

Exhibit No.
Issues: General Overview
Witness: Timothy M. Rush
Sponsoring Party: St. Joseph Light &
Power Company
Case No. EO-2000-845
Date Prepared: October 17, 2000

MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-00-845

FILED

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Surrebuttal Testimony

Missouri Public
Service Commission

of

Timothy M. Rush

ST. JOSEPH, MISSOURI

OCTOBER 2000

1
2 ST. JOSEPH LIGHT & POWER COMPANY

3 CASE NO.: EO-2000-845

4 DIRECT TESTIMONY OF TIMOTHY M. RUSH

5 ISSUES: OVERVIEW

6
7 Q. Please state your name and business address.

8 A. Timothy M. Rush, 520 Francis Street, St. Joseph,
9 Missouri.

10 Q. What is your position and experience with the St.
11 Joseph Light & Power Company ("SJLP" or "Company")?

12 A. I am the Manager - Customer Operations. I have
13 previously served as Cost Accountant, Rates Analyst,
14 Supervisor Rates and Statistics, and Manager, Rates &
15 Market Research.

16 Q. What is your educational and professional
17 background?

18 A. In addition to public schools, I received a
19 Master's Degree in Business Administration from Northwest
20 Missouri State University in Maryville, Missouri. I did my
21 undergraduate study at both the University of Kansas in
22 Lawrence and the University of Missouri in Columbia. I
23 received a Bachelor of Science Degree in Business

1 Administration with a Concentration in Accounting from the
2 University of Missouri in Columbia.

3 Q. What is the purpose of your testimony in this
4 case?

5 A. The purpose of my surrebuttal testimony is to
6 present a general overview of the case and to respond to
7 certain issues presented by both the Staff of the Missouri
8 Public Service Commission (Staff) and the Office of the
9 Public Counsel (Public Counsel) as they relate to the
10 Company's request for an Accounting Authority Order (AAO).
11 I will address the issues presented by Mr. V. William
12 Harris with regards to his proposed "New" standards for
13 determining the appropriateness of an AAO. Company witness
14 Larry J. Stoll will present more detailed surrebuttal on
15 the proposals of Mr. Harris. I will also discuss, in
16 general, the issue of management control presented by Staff
17 witness Harris, Public Counsel witnesses Jatinder Kumar and
18 Russell Trippensee. Company witness Dwight V. Svuba will
19 address the issue in greater detail.

20 **General Overview**

21 Q. Do you have any general comments regarding the
22 testimonies that have been presented by both the Staff and
23 Public Counsel in this proceeding?

1 A. Yes. Both Staff and Public Counsel have
2 presented testimony on why the Missouri Public Service
3 Commission (Commission) should not allow recovery of the
4 incremental costs incurred by the Company as a result of
5 the extraordinary incident at the Lake Road plant. In the
6 Company's application, the pleading it filed on July 13,
7 2000, and again in its Direct Testimony filed on September
8 12, 2000, the Company clearly stated that it is not asking
9 the Commission to approve the recovery of these expenses at
10 this time. The Company is simply requesting the
11 Commission, by approval of the AAO, to authorize the
12 Company to defer the expenses incurred as a result of the
13 incident. The Company is following the Uniform System of
14 Accounts and past practice in requesting this AAO. Any
15 determination of the actual recovery of any money in rates
16 will not take place until the Company's next general
17 electric rate case. Staff and Public Counsel's argument
18 for disallowance of these expenses at this time goes beyond
19 Commission precedent and the accounting standards as set
20 out in the Uniform System of Accounts. This is quite
21 frankly "putting the cart before the horse".

22 Q. What do you mean?

23 A. Staff's arguments go far beyond the traditional
24 AAO applications that the Commission have approved and

1 tries to make this proceeding much more complex than
2 necessary. The current standard is simple: Is the expense
3 incurred material and the result of an extraordinary event?
4 The Staff however, is now trying to create new conditions
5 in an attempt to convince the Commission that the AAO
6 request by the Company should be disallowed.

7 **Staff's Proposed "New" Standards**

8 Q. Would you briefly explain your understanding of
9 Staff's "new" standards?

10 A. Yes. The Staff is attempting to persuade the
11 Commission that "new" standards are necessary. These
12 include 1.) determination that the event is extraordinary
13 and material, 2.) determination of adequate current rate
14 levels by performing a "mini" rate case, 3.) determination
15 that the extraordinary expenses must result from a capital
16 addition under some unique circumstances or an
17 extraordinary event that is beyond the control of the
18 utility's management and 4.) determination of when the
19 Company must either start amortizing the expense or file a
20 rate case. Several of these have not been the standards by
21 which the Commission has approved AAO's in the past. These
22 new standards go far beyond the Commission's past practices
23 regarding any AAO filed and approved by this Commission of
24 which I am aware. I believe it very unlikely any AAO

1 application could ever be approved if the Commission
2 adopted Staff's proposed standards, because I believe it
3 will be extremely difficult for these standards to be met
4 by a utility. I will discuss this later in my testimony.

5 Q. Does Mr. Harris agree that his proposed standards
6 go beyond any traditional determination that this
7 Commission has used in determining approval of an AAO?

8 A. Yes. Mr. Harris admits he is asking the
9 Commission to expand its requirements regarding approval of
10 deferred cost recognition under an AAO. (Harris - page 5)
11 Mr. Harris' position goes beyond the Commission's
12 traditional tests for approval of an AAO.

13 Q. What are the standards by which the Commission
14 has approved AAO's in the past?

15 A. The Commission has allowed expenses or capital
16 items to be deferred where the expenses or capital items
17 can be determined to be material and extraordinary and not
18 included in current rates. This would fall under Mr.
19 Harris' proposal number 1, as set out in his proposed
20 standards.

21 Q. Has the Commission seen his proposal before?

22 A. Apparently not.

23 **Extraordinary and Material Expenses**

1 Q. Does Mr. Harris agree that the incremental costs
2 the Company incurred as a result of the Unit 4/6 outage are
3 extraordinary and material?

4 A. Yes. On page 6, lines 5-7, Mr. Harris says
5 "While the Staff readily agrees that the costs SJLP are
6 seeking to defer are indeed extraordinary, . . .".
7 Additionally, Mr. Harris further indicates that the
8 expenses are extraordinary on page 11 of his rebuttal
9 testimony. Clearly, Staff does not have an issue of
10 whether the expenses are extraordinary. In essence, the
11 Staff concedes that the Company meets the traditional
12 "criteria" for receiving an AAO.

13 Q. Does the Public Counsel agree with Staff's
14 position?

15 A. No. Public Counsel witness Russell W. Trippensee
16 disagrees that the expenses are extraordinary. (Trippensee
17 - page 8, lines 16-23) Apparently, Mr. Trippensee argument
18 is that he believes that the incident could have been
19 prevented by the Company and therefore it is not
20 "extraordinary". This logic is flawed. One is not
21 dependent on the other as may be suggested by Mr.
22 Trippensee. Extraordinary events cannot be characterized
23 as only events which are "Acts of God".

24 Q. What is the position of the Company on that?

1 A. The Company agrees with the Staff's position that
2 the expenses are extraordinary and material and are the
3 result of an extraordinary event.

4 **Management Control**

5 Q. Would you describe in general the positions that
6 Mr. Harris, Mr. Trippensee and Mr. Kumar have taken with
7 regard to the cause of the incident?

8 A. Yes, from reading the testimony of the witnesses,
9 they are of the opinion that the incident that occurred at
10 Lake Road on June 7, 2000, was the result of operator error
11 which they say was within the control of management.
12 Because of their opinions that the incident was within the
13 control of management, they recommend that the AAO should
14 not be granted. This is one of the "new" criteria that Mr.
15 Harris proposes as a condition for approval of an AAO.

16 Q. Do you agree with the proposed new criterion of
17 management control?

18 A. No. I think it would lead to unnecessary
19 litigation and likely prohibit future approval of AAO's.

20 Q. Why do you say it will lead to unnecessary
21 litigation?

22 A. If management control becomes a standard by which
23 AAO's are determined, I see it only leading to a lot of
24 duplicate litigation. For example, let's assume the

1 Commission approves an AAO and says the extraordinary event
2 was not in management's control. I don't think that is
3 going to prevent some party from arguing in a subsequent
4 rate case that it was in management's control. The
5 opposite is true also. If the Commission denies an AAO
6 based on alleged management control, I can envision a
7 utility arguing in the subsequent rate case that it was not
8 within the control of management and the expense ought to
9 be amortized in rates. I just don't see the point in
10 having the Commission set this new "management control"
11 standard that doesn't mean anything, because it will not
12 bind the Commission in future cases and it will not stop
13 someone from re-litigating the subject in a subsequent rate
14 case. It is much better to just litigate it in the rate
15 case where it really matters, because that is when the
16 Commission makes the decision to include the expense in
17 rates or not.

18 Q. Why do you say that it would likely prohibit
19 approval of AAO's?

20 A. There are several reasons, but the first is
21 simple. Any accident or incident can always have been
22 prevented once you look at it through a 20/20 hindsight
23 review. For example, the expenses that gave rise to the
24 AAO that the Company received for the ice storm in 1994

1 could have been avoided if the Company had placed all of
2 its electric lines underground or found and purchased
3 insurance sufficient to handle such an event. Both of
4 these things are impractical, if not impossible to
5 accomplish.

6 Likewise, the expenses reflected in the AAO the
7 Company received for the flood of 1993 could have been
8 avoided if the Iatan plant had been built in a different
9 spot than it was, or the Company had purchased insurance
10 sufficient to cover such an event, or if a huge berm had
11 been built around the plant sufficient to protect it from
12 all possible floods, including the 500 year flood that
13 occurred.

14 What I am trying to get across is that all things are
15 arguably preventable. The question is simply what is the
16 cost one is willing to pay to insulate oneself from ever
17 having an incident?

18 The Company was prudent in that it had insurance to
19 cover the repairs in addition to having insurance that
20 partially recovered the energy expenses that occurred as a
21 result of the outage. To look in perfect hindsight at the
22 incident as these witnesses have done and determine that
23 the costs of the incident should not be recovered because
24 the situation was allegedly in management's control is

1 totally unreasonable. There were no apparent warnings that
2 were ignored.

3 Q. Mr. Harris' rebuttal testimony addresses the
4 question about pursuing legal action with General Electric
5 (GE) over the incident. Would you address this issue?

6 A. Yes. The Company has significant insurance in
7 place for the type of incident that occurred at Lake Road.
8 However, this insurance did not cover all of the costs
9 resulting from the incident. Full coverage is not
10 commercially available at a reasonable cost. The Company
11 is asking the Commission to defer only the uninsured costs
12 through approval of an AAO. With regard to pursuing legal
13 action against GE, that decision has not been made. The
14 Company is being as aggressive as it can. Much of the
15 decision as to whether to pursue legal action is in the
16 hands of FM Global, the insurance carrier. As has been
17 presented, the overall cost of the incident is over \$5.3
18 million. Due to insurance coverage, we expect to recover
19 all but the \$3.3 million we are requesting in this AAO
20 application.

21 Q. Could insurance have been purchased to totally
22 cover the cost of the incident?

23 A. There is no insurance commercially available to
24 the Company which would protect the Company from such an

1 incident. Had such insurance been available, I would
2 expect it to be very expensive. Had we purchased such
3 insurance, the cost would have been passed on to customers
4 through rates. The Company does not have insurance to
5 protect it from every incident. The vehicle that both the
6 Company and the Commission have used in the past to deal
7 with extraordinary situations not covered by insurance is
8 an AAO and the amortization in rates of the material and
9 extraordinary costs.

10 Q. Are there other means for the Company to recover
11 the costs of extraordinary events?

12 A. Yes. The Commission could include a "cushion" in
13 the Company's cost of service, whereby it would be
14 protected from such occurrences. This would obviously
15 increase prices to customers in anticipation of those
16 extraordinary events that might occur in the future. It
17 would be very difficult to determine an appropriate
18 "cushion", as it is difficult to anticipate the magnitude
19 of future unexpected events.

20 Q. Has the Commission used this practice in the past
21 for determining rate levels for the Company?

22 A. No. The Commission has not had a practice of
23 building a reserve for future extraordinary events in
24 rates. The Commission does include certain levels of

1 expenses in rates to handle general unanticipated expenses
2 such as relatively small storms and minor plant forced
3 outages. This is handled through the cost of service
4 reviews based on historical levels and normalizations.
5 Major extraordinary events are not handled in this way. It
6 has been the practice of the Commission to handle these
7 occurrences through amortization of the expenses in the
8 cost of service of the Company and usually after the
9 approval of an AAO.

10 Q. Can you summarize?

11 A. Yes. The Company has followed past Commission
12 practices and meets the criteria in the USOA for an AAO
13 because this was an extraordinary event. It also meets the
14 criteria as to materiality. All of the issues raised by
15 Staff and Public Counsel are at best premature. They can
16 make those arguments at the time rate recovery for the
17 funds is sought by the Company, if that ever occurs. The
18 Staff is trying to get the Commission to decide more things
19 than it either has to or should decide at this time.
20 Further, new criteria for AAO's should not be established
21 in this manner.

22 Q. Does this conclude your surrebuttal testimony?

23 A. Yes it does.

In the Matter of the Application of)
St. Joseph Light & Power Company for)
the issuance of an accounting order)
relating to its electrical operations.)

County of Buchanan)
)
State of Missouri)

Timothy M. Bane

Mary Ann McCarthy
Notary Public

MARY ANN McCARTHY, NOTARY PUBLIC
STATE OF MISSOURI, BUCHANAN COUNTY
MY COMMISSION EXPIRES NOV. 6, 2002