

Exhibit No.:	
Issue(s):	Relief Requested in <u>Aquila Acquisition</u>
Witness:	Ted Robertson
Type of Exhibit:	Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	EO-2005-0156
Date Testimony Prepared:	June 10, 2005

## **REBUTTAL TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**NP**

**AQUILA, INC.**

**Case No. EO-2005-0156**

June 13, 2005

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of Aquila,  
Inc., for Authority to Acquire, Sell and Lease  
Back Three Natural Gas-Fired Combustion  
Turbine Power Generation Units and  
Related Improvements to be Installed and  
Operated in the City of Peculiar, Missouri

)  
Case No. EO-2005-0156  
)

**AFFIDAVIT OF TED ROBERTSON**

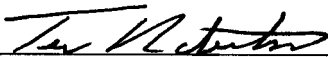
STATE OF MISSOURI

COUNTY OF COLE

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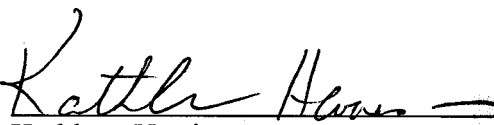
Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 81 and Schedule TJR-1 through TJR-5.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Public Utility Accountant III

Subscribed and sworn to me this 13<sup>th</sup> day of June 2005.

KATHLEEN HARRISON  
Notary Public - State of Missouri  
County of Cole  
My Commission Expires Jan. 31, 2006

  
\_\_\_\_\_  
Kathleen Harrison  
Notary Public

My commission expires January 31, 2006.

## TABLE OF CONTENTS

Testimony	Page
I. Introduction	1
II. Aquila's Application	3
III. Public Counsel Summary	9
IV. Does The Transfer Value Proposed By Aquila Provide An Unfair Financial Advantage To Its Non-Regulated Affiliate	11
A. Affiliate Transactions Rule	11
B. Equipment's Actual Cost And Purpose	29
C. R. W. Beck Appraisal	37
V. Permission To Enter Into A Sale And Leaseback Arrangement Whereby Legal Title To The CTs Will Be Conveyed To Peculiar To Obtain Financing For The Installation And Construction Of The Electric Generation Station Through The Issuance By Peculiar Of Tax-Advantaged Revenue Bonds Under The Act	73
VI. Authorization To Cause The Project Assets To Be Pledged And Conveyed To A Trustee Under An Indenture Of Trust As Security For The Benefit Of The Holders Of The Revenue Bonds	74
VII. Other Requests Contained Within The Aquila Application	75
VIII. Other Information	78

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**REBUTTAL TESTIMONY  
OF  
TED ROBERTSON**

**AQUILA INC.  
CASE NO. EO-2005-0156**

9  
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12

**I. INTRODUCTION.**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

13  
14  
15  
16

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Office of the Public Counsel of the State of Missouri ("OPC" or  
"Public Counsel") as a Public Utility Accountant III.

17  
18  
19  
20  
21

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W.  
Trippensee, I am responsible for performing audits and examinations of the books and  
records of public utilities operating within the State of Missouri.

22  
23  
24  
25

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER  
QUALIFICATIONS.

A. I graduated in May, 1988, from Southwest Missouri State University in Springfield,  
Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I

Rebuttal Testimony of Ted Robertson  
Case No. EO-2005-0156

1 passed the Uniform Certified Public Accountant ("CPA") Examination, and I obtained  
2 CPA certification from the State of Missouri in 1989. Also, I currently hold a valid CPA  
3 license issued by the State of Missouri. My CPA license number is 2004012798.  
4

5 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC  
6 UTILITY ACCOUNTING?

7 A. Yes. In addition to being employed by the Office of the Public Counsel for nearly fifteen  
8 year, I have attended the NARUC Annual Regulatory Studies Program at Michigan State  
9 University, and I have also participated in numerous training seminars relating to this  
10 specific area of accounting study.  
11

12 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
13 SERVICE COMMISSION ("COMMISSION" OR "MPSC")?

14 A. Yes. I have been employed by the Public Counsel since July of 1990, and have testified  
15 on numerous issues before this Commission. Please refer to Schedule TJR-1, attached to  
16 this testimony, for a listing of cases in which I have previously submitted testimony.  
17

18 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

19 A. The purpose of this testimony is to express the Public Counsel's recommendations  
20 regarding the requests described in the Aquila, Inc. (hereinafter "Aquila" or "Company")

1 Application. The issues I intend to address in this testimony include, 1) the electrical  
2 corporation Affiliate Transactions Rule and its impact on the instant case, 2) the financial  
3 advantage that has accrued to Aquila's non-regulated affiliate due to the equipment's  
4 transfer to the Missouri regulated operation, 3) the Chapter 100 financing proposal and its  
5 impact as it pertains to Company's request, and 4) the various other requests sought by  
6 Company in the Application. (when using the generic term equipment I am referencing in  
7 total the turbines, transformers, generator breakers and other balance of plant transferred)  
8

9 **II. AQUILA'S APPLICATION.**

10 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

11 **A.** On or about December 6, 2004, Aquila filed with the Commission an Application for the  
12 authority to acquire, sell and lease back three natural gas-fired combustion turbine power  
13 generation units and related improvements to be installed and operated in the City of  
14 Peculiar, Missouri. Company's Application alleges that in September 2001 MEP  
15 Investments, LLC ("MEP") a wholly-owned non-regulated subsidiary of Aquila acquired  
16 from Siemens Westinghouse Power Corporation ("SWPC") three 105 megawatt natural  
17 gas-fired combustion turbines and associated transformers and breakers at a cost of  
18 \$78,716,233. (Application ¶ 6) In September 2002, the equipment was transferred from  
19 MEP to Aquila Equipment, LLC ("AE" or "AEP"). (Application ¶ 6) The equipment was  
20 owned by AE and comprised the only material assets owned by AE (AE is not engaged in

any ongoing line of business). (Application ¶ 6) Company also alleges, there are an additional \$3 million (approximately) of "preliminary survey charges" associated with the equipment which it is evaluating for possible transfer to the regulated utility. (Application ¶ 6) The total value of the equipment and preliminary survey charges is \$81.7 million. (Application ¶ 6) However, Company has alleged that the "fair market value" of the equipment, not including the \$3 million of survey charges, is \$70,796,850. (Application ¶ 9)

Q. ACCORDING TO AQUILA'S APPLICATION DO THE ASSETS CHANGE HANDS AGAIN?

A. Yes. On page nine of the Application, in paragraph 20, it states that because the Project (i.e., South Harper) as summarily described involves a transfer of legal title of the equipment and real estate upon which the Project shall be located to Peculiar, in furtherance of obtaining tax-advantaged Chapter 100 RSMo financing at a transfer value to Aquila Networks-MPS of \$70,796,850 and a pledge of the Project assets to the Trustee under the terms of the Indenture, Aquila filed the Application for various required Commission findings and approvals. One finding being sought, according to the Application, is that the public interest would be served by a "determination of the Commission of the reasonableness of the transfer price of the equipment from AE to

Aquila Networks-MPS" at said transfer price will have a direct bearing on future cost of service.

Q. HOW ARE THE SPECIFIC REQUESTS DESCRIBED IN THE APPLICATION?

A. On page one of the Application is a listing of three specific requests:

1. A determination that Aquila's acquisition for its regulated Missouri electric utility operations from an affiliated entity of three 105 megawatt natural gas-fired combustion turbines for the purpose of construction an electric generation station in an area near the City of Peculiar, Cass County, Missouri does not provide a financial advantage to the unregulated affiliate.
2. Authorization to enter into a sale and leaseback arrangement with the City of Peculiar to facilitate the issuance of tax-advantaged Chapter 100 revenue bonds to finance the construction and operation of a power generation station.
3. Authorization to cause said electric generation station to be subjected to the lien of the indenture as security for the benefit of the holders of the revenue bonds.

(Application ¶ 1)

The language pertaining to the three requests listed above is expanded on page four, paragraph 8, of the Application wherein Company states its requests are:

The Commission's determination that the acquisition of the CTs from AE by its regulated Aquila Networks-MPS division at a



Rebuttal Testimony of Ted Robertson  
Case No. EO-2005-0156

1 transfer value of \$70,796,850 does not provide a financial  
2 advantage to AE.

- 3
- 4 2. Permission to enter into a sale and leaseback arrangement whereby  
5 legal title to the CTs will be conveyed to Peculiar to obtain  
6 financing for the installation and construction of the electric  
7 generation station through the issuance by Peculiar of tax-  
8 advantaged revenue bonds under the Act.
- 9
- 10 3. Authorization to cause the Project assets to be pledged and  
11 conveyed to a trustee under an indenture of trust as security for the  
12 benefit of the holders of the revenue bonds.
- 13
- 14

15 However, beginning on page nine of the Application, Company further expands  
16 its requests from the Commission for an order that also provides the following

17

- 18 (A) Finding that the relief requested in this Application is not  
19 detrimental to the public interest;
- 20
- 21 (B) Authorizing Aquila Networks-MPS to record on its regulated  
22 books of account a transfer price of \$70,796,850 related to its  
23 acquisition from AE of the CTs;
- 24
- 25 (C) Finding that the fair market value of the CTs is \$70,796,850;
- 26
- 27 (D) Finding that the proposed transaction does not provide a financial  
28 advantage to AE;
- 29
- 30 (E) Authorizing Aquila to sell and convey to Peculiar all real estate,  
31 facilities equipment and installations necessary to install, construct,  
32 control, manage, and maintain the Project;
- 33
- 34 (F) Authorizing Aquila to lease the Project from Peculiar and operate  
35 the Project;
- 36

Rebuttal Testimony of Ted Robertson  
Case No. EO-2005-0156

- 1 (G) Authorizing Aquila to cause the Project to be pledged to the  
2 Trustee under the terms of the Indenture as security for the holders  
3 of the Bonds;  
4  
5 (H) Authorizing Aquila to enter into and perform in accordance with  
6 the terms of the Agreement;  
7  
8 (I) Authorizing Aquila to enter into and perform in accordance with  
9 the terms of the Lease;  
10  
11 (J) Authorizing Aquila to enter into and perform in accordance with  
12 the terms of the Indenture;  
13  
14 (K) Authorizing Aquila to enter into and perform in accordance with  
15 any and all other necessary agreements and instruments under the  
16 Act;  
17  
18 (L) Authorizing Aquila to do any and all other things incidental,  
19 necessary or appropriate to the performance of any and all acts  
20 specifically to be authorized in such order or orders;  
21  
22 (M) Finding that the Project, in combination with power supply  
23 agreements, is the least cost option for additional power generation  
24 for Aquila Networks-MPS's operations; and  
25

26 Further, making such other orders as it may deem just and proper in the  
27 circumstances.  
28  
29

30 Q. DID PUBLIC COUNSEL REQUEST ADDITIONAL CLARIFICATION OF WHAT  
31 COMPANY WAS ACTUALLY SEEKING FROM THE COMMISSION WITH ITS  
32 APPLICATION?

33 A. Yes. In response to OPC Data Request No. 20, which sought additional clarification as to  
34 what it was actually requesting from the Commission, Company stated:

Aquila would like the Commission to approve the value to be booked for the CTs that were transferred from AE to Aquila.

This position was further corroborated by Company in its response to MPSC Staff Data Request No. 32 wherein it stated Aquila's request is:

Aquila is requesting the approval of the **valuation** of an affiliate transaction. The affiliate transaction Rules (4 CSR 240-20.015) require a lower of cost or market determination be made to transfer assets from a non-regulated to regulated entity and the reporting of all affiliate transactions to the Commission annually. The Rules also provide a means to place a transaction in front of the Commission **if** the Company deems the transaction not in compliance with the Rules (4 CSR 240-20.015 (10)). The Rules do not, however, provide a process for the Company to place the valuation of the transaction in front of the Commission if the Company believes the transaction is in compliance. Therefore, the Company is requesting Commission approval of the transfer value of the turbines, generators and equipment that was transferred from AQP (sic) to MPS Networks in accordance with the affiliate Rules.

(Emphasis added by OPC)

Q. DID AQUILA SUBSEQUENTLY MODIFY OR LIMIT ITS REQUESTS?

A. Yes. On June 8, 2005, Company filed an amended application which limited the requests of the original application. On page two of the First Amended Application, it states:

1 In order to narrow the issues to be presented to the Commission in this  
2 case, Aquila hereby amends its Application by striking from the prayer of  
3 the Application subparagraph (M) appearing on page 11 thereof, that  
4 requests a finding from the Commission that the Project (as therein  
5 defined), in combination with power supply agreements, is the least cost  
6 option for additional power generation for Aquila Networks-MPS. In all  
7 other respects, the Application, as filed on December 12, 2004, is restated,  
8 ratified, and confirmed.  
9  
10

11 **III. PUBLIC COUNSEL SUMMARY.**

12 **Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THE ISSUES IN**  
13 **THIS CASE.**

14 **A. The Public Counsel's positions on the various issues in this case are as follows:**

15  
16 1 The affiliate transactions Rule ("Rule") of 4 CSR 240-20.015 does not support the  
17 requests contained within Company's Application. Company did not file for a  
18 variance of the Rule and there has been no challenge to its most recent CAM  
19 filing; therefore, the most logical place in which to determine a reasonable value  
20 for the equipment is in the Company's current general rate increase case.  
21

22 2 That the "determination of reasonableness for the value of the equipment" as  
23 proposed by Aquila should be rejected. That is, the fair market value ("FMV") of

1 the equipment as proposed by the Company cannot be determined to be  
2 reasonable because significant evidence to the contrary exists.

3  
4 The evidence Public Counsel presents in this testimony casts a considerable  
5 shadow of doubt on the Company's alleged value assigned to the equipment. It  
6 indicates that Company's proposed FMV significantly overstates the actual value  
7 of the equipment. Therefore, according to the Company, since its only request to  
8 the Commission is for a determination of the reasonableness of the equipment's  
9 alleged FMV, and not a determination of its value for ratemaking purposes, Public  
10 Counsel recommends that the Commission should simply find that the Company  
11 proposed equipment value cannot be determined to be reasonable at this time.

12  
13 By rejecting the Company's FMV determination request the affiliate transaction  
14 can then be suspended for review in the current general rate increase case, Case  
15 No. ER-2005-0436. The suspension of the affiliate transaction will then allow for  
16 the actual value of the equipment to be determined after it and the rest of the  
17 associated construction costs for the entire South Harper project are subjected to a  
18 detailed review and audit process.

1           3.     That Public Counsel has no objection to the Chapter 100 financing as long as the  
2                     Commission does not order or acquiesce to any valuation or ratemaking  
3                     assessment of the general or specific terms and conditions of the sale/leaseback  
4                     and other financing arrangements Company proposes to enter into.

5  
6           4.     That the Public Counsel opposes various other requests contained within the  
7                     Application. Specifically, Public Counsel opposes the requests A through D  
8                     because it is our belief that the equipment's proposed \$70,796,850 transfer price is  
9                     **not** a reasonable fair market value for the equipment. It is indeed detrimental to  
10                    the public interest and does in fact provide a financial advantage to the non-  
11                    regulated affiliate Aquila Equipment, LLC. Public Counsel also opposes the  
12                    requests G through L due to the fact that, as written, it appears that Company is  
13                    requesting the Commission to provide an order that supports a future ratemaking  
14                    determination for its actions. As for requests E and F, Public Counsel has no  
15                    objection to the requests.

16  
17   **IV.    DOES THE TRANSFER VALUE PROPOSED BY AQUILA PROVIDE AN**  
18           **UNFAIR FINANCIAL ADVANTAGE TO ITS NON-REGULATED AFFILIATE?**

19   **A.    AFFILIATE TRANSACTIONS RULE.**

20   **Q.    WHAT IS AN AFFILIATE TRANSACTION?**

1 A. An affiliate transaction is defined in 4 CSR 240-20.015(1)(B) as:

2  
3 Affiliate transaction means any transaction for the provision, purchase or  
4 sale of any information, asset, product or service, or portion of any product  
5 or service, between a regulated electrical corporation and an affiliated  
6 entity and shall include all transactions carried out between any  
7 unregulated business operation of a regulated electrical corporation and the  
8 regulated business operation of a electric corporation. An affiliate  
9 transaction for the purposes of this Rule excludes heating, ventilating and  
10 air conditioning (HVAC) services as defined in section 386.754 by the  
11 General Assembly of Missouri.  
12  
13

14 Q. WHAT IS AN AFFILIATED ENTITY?

15 A. An affiliated entity is defined in 4 CSR 240-20.015(1)(A) as follows:

16  
17 Affiliated entity means any person, including an individual, corporation,  
18 service company, corporate subsidiary, firm, partnership, incorporated or  
19 unincorporated association, political subdivision including a public utility  
20 district, city, town, county, or a combination of political subdivisions,  
21 which directly or indirectly, through one (1) or more intermediaries,  
22 controls, is controlled by, or is under common control with the regulated  
23 electrical corporation.  
24  
25

26 Q. HOW DOES THE AFFILIATE TRANSACTIONS RULE IMPACT THIS  
27 APPLICATION?

28 A. The essence of the Affiliate Transactions Rule is that it was implemented in order to  
29 prevent subsidization of a utility's non-regulated operations by its regulated operations.

The purpose of the electric utilities Affiliated Transactions Rule is defined in 4 CSR 240-

20.015 as:

PURPOSE: This Rule is intended to prevent regulated utilities from subsidizing their non-regulated operations. In order to accomplish this objective, the Rule sets forth financial standards, evidentiary standards and recording-keeping requirements applicable to any Missouri Public Service Commission (commission) regulated electrical corporation whenever such corporation participates in transactions with any affiliated entity (except with regard to HVAC services as defined in section 386.754, RSMo Supp. 1998, by the General Assembly of Missouri). The Rule and its effective enforcement will provide the public the assurance that their rates are not adversely impacted by the utilities' non-regulated activities.

Q. WITH REGARD TO AQUILA'S APPLICATION, WHAT DOES THE AFFILIATE TRANSACTIONS RULE REQUIRE?

A. The purpose of the Affiliated Transactions Rule is to set financial standards, evidentiary standards and recordkeeping requirements on utilities that engage in affiliated transactions. Since the Company has transferred property from a non-regulated affiliate to the regulated utility, it is subject to those standards and recordkeeping requirements. For example, the financial standard associated with transfers from an affiliate to a regulated electrical utility is defined in 4 CSR 240-20.015 as:

(2) Standards.



1 (A) A regulated electrical corporation shall not provide a  
2 financial advantage to an affiliated entity. For the purposes  
3 of this Rule, a regulated electrical corporation shall be  
4 deemed to provide a financial advantage to an affiliated  
5 entity if –  
6

7 1. It compensates an affiliated entity for goods or services  
8 above the lesser of –  
9

10 A. The fair market price; or  
11

12 B. The fully distributed cost to the regulated electrical  
13 corporation to provide the goods or services for  
14 itself.  
15  
16

17 Furthermore, 4 CSR 240-20.015(2)(B) and (D) add:  
18

19 (B) Except as necessary to provide corporate support functions, the  
20 regulated electrical corporation shall conduct its business in such a  
21 way as not to provided any preferential service, information or  
22 treatment to an affiliated entity over another party at any time, and  
23

24 (D) The regulated electrical corporation shall not participate in any  
25 affiliated transactions which are not in compliance with this Rule,  
26 except as otherwise provided in section (10) of this Rule.  
27  
28

29 Section (10) of the Rule defines how a variance from the standards can be implemented.

30 Essentially, a utility may file for a variance if it has engaged in an affiliate transaction that

31 is not in compliance with the standards set out in subsection (2)(A) if to its best

32 knowledge and belief compliance would not be in the best interests of its regulated

customers. If a variance is granted by the Commission, the affiliate transaction shall remain interim and subject to disallowance.

Q. WHAT DO THE EVIDENTIARY STANDARDS FOR AFFILIATE TRANSACTIONS IMPOSE UPON THE UTILITY?

A. The relevant evidentiary standards are defined in 4 CSR 240-20.015(3)(A), (B), and (D) as:

(A) When a regulated electrical corporation purchases information, assets, good or services from an affiliated entity, the regulated electrical corporation shall either obtain competitive bids for such information, assets goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

(B) In transactions that involve either the purchase or receipt of information, assets, goods or services by a regulated electrical corporation from an affiliated entity, the regulated electrical corporation shall document both the fair market price of such information, assets, goods and services and the FDC to the regulated electrical corporation to produce the information, assets, goods or service for itself.

(D) In transactions involving the purchase of goods or services by the regulated electrical corporation from an affiliate entity, the regulated electrical corporation will use a commission-approved CAM which sets forth cost allocation, market valuation and internal cost methods. This CAM can use benchmarking practices that can constitute compliance with the market value requirements of this section if approved by the commission.

Q. WHEN AQUILA DETERMINED THAT ITS MISSOURI REGULATED UTILITY  
REQUIRED NEW PEAKING GENERATION DID COMPANY PREPARE AND SEND  
OUT REQUESTS FOR PROPOSALS ("RFP") FOR THE COMBUSTION TURBINES?

A. No. Company's response to OPC Data Request No. 1014 states:

The regulated corporation did not obtain the bids for the respective  
equipment.

Q. IN LIEU OF THE RFP PROCESS, WHAT ACTIONS DID AQUILA UNDERTAKE TO  
SECURE THE EQUIPMENT?

A. Recognizing that its unregulated affiliate had assets sitting in storage that had been  
stranded due to the failed speculative Aries II Power Project ("Aries II") venture, Aquila  
transferred the equipment to the Missouri regulated utility (the original Aries power  
project is a non-regulated independent power producer ("IPP") and the speculative Aries  
II power project venture, had it not failed, would have also been an IPP).

Q. RECOGNIZING THAT THE EQUIPMENT TRANSFERRED FROM THE NON-  
REGULATED AFFILIATE TO THE REGULATED UTILITY WOULD BE SUBJECT  
TO THE AFFILIATE TRANSACTIONS RULE, WHAT ACTION DID THE  
COMPANY UNDERTAKE?

1 A. Company engaged the services of R. W. Beck to perform an appraisal of the equipment's  
2 value.

3  
4 Q. IS IT THE PUBLIC COUNSEL'S BELIEF THAT THE APPRAISER WAS HIRED TO  
5 SUPPORT THE BOOK VALUE COST COMPANY HAD RECORDED FOR THE  
6 EQUIPMENT?

7 A. Yes. Based on my review of the responses to OPC DR No. 14 and MPSC DR No. 5, It is  
8 my belief that the appraiser was hired to perform an appraisal that would support the book  
9 value cost of the equipment transferred.

10  
11 Q. HAS AQUILA EVER DEMONSTRATED WHY COMPETITIVE BIDS WERE  
12 NEITHER NECESSARY NOR APPROPRIATE FOR THE EQUIPMENT'S  
13 TRANSFER TO THE REGULATE UTILITY?

14 A. No. However, in its response to OPC Data Request No. 1014, Aquila did provide the  
15 following:

16  
17 2. The equipment held in Aquila Equipment LLC. was obtained by a  
18 combination of commercially available equipment and competitive  
19 bids.

20  
21 3. The Self-Build option selected by Resource Planning utilized  
22 501D5A equipment, which was immediately available, as the low  
23 cost option.  
24

1 Q. DOES THE COMPANY'S RESPONSE TO OPC DR NO. 1014 NEGLECT TO STATE  
2 PERTINENT INFORMATION?

3 A. Yes. The Company's response neglects to inform the reader that the competitive bids  
4 identified in item #2 were let and negotiated prior to calendar year 2002 or that the  
5 transfer of the equipment to the regulated utility occurred approximately three years later  
6 in 2004 (the equipment was originally intended for the Aries II Power Project).  
7

8 Q. ARE "COMPETITIVE" BIDS THAT ARE OVER THREE YEARS OLD  
9 APPROPRIATE TO FORM THE BASIS OF THE CURRENT TRANSACTION?

10 A. No. At a minimum, any competitive bids let and negotiated before 2002 for the  
11 abandoned Aries II Power Project should be considered "stale" with regard to the current  
12 South Harper construction project. Also, just because Aquila Inc. had immediately  
13 available nonperforming assets sitting stranded on the books of one of its unregulated  
14 subsidiaries does not automatically mean that the transfer of the equipment occurred at  
15 the lowest cost available. Other lower cost options (which I will discuss later in this  
16 testimony) were available had the Company chosen instead to follow the Affiliate  
17 Transactions Rule standards and obtained competitive bids for the equipment.  
18

19 Q. DO YOU BELIEVE AQUILA HAS DEMONSTRATED WHY COMPETITIVE BIDS  
20 WERE NOT NECESSARY OR APPROPRIATE?

1 A No. It is my opinion that the Company did not demonstrate why competitive bids were  
2 neither necessary nor appropriate. Company's failure to issue competitive bids for the  
3 equipment, or demonstrate why they were neither necessary nor appropriate, is contrary to  
4 the electric Affiliate Transactions Rule.

5  
6 Q. EARLIER YOU STATED THAT UNDER CERTAIN CIRCUMSTANCES A UTILITY  
7 CAN REQUEST A VARIANCE FROM THE AFFILIATE TRANSACTIONS RULE.  
8 WHAT ARE THE CIRCUMSTANCES WHEREBY A VARIANCE CAN BE  
9 OBTAINED?

10 A. According to 4 CSR 240-20.015(2)(D), if a utility knows that an affiliate transaction is  
11 not in compliance with the Affiliate Transactions Rule it may request a variance from the  
12 standards. In addition, 4 CSR 240-20.015(10)(A)2. further defines the conditions for  
13 obtaining a variance as:

14  
15 A regulated electrical corporation may engage in an affiliate transaction  
16 not in compliance with the standards set out in subsection (2)(A) of this  
17 Rule, when to its best knowledge and belief, compliance with the  
18 standards would not be in the best interests of its regulated customers and  
19 it complies with the procedures required in subparagraphs (10)(A)2.A. and  
20 (10)(A)2.B. of this Rule –  
21  
22

1 Q. DOES AQUILA BELIEVE THAT THE EQUIPMENT TRANSACTIONS ARE IN  
2 COMPLIANCE WITH THE AFFILIATE TRANSACTIONS RULE?

3 A Yes. Referencing it Policy and Procedure Manual for Affiliate Rules, provided in  
4 response to OPC Data Request No. 1015, Company states:

5  
6 We have directly charged this transaction. Section IV(5) (page 15) defines  
7 fully distributed costs as "Transfers from an affiliate to the regulated  
8 operation must be at the lower of cost or FMV." Aquila hired a consultant  
9 (R. W. Beck) to aid in the determination of fair market value (FMV).  
10  
11

12 Based upon the above language, it is my belief that Company believes the equipment  
13 transactions comply with the three basic requirements of 4 CSR 240-20.015. Therefore,  
14 Company had no need to request a variance as defined in 4 CSR 240-20.015(10).  
15

16 Q. WHO MUST MAKE THE INITIAL DETERMINATION THAT AN AFFILIATE  
17 TRANSACTION IS IN COMPLIANCE WITH THE REQUIREMENTS OF 4 CSR 240-  
18 20.015?

19 A. It's my understanding that the utility makes that determination within the boundaries of  
20 the Affiliate Transactions Rule, and its Commission approved CAM. The Company's  
21 response to MPSC Staff Data Request No. 32 states  
22

2 The affiliate transaction Rules (4 CSR 240-20.015) require a lower of cost  
3 or market determination be made to transfer assets from a non-regulated to  
4 regulated entity and the reporting of all affiliate transactions to the  
5 Commission annually.  
6

7 If a utility does not believe its affiliate transactions to be in compliance with the  
8 standards, it may request a variance from the standards. Since Company did not request a  
9 variance, one should assume that it believes the equipment transactions comply with the  
10 Rule.  
11

12 Q. DID AQUILA FOLLOW ITS COMMISSION APPROVED COST ALLOCATION  
13 MANUAL IN ITS TRANSFER OF THE EQUIPMENT?

14 A. Company alleges that it has. In its response to OPC Data Request No. 1015, which  
15 requested a copy of the CAM section that governs the equipment transactions, Company  
16 stated:  
17

18 Section A of the Company Cost Allocation Manual (CAM) states that cost  
19 allocation are used only when costs cannot be directly assigned to specific  
20 states and/or product lines. The transfer of this asset can be directly  
21 assigned. **Therefore we have followed the CAM by directly assigning**  
22 **the asset transfer.**  
23

24 (Emphasis added by OPC)  
25  
26



Q. WHEN WAS AQUILA'S MOST RECENT CAM FILED?

A. According to Company's response to OPC Data Request No. 1031, the most recent CAM was filed with the annual affiliate filing on March 15, 2005.

Q. WERE THERE ANY CHALLENGES TO THAT CAM?

A. The response to OPC Data Request No. 1031 states that there were, "no challenges" to the CAM filing.

Q. IF A UTILITY'S AFFILIATE TRANSACTIONS ARE IN COMPLIANCE WITH 4 CSR 240-20.015, IS THERE ANY REQUIREMENT IN THE RULE FOR THE COMMISSION TO DETERMINE THE REASONABLNESS OF A SPECIFIC DOLLAR VALUE FOR A TRANSACTION?

A. No. It's my understanding that there is no such requirement defined in the language of 4 CSR 240-20.015.

Q. IF THE AFFILIATE TRANSACTIONS ARE DETERMINED BY AQUILA TO BE IN COMPLIANCE WITH 4 CSR 240-20.015, WHAT MUST IT DO TO INSURE THAT THE EQUIPMENT'S VALUE, AS APPROPRIATE, IS INCLUDED IN THE RATEMAKING PROCESS?

1 A. Company must maintain the relevant records and documents so that during the course of  
2 the CAM review and/or a general rate increase case the parties can subject the evidentiary  
3 material to examination via the audit process.  
4

5 Q. WHAT ARE THE RECORD-KEEPING REQUIREMENT OF THE RULE?

6 A. The "third leg" for compliance within 4 CSR 240-20.015 pertains to record-keeping  
7 requirements. Sections 4 through 7 define those requirements in detail for both the  
8 regulated and non-regulated entities involved in the affiliate transactions. For example, 4  
9 CSR 240-20.015(4) states:  
10

11 (A) A regulated electric corporation shall maintain books, accounts and  
12 records separate from those of its affiliates.  
13

14 (B) Each regulated electrical corporation shall maintain the following  
15 information in a mutually agreed-to electronic format (i.e.,  
16 agreement between the staff, Office of the Public Counsel and the  
17 regulated electrical corporation) regarding affiliate transactions on  
18 a calendar year basis and shall provide such information to the  
19 commission staff and the Office of the Public Counsel on, or  
20 before, March 15 of the succeeding year:  
21

22 A full and complete list of all affiliated entities as defined  
23 by this Rule;  
24

25 2. A full and complete list of all goods and services provided  
26 to or received from affiliate entities;  
27

28 3. A full and complete list of all contracts entered with  
29 affiliate entities;  
30

4. A full and complete list of all affiliate transactions undertaken with affiliated entities without a written contract together with a brief explanation of why there was no contract;
- 5 The amount of all affiliate transactions by affiliated entity and account charged; and
6. The basis used (e.g., fair market price, FDC, etc.) to record each type of affiliate transaction.

(C) In addition, each regulated electrical corporation shall maintain the following information regarding affiliate transactions on a calendar year basis:

1. Records identifying the basis used (e.g. fair market price, FDC, etc.) to record all affiliate transactions; and
- 2 Books of accounts and supporting records in sufficient detail to permit verification of compliance with this Rule.

Similar requirements also exist in the Affiliate Transactions Rule for the records of the affiliated entities of the regulated electrical corporation.

Q. IS IT THE PUBLIC COUNSEL'S BELIEF THAT AQUILA'S REQUEST, FOR AN ORDER DETERMINING THE EQUIPMENT'S VALUE, IS PREMATURE?

A Yes. The Affiliate Transactions Rule merely defines the financial/evidentiary standards and record-keeping requirements that the utility must comply with in order to allow the inclusion of affiliate transactions in the ratemaking process. It does not require nor support the Company's requests before the Commission in the instant case. The Affiliate

1 Transactions Rule does not have any requirement whereby the Commission shall  
2 determine the reasonableness of the value of the equipment outside of a general rate  
3 increase case if no challenge occurs to its annual CAM filing or a variance to the Rule is  
4 not requested. It merely set the parameters whereby the utility arranges and tracks the  
5 affiliate transactions it enters into with affiliates. The actual value of the relevant  
6 transaction, and whether or not it is allowed or disallowed in the ratemaking process,  
7 should only occur within the confines of a general rate increase case.  
8

9 Q. DO YOU BELIEVE AQUILA'S REQUEST IS CONSISTENT WITH THE AFFILIATE  
10 TRANSACTIONS RULE REQUIREMENTS?

11 A. No. Company's apparent reliance on the Affiliate Transactions Rule to obtain a favorable  
12 Commission order for the equipment's value is a mistaken interpretation of the Rule's  
13 requirements. Except for sections that describe when and how a variance of the affiliate  
14 transactions Rule is obtained, there is no requirement that a utility ever come before the  
15 Commission to even report its affiliate transactions prior to its annual CAM filing. In  
16 instances requiring a variance, the Rule merely defines the procedures whereby a suspect  
17 transaction that has not met the standards requirement shall be presented before the  
18 Commission for possible exemption or suspended for review and possible disallowance at  
19 the time of the utility's annual CAM filing.  
20

Q. IF THE COMPANY HAS ALREADY DETERMINED THE EQUIPMENT  
TRANSACTIONS TO BE IN COMPLIANCE WITH THE AFFILIATE  
TRANSACTIONS RULE, IS THERE ANY NEED TO REVIEW THE VALUE OF THE  
ALLEGED EQUIPMENT COSTS OUTSIDE OF A GENERAL RATE INCREASE  
CASE?

A. No. To my knowledge, the Company's most recent CAM filing was not challenged with  
regard to these transactions thus, there is no need or requirement within the Affiliate  
Transactions Rule to determine the reasonableness of the values assigned to the  
transactions.

Q. IS IT THE PUBLIC COUNSEL RECOMMENDATION THAT THE AFFILIATE  
TRANSACTIONS BE DISALLOWED?

A. No. Even though Public Counsel believes the equipment transactions may have actually  
been structured so as to be in noncompliance with the requirements of the Rule, due to  
the Company's lack of obtaining competitive bids for the equipment to be placed at the  
South Harper site, we do not believe the transactions should be disallowed at this time.  
The Company has determined that the equipment transactions were in compliance with  
the Rule, and its CAM has not been challenged on this issue. Thus, the issue regarding a  
determination of the reasonableness of the equipment's value is not an issue that the Rule

requires the Commission to act upon before the conclusion of Company's current general rate increase case.

Since the Company has apparently met the record-keeping requirements of the Rule for the equipment transfers, it is the Public Counsel's belief that the determination of the reasonableness of their value should be addressed in the Company's current general rate increase case filing. That way the evidentiary documents can be subjected to the close examination process of a complete audit, by all parties associated with the case; thereby, providing Aquila and its management with a reasonably quick answer to its requests.

Q. ARE YOU AWARE OF ANY MISSOURI CASES WHEREBY THE COMMISSION HAS DETERMINED THE REASONABLENESS OF THE VALUE OF NEW INVESTMENT PRIOR TO IT BEING CONSTRUCTED?

A. No. However, with regard to whether new investment shall or shall not obtain rate base treatment, in Union Electric Company, Case No. EA-79-119, the Commission Order stated:

...the Commission realizes that the building of plant is a risky and expensive proposition. Therefore, the Commission will entertain requests from utilities to approve plant construction within their certificated areas only if all *necessary* information and facts are presented for a learned and rational decision. **By so doing, the utility would remove the contingency of obtaining a rate base determination after the plant was**

1           **built, and thus the possibility that the Commission would find and**  
2           **conclude that the plant was not needed after monies had been**  
3           **expended to build the same. Union Electric Co., 24 MO. P.S.C. (N.S.)**  
4           **78 (1980)**

5  
6           (Emphasis added by OPC)  
7  
8

9           Continuing, it states:  
10

11           ...the Commission leaves open the option of approving the addition of  
12           plant when and if it is provided with full information and the facts  
13           concerning the same. If utilities seek Commission approval of any plant  
14           construction in their certificated area or accept Commission regulation of  
15           their expansion plans, the Commission expects their construction  
16           programs over the next twenty (20) years to be submitted with full and  
17           complete information updated annually. Such information would include  
18           all units proposed, projected load forecasts and full cost information to  
19           support a least-cost approach to meeting energy needs. Further, in  
20           addition to annual updates of all information, the Commission would  
21           expect timely information on any changes proposed in such plans. Union  
22           Electric Co., 24 MO. P.S.C. (N.S.) 79 (1980)  
23  
24

25           The Order's language refers to the provision of what is commonly know as "Integrated  
26           Resource Planning" documents in order to obtain Commission approval to include new  
27           investment in the utility's rate base. Such documents are an integral part of a utility's  
28           strategic planning to meet its current and future capacity needs, and they are required by  
29           the Commission in order to gain a complete understanding of the utility's needs with  
30           regard to its ability to provide service to its customers. The language only discusses the

likelihood of including the new investment in rate base. It says nothing with regard to the Commission approving a determination of the plant's actual investment value.

Q. IN THE INSTANT CASE, HAS AQUILA PROVIDED THE INTEGRATED RESOURCE PLANNING DOCUMENTS THE ORDER DISCUSSED?

A. No, it has not.

**B. EQUIPMENT'S ACTUAL COST AND PURPOSE.**

Q. DOES THE VALUE AQUILA ASSIGNED TO THE EQUIPMENT TRANSFER PROVIDE A FINANCIAL ADVANTAGE TO ITS UNREGULATED AFFILIATE?

A. Yes, it does. The Company has transferred the equipment costs from the financial books of an unregulated affiliate to the financial books of the Missouri regulated operation at a value Public Counsel has reason to believe is excessive. I believe it relevant that the Commission be aware of certain inconsistencies in the Company's determination of the equipment's alleged FMV. The issues I will describe in the following testimony have provided a substantial financial advantage for the unregulated affiliate involved in the equipment transfer.

Q. WHAT WERE THE ACTUAL COSTS INCURRED BY AQUILA'S AFFILIATE TO PURCHASE THE EQUIPMENT?



A. There are three major categories of equipment costs associated with Aquila's request, 1) combustion turbines, 2) transformers, and 3) generator breakers. Company's response to OPC Data Request No. 10 states that the total for the individual costs were as follows:

1.	Turbines	\$76,137,869
2.	Transformers	1,774,515
3.	Breakers	<u>803,849</u>
	Total	\$78,716,233

Q. PLEASE PROVIDE A BREAKDOWN OF THE COMBUSTION TURBINES ACTUAL COSTS

A. Public Counsel's review of the Equipment Supply Agreement, and Company responses to various other data requests (e.g. OPC DR No. 10, 14 and MPSC DR No. 5), identified the following costs for the combustion turbines:

Combustion Turbines

ESA Contract Price <sup>1</sup>	\$70,455,285
Option Payment No. 1	<u>3,712,500</u>
Subtotal	\$74,167,785
Option Period Extension Payment	3,000,000
Option Payment for Additional Services	<u>320,000</u>
Subtotal	\$77,487,785
Change Order No. 1 <sup>2</sup>	<u>( 1,389,300)</u>
Total	\$76,098,485

<sup>1</sup>Company's response to MPSC Staff Data Request No. 47 provided a draft copy of a \*\*

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ \*\*

Also, Company's response to OPC Data Request No. 1033 provided a \*\*

\_\_\_\_\_  
\_\_\_\_\_ \*\*. Subsequently, in a \*\*  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_ \*\*

<sup>2</sup>On of about October 2001, a Change Order No. 1 was entered into that modified the options identified in Section 4 of the ESA. The new options included simulator training \$17,000, gas sensors \$87,600, dual serial links \$50,000, central control room \$85,300, redundant control DPUs \$220,000, and (\$1,849,200) to delete the cost of exhaust stacks. The newly selected options reduced the ESA contract costs in total by (\$1,389,300). Per the responses to OPC DR No. 14 and MPSC DR No. 5, after the execution of the Change Order No. 1, the resulting price for the three combustion turbines, excluding the option payments, was revised to \$69,065,985.

To the above total Aquila added approximately (\$15) for un-located costs and \$39,399 of labor costs. As adjusted, the total cost for the turbines rose to \$76,137,869:

Aquila Un-located/Labor Cost Addition

Total	\$76,098,485
Unlocated	(15)
Labor	<u>39,399</u>
Subtotal	\$76,137,869

1 Q. WHEN WERE THE COMBUSTION TURBINES DELIVERED TO THE NON-  
2 REGULATED AFFILIATE?

3 A. Company response to OPC Data Request No. 1003 states that the actual delivery dates of  
4 the combustion turbines were as follows:

- 5
- 6 1. Unit 1 - October 24, 2002
- 7 2. Unit 2 - December 6, 2002
- 8 3. Unit 3 - December 19, 2002
- 9
- 10

11 Q. PLEASE PROVIDE A BREAKDOWN OF THE TRANSFORMERS ACTUAL COSTS.

12 A. Company response to OPC Data Request No. 1002 provided a copy of Purchase Order  
13 No. 5262, dated February 28, 2002, that states that the transformers were produced by  
14 HICO America Inc. ("HICO") in Korea for a total cost of \$1,638,000. Included in the  
15 total was \$1,217,000.01 for 3 main power transformers @ \$405,666.67 each, \$141,000  
16 for 3 auxiliary transformers @ \$47,000 each, and freight of \$280,000.

17  
18 A subsequent Change Order No. 1, dated June 4, 2002, was later written to address  
19 necessary changes to accommodate the delay of the Aries II Power Project. The Aries II  
20 delay added an additional \$77,920 of costs related to storage of the equipment (i.e.,  
21 concrete pads \$18,000, crating \$5,000, assembly/disassembly after testing \$1,200, crane  
22 service \$5,720, maintenance of units in storage \$12,000 and testing after storage & before

1 shipment \$36,000). The new total for the equipment, subsequent to Change Order No. 1,  
2 was listed as \$1,715,920.01; however, a Change Order No. 2, dated July 11, 2002, was  
3 later written that allowed HICO to reschedule the manufacturing of the purchased  
4 material and to place all goods into storage to accommodate the Aries II Power Project's  
5 delay.

6  
7 Change Order No. 2 adjusted the actual incurred storage-related costs to the new amount  
8 of \$46,500 (i.e., concrete pads \$9,000, crating \$3,000, assembly/disassembly before/after  
9 testing \$500, crane service \$3,000, maintenance of units in storage \$6,000 and testing  
10 after storage & before shipment \$25,000). The new total cost for the transformers,  
1 subsequent to Change Order No. 2, was then identified as \$1,684,500.01 (a Change Order  
12 No. 3, dated August 13, 2002, was later written to add internal accounting information,  
13 but it did not change the costs from those listed in Change Order No. 2). To the  
14 \$1,684,500 Company added approximately \$90,015 of additional Burns & McDonnell  
15 ("B&M") costs (which mostly, if not all, were project management type costs) that  
16 resulted in a total cost for the transformers of \$1,774,515.

17  
18 Q. PLEASE PROVIDE A BREAKDOWN OF THE GENERATOR BREAKERS ACTUAL  
19 COSTS.

1 A. The Company's response to OPC Data Request No. 1004 states that 3 - FKG2S Generator  
2 Circuit Breaker 13.8kV-63A-60Hz were ordered by Alstom T&D Inc. (from Areva T&D  
3 Inc. ("Areva")) to be built in France. The Areva order included: 3 breakers @ \$239,500  
4 each for a total of \$718,500, freight @ \$8,750 each for a total of \$26,250 and a  
5 performance bond of \$7,500.

6  
7 The Areva order was subsequently modified by a Change Order No. 1, dated June 4,  
8 2002, to address necessary changes to accommodate the Aries II Power Project delay.  
9 Change Order No. 1 added an additional \$7,500 for storage fees and \$4,320 in finance  
10 charges. The total costs, subsequent to Change Order No. 1, was then identified as  
11 \$764,070.

12  
13 A Change Order No. 2, dated August, 23, 2004, was later written that reduced the Change  
14 Order No. 1 storage fees to \$7,380 and left the financing charges at \$4,320; however, it  
15 also added an additional \$9,000 in storage fees and \$8,000 for an Areva representative to  
16 supervise the unloading of the equipment. The total costs after taking into account both  
17 change orders was \$780,950. To the \$780,950 Company added approximately \$22,899 of  
18 additional Burns & McDonnell costs (which mostly, if not all, were project management  
19 type costs) which resulted in a total cost for the generator breakers of \$803,849.  
20

1 Q. WHEN WERE THE BREAKERS SHIPPED TO AQUILA?

2 A. It's my understanding that the generator breakers was shipped to Company on or about  
3 July of 2004.  
4

5 Q. WHAT DO THE \$3 MILLION IN PRELIMINARY SURVEY CHARGES COMPANY  
6 REFERS TO IN ITS APPLICATION REPRESENT?

7 A. Company's response to OPC Data Request No. 1 states that \$2,736,133.31 of  
8 preliminary survey charges were Aries II costs of which \$101,446.20 was transferred to  
9 the regulated MPC (mostly legal costs for the "Camp Branch Project," and the drafting of  
10 an engineering contract). However, Company also states that these costs are not included  
in the current Application.  
12

13 Q. DIDN'T AQUILA LATER INITIATE AND BOOK TO ITS FINANICAL RECORDS A  
14 WRITEDOWN OF THE EQUIPMENT'S COST?

15 A. Yes. Company's response to OPC Data Request No. 1026 states that in the fourth quarter  
16 of 2004 it transferred the equipment from the unregulated side of its business to its  
17 regulated Missouri operation. Commensurate with the transfer, it took a \$10.8 million  
18 non-cash charge to reflect the \$70,796,850 it now alleges as the equipment's value. Prior  
19 to the charge being taken, the equipment's total cost booked was approximately

1       \$81,598,964 (includes the \$2,736,133 preliminary survey charges discussed earlier, and  
2       \$146,598 of engineering, procurement and construction ("EPC") design costs capitalized).

3  
4       Q.     WHY WAS THE EQUIPMENT ORIGINALLY PURCHASED?

5       A.     The equipment was originally procured for the Aries II Power Project which was a  
6       proposed enlargement of the current Aries power plant capacity. Also, it's my  
7       understanding that the firm of Burns and McDonnell was employed by Aquila as the  
8       manager for that construction project, and that they were originally responsible for the  
9       procurement of the equipment for that project.

10  
11       Q.     WAS THE ARIES II POWER PROJECT LATER CANCELLED?

12       A.     Yes. It is my understanding that the Aries II Power Project was cancelled by Aquila.

13  
14       Q.     DOES THE PUBLIC COUNSEL BELIEVE THAT AQUILA'S FAILURE TO OBTAIN  
15       COMPETITIVE BIDS FOR THE EQUIPMENT HAS LED TO ITS  
16       OVERVALUATION BY AQUILA?

17       A.     Yes. The lack of competitive bids is indeed a major reason we believe the equipment is  
18       overvalued. Public Counsel also believes that there are other reasons that the value of the  
19       equipment, as proposed by Company, is excessive. However, Aquila did not obtain  
20       competitive bids for the equipment prior to transferring it from the non-regulated

1 operation to the regulated operation nor, did Company, in my opinion, adequately  
2 demonstrate why competitive bids were neither necessary nor appropriate. Instead, on or  
3 about October 2004 Company hired R. W. Beck ("Beck") to appraise the costs of the  
4 combustion turbines, transformers and generator breakers. The Beck appraisal was \*\*  
5 \*\* in its scope and preparation (as described by the appraisers). Thus, it is  
6 "limited" in its accuracy and validity. I intend to show the Commission that the appraisal  
7 and its conclusions are severely flawed because they do not adequately account for the  
8 true costs of the equipment in a competitive environment.  
9

10 **C. R. W. BECK APPRAISAL.**

1 **Q. WHAT TYPE OF APPRAISAL DID R. W. BECK PREPARE?**

12 **A. R. W. Beck performed what it described as a \*\*** \_\_\_\_\_  
13 \_\_\_\_\_  
14 \_\_\_\_\_

15 \*\*. The appraisal, attached as Schedule DRW-1 to the direct testimony of  
16 Company witness, Mr. Dennis R. Williams, states, \*\* \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_



**\*\*.** In Section 1.1 of the appraisal, Beck states

\*\*

**\*\***

**Q. PLEASE SUMMARIZE THE APPRAISER'S COST APPROACH ANALYSIS.**

A. Beck performed both an original and replacement cost method analysis. The original cost method consisted of taking the book value of the equipment and adjusting it for various costs the appraiser apparently deemed unnecessary. For example, as provided in Company's response to OPC Data Request No. 10 and shown on Table 4-1, on page 4-2 of the R. W. Beck appraisal, the total book value of the equipment is listed as \$78,716,233 (i.e., combustion turbines \$76,137,869 plus transformers & breakers \$2,578,364). Beck adjusts the book value for the costs listed (provided in the responses to OPC DR No. 14 and MPSC DR No. 5. Beck's summary sheet of the valuation is attached as Schedule TJR-2 to this testimony, and shown on Table 4-2, page 4-3 of the appraisal) to arrive at a total original cost method value of \$71,632,020 (i.e., combustion turbines \$69,245,970 plus transformers & breakers \$2,386,050).

Beck's replacement cost method valuation was also provided in the responses to OPC DR No. 14 and MPSC DR No. 5 (Beck's summary sheet of the valuation is attached as Schedule TJR-2 to this testimony), and is described in Section 4.2.2, page 4-4 of the appraisal, as:

\*\*

\*\*

To develop the total replacement cost method analysis Beck tripled the \$24,500,000 and made various other adjustments to arrive at a value of \$70,796,850 (i.e., combustion turbines \$68,410,800 plus transformers & breakers \$2,386,050). The calculation of the \$70,796,850 is shown on page 4-5 of the appraisal, Table 4-3, as:

<u>Item</u>	<u>Replacement Cost</u>
<u>Combustion Turbines</u>	
Replacement Cost	\$73,500,000
<u>Adjustments</u>	
Warranty	(2,240,000)
Exhaust Stacks	(1,849,200)
Multi-Unit Purchase	(1,000,000)
Combustion Turbines Subtotal	\$68,410,800
Transformers & Breakers	<u>2,386,050</u>
Value - Replacement Cost Method	\$70,796,850