminates inter-company off-system revenue between L&P and MPS.	S. Braun	\$ (2,838,287)
FPP-10	Fuel and Purchased Power Energy This adjustment annualizes fuel and the energy component of purchased power along with fuel adders for the test year.	J. Boehm R. Klote	\$ (1,087,356)
FPP-17	SO2 Allowances This adjustment annualizes the test year SO2 allowances.	R. Klote	\$ 1,489,511
FPP-20	Purchased Power (Capacity) This adjustment annualizes the demand component of purchased power capacity.	M. Apprill R. Klote	\$ 436,600
FPP-30	Inter-company Off-System Fuel & Purchased Power This eliminates inter-company off-system fuel & purchased power between L&P and MPS.	S. Braun	\$ (2,838,285)
CS-5	Payroll This adjustment annualizes payroll expense for the test year.	A. Murray	\$ 686,374
CS-6	Incentive This adjustment annualizes incentive expenses for the test year.	A. Murray	\$ (10,645)
CS-11	Benefits This adjustment annualizes benefits for the test year.	D. Rooney A. Murray	\$ 2,117,726
	CS-12 - Medical, Dental & Vision		535,925
	CS-13 - Pension		1,123,269
	CS-13a - Pension Costs - Annual provision and ERISA minimum		886
	CS-14 - OPEB SFAS 106		373,553
	CS-15 - 401 (k)		30,081
	CS-16 - ESOP Contribution		70,947
	CS-17 - LTIP		(16,935)
CS-20	ESF/IBU Adjustments This adjustment updates the ESF and IBU corporate allocation factors to December 2004 drivers.	R. Klote	\$ (22,922)
CS-21	Insurance	A. Murray	\$ (155,576)

This adjustment annualizes insurance for the test year.

CS-30	Injuries and Damages This adjustment annualizes injuries and damages for the test year.	R. Klote	\$	(104,808)
CS-35	Bad Debt This adjusts bad debt expense to an annualized level based on a three year average rate times annualized revenue.	R. Klote	\$	215,666
CS-40	PSC Assessment This adjustment annualizes the PSC assessment to the most current assessment received.	S. Braun	\$	(115)
CS-45	Customer Deposit - Interest This adjustment annualizes the interest expense related to customer deposits.	B. Owens	\$	37,861
CS-50	Rate Case Expense This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 3 years.	S. Braun	\$	59,438
CS-57	Fixed Transmission Expense This adjustment annualizes fixed transmission expense for the test year.	R. Klote	\$	103,417
CS-60	Dues and Donations This adjustment eliminates all dues and donations except EEI, EPRI and Power Pool dues.	R. Klote	\$	(106,963)
CS-65	Advertising This adjustment eliminates all advertising except safety and informational .	R. Klote	\$	(14,662)
CS-76	RTO This adjustment annualizes the on-going level of RTO transmission membership dues.	R. Klote	\$	538,118
CS-82	L&P' Share of latan Expense This adjustment annualizes L&P' share of latan expense in the test year.	B. Owens	\$	964,411
CS-83	Miscellaneous Test Year Adjustment This adjustment eliminates miscellaneous expenses in the test year.	A. Murray	\$	(238,910)
CS-84	Transition and Transaction Costs This adjustment amortizes transition and transaction costs associated with the St. Joe merger.	D. Rooney	\$	169,235
CS-85	Payroll Taxes This adjustment annualizes FICA and Medicare tax expense for the test year.	A. Murray	\$	(36,405)
CS-95	Depreciation This adjustment annualizes depreciation expense for plant balances as adjusted.	S. Braun	\$	1,592,252
TAX-1	Current Income Tax Expense This adjustment annualizes the current income tax based on adjusted net operating income.	R. Klote	\$	2,019,986
TAX-1	Deferred Income Tax Expense This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences.	R. Klote	\$	62,826

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

[illegible]

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

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

My Commission expires:

8-20-2008



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