

Incidentally, Beck's costing for the transformers and breakers remained the same under both the original and replacement cost approach analyzes.

Q. PLEASE SUMMARIZE THE APPRAISER'S MARKET APPROACH ANALYSIS.

A. Beck's market approach analysis (i.e., comparable sales method) consisted of a review of recent sales and offers of similar equipment. The analysis identified and adjusted six different offers to sell equipment similar to the Aquila assets (actually one of the offers was for the potential sale of the Aquila equipment to another utility). To the respective offers, Beck made various adjustments similar to those it made in the original cost method valuation.

The beginning and adjusted values of the six comparable offers for the combustion turbines, as determined by R. W. Beck, were provided in the responses to OPC DR No. 14 and MPSC Staff DR No. 5 (Beck's summary sheet of the offers is attached as Schedule TJR-2 to this testimony), and are shown on Table 4-4, page 4-7 of the appraisal, as

	<u>CT Offer</u>	<u>Adjusted CT Offer</u>
Offer 1	\$69,000,0000	\$66,760,000
Offer 2	\$64,500,000	\$71,200,800
Offer 3	\$57,000,000	\$61,460,800

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Offer 4	\$78,000,000	\$77,350,800
Offer 5	\$99,000,000	\$98,350,800
Offer 6	\$55,936,050	\$53,550,000

To arrive at its final comparable sales values Beck added the adjusted original cost method value of the transformers and breakers to the above Adjusted CT Offer values:

	<u>Trans/Break</u>	<u>Comparable Sales</u>
Offer	\$0	\$66,760,000
Offer 2	\$2,386,050	\$73,586,850
Offer 3	\$2,386,050	\$63,846,850
Offer 4	\$2,386,050	\$79,736,850
Offer 5	\$2,386,050	\$100,736,850
Offer 6	\$2,386,050	\$55,936,050

Company's response to OPC Data Request No. 1006 further described the six offers, before adjustment by Beck, as:

Offer 1 was from MEP Investments LLC, a subsidiary of Aquila Merchant Services to Kansas City Power & Light Company with options for the purchase of either two or three 105MW combustion turbines. The

offer was for \$23,000,000 per combustion turbine generator set of equipment (turbine/generator, transformers, breakers, etc.).

Offer 2 was from Rolls-Royce to Aquila for two steam injected combustion turbines and associated auxiliaries. The offer was for \$43,000,000.

Offer 3 was from Siemens Westinghouse Power Corporation for one combustion turbine it was storing for a customer. Similar terms as original contract, including the TFA. The offer was for \$19,000,000.

Offer 4 was an internet offer from Global Equipment Exchange, #12551, for one 130MW combustion turbine. It was built in 2001 and never installed and was stored in a warehouse. The offer was for \$26,000,000.

Offer 5 was an internet offer from Global Equipment Exchange, #12540, for one 120MW combustion turbine. It included enclosure for thermal and sound for outdoor installation. The offer was for \$33,000,000.

Offer 6 was an internet offer from Utilitywarehouse.com for one 120MW combustion turbine. Included enclosure thermal and sound for outdoor installation. The ball park offer was for \$12,000,000 to \$15,000,000.

Q. WHAT WERE THE CONCLUSIONS REACHED BY BECK'S APPRAISAL?

A. Beck's conclusions are described on page 5-2 of the appraisal as:

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1 The value listed above is corroborated in the Company responses to OPC DR No. 14 and  
2 MPSC Staff DR No. 5 which identify that R. W. Beck's appraised value under the  
3 replacement cost method for all the equipment is \$70,796,850.  
4

5 Q. IS THE REPLACEMENT COST METHOD VALUE THE AMOUNT AT WHICH THE  
6 EQUIPMENT WAS TRANSFERRED FROM THE NON-REGULATED AFFILIATE  
7 TO THE MISSOURI REGULATED OPERATION?

8 A. Yes. The replacement cost method value of \$70,796,850 is the amount at which  
9 Company transferred the assets from AE to MPG. This value was also corroborated by  
10 the Company's response to MPSC Staff Data Request No. 3 which provided a copy of a  
11 Journal Entry that shows the transfer of \$70,796,850 to MPG on November 30, 2004. It  
12 is also the value that Company requests this Commission issue an order to validate its  
13 "reasonableness."  
14

15 Q. IS IT THE PUBLIC COUNSEL'S BELIEF THAT THE VALUE OF THE EQUIPMENT,  
16 AS RECOMMENDED BY R. W. BECK, IS OVERVALUED?

17 A. Yes. I believe that the values identified in both the cost and market approaches of the  
18 appraisal are excessive. Furthermore, I do not believe that Beck's conclusion that its  
19 market approach valuations support its original cost approach replacement cost method  
20 valuation for the equipment is appropriate.

1 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES BECK'S COST  
2 APPROACH REPLACEMENT COST METHOD VALUATION IS EXCESSIVE.

3 A. Public Counsel's primary concern is that Beck's reliance on the cost approach replacement  
4 cost method to value the equipment transfer is inappropriate, and inaccurate, because the  
5 conclusion that it was the lower cost is not accurate. While it is the Public Counsel's firm  
6 belief that the value of the equipment transferred should have been determined via a  
7 competitive bid process, it is also our belief that Beck's acceptance of the cost approach  
8 replacement cost method valuation as a surrogate for the value of the equipment was  
9 based on an inaccurate calculation of both the cost approach original cost method and  
10 cost approach replacement cost method.

11  
12 Beck's analysis incorrectly calculates values for both methods and then compared its  
13 original cost method value to its replacement cost method value. The replacement cost  
14 method value was then inappropriately represented as the lower cost option of the two  
15 methods. Beck also erred in that it then compared the replacement cost method value to  
16 apparently inflated market approach offers it represents as current market pricing for  
17 similar equipment.

18  
19 Q. WHAT WAS BECK'S RATIONALE FOR ADOPTING THE COST APPROACH  
20 REPLACEMENT COST METHOD VALUATION?

2 A. Beck's rationale for accepting the cost approach replacement cost method valuation is  
3 stated, on page 4-3 of the appraisal, as:

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15 \*\*

18 Beck's comments reflect the belief that its calculation of the cost approach replacement  
19 cost method value was approximately \$835,170 less than the equipment's valuation  
20 utilizing the cost approach original cost method. Thus, since the manufacturer was  
21 offering similar equipment at a lower cost, the replacement cost is a more appropriate  
22 measure of the equipment's estimated value.

23  
24 Q. HOW DID BECK DETERMINE THE COST APPROACH REPLACEMENT COST  
25 METHOD VALUE FOR THE EQUIPMENT?

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1 A. To support its cost approach replacement cost method, Beck, on page 4-4 of the appraisal,  
2 states the following:

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26 Q. IS BECK'S ORIGINAL COST METHOD VALUATION OF THE COMBUSTION  
27 TURBINES EXCESSIVE?

28 A. Yes. Public Counsel believes that Beck's original cost method overvalues the cost of the  
29 combustion turbines by approximately \$7,882,150. In its responses to OPC DR No. 14

and MPSC Staff 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,  
Beck lists the following adjusted original cost method valuation of the combustion  
turbines:

<u>Combustion Turbines</u>	
Book Value	\$76,137,869
Adjustments	
Option Payment	(3,712,500)
Warranty	(2,240,000)
Production Modifications	(300,000)
Rehabilitation	(600,000)
Internal Labor	<u>( 39,399)</u>
Combustion Turbine Total	\$69,245,970

Beck's starting book value is supported by the following actual costs for the combustion  
turbines identified in the ESA, and the responses to OPC DR Nos. 10, 14 and MPSC  
Staff DR No. 5:

<u>Combustion Turbines</u>	
ESA Contract Price	\$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	<u>( 1,389,300)</u>
Subtotal	\$76,098,485



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Un-located	(15)
Labor	<u>39,399</u>
Total	\$76,137,869

However, it is the Public Counsel's belief that Beck's original cost method calculation neglects to exclude certain actual costs incurred which should not have been included in the determination of the adjusted original cost.

Q. PLEASE DESCRIBE THE ACTUAL COMBUSTION TURBINE COSTS THAT SHOULD BE EXCLUDED FROM THE ORIGINAL COST METHOD VALUATION.

A. At a minimum, Public Counsel believes that the following costs should be excluded:

Option Payment #1	\$3,712,500
Option Period Extension Payment	3,000,000
Un-located	(15)
Labor	<u>39,399</u>
Total	\$6,751,884

Q. DID BECK'S ORIGINAL COST METHOD VALUATION EXCLUDE THE COSTS LISTED IN THE PRIOR Q&A?

1 A. Beck's appraisal did exclude the Option Payment No. 1 costs and the Labor costs, but it  
2 did not exclude the other Option Period Extension Payment (i.e., Option Payment No. 2)  
3 or the Un-located costs.

4  
5 Q. DID BECK'S ANALYSIS ALSO EXCLUDE COSTS ASSOCIATED WITH AN  
6 EXPIRED EQUIPMENT WARRANTY?

7 A. Yes. Public Counsel believes that that was a reasonable adjustment to make given that  
8 the combustion turbines warranty had expired and was not renewed.

9  
10 Q. WHAT WAS THE PURPOSE OF THE OPTION PAYMENT NO. ?

11 A. In response to OPC Data Request No. 14, and MPSC Staff Data Request No. 5, Company  
12 provided a copy of the original combustion turbine purchase Letter Agreement, dated  
13 February 4, 2000. The Letter Agreement states the following:

14  
15 **In order to provide an option for Aquila to purchase these Units for**  
16 **one hundred eighty (180) days from the date of the Letter Agreement**  
17 **("Option Period"), Aquila agrees to pay Siemens Westinghouse a**  
18 **nonrefundable option fee of \$1,237,5000 for each Unit. ("Option**  
19 **Fee"), due by wire transfer upon execution of this Letter Agreement.**  
20 **Until the executed Letter Agreement and Option Fee are received by**  
21 **Siemens Westinghouse, all Units are subject to prior sale.**

22  
23 **After the execution of this Letter Agreement by both parties and the**  
24 **receipt of the Option Fee by Siemens Westinghouse, the parties shall**  
25 **endeavor in good faith to negotiate a contract based upon this letter**  
26 **Agreement within the Option Period. If at any time prior to reaching**

2           **agreement on the contract or upon expiration of the Option Period,**  
3           **Aquila notifies Siemens Westinghouse of its election to terminate the**  
4           **Letter Agreement for any reason, or if for any reason a contract has**  
5           **not been signed within the Option Period** or such longer period as may  
6           be mutually agreed upon in writing, then this Letter Agreement shall  
7           terminate. Both parties acknowledge the intent to provide adequate  
8           personnel to support the finalization and execution of a contract on or  
9           before such period expires subject to agreement on the terms thereof in the  
10          course of good faith negotiations contemplated thereby. **Upon such**  
11          **termination the Option Fee shall be retained by Siemens**  
12          **Westinghouse as the full termination fee...**

13           (Emphasis added by OPC)

14  
15  
16          Company agreed to provide Siemens Westinghouse a nonrefundable **option fee** (i.e.,  
17          Option Payment No. 1) of \$1,237,500 for each unit (total \$3,712,500) in order to provide  
18          it with the opportunity to purchase the units for one hundred eighty days from the date of  
19          the Letter Agreement. In essence, MEP paid a **premium** to guarantee certain  
20          manufacturing slots for its speculative purchase of the combustion turbines; however, the  
21          180 day time period expired before a contract could be finalized thus, the first option  
22          payment of \$3,712,500 was forfeited.

23  
24          Q.     DID COMPANY CONFIRM THAT THE PURCHASE OF THE COMBUSTION  
25          TURBINES WAS INTENDED TO FURTHER THE ACTIVITIES OF THE NON-  
26          REGULATED AFFILIATE'S SPECULATION IN THE POWER MARKET?

1 A. Yes. MEP Investment, LLC ("MEP"), the non-regulated operation of Aquila, purchased  
2 the CTs to further its speculation activities in the power market. During an April 29,  
3 2005 interview of Mr. Dave Kriemer, Director of Engineering of Aquila Networks, he  
4 stated that it was a seller's market unprecedented at the time. He added that the first  
5 option payment (i.e., \$3.7M) was paid to purchase a "queue" position for the right to  
6 negotiate a contract with Siemens. It was based upon 5% of the contract value and it only  
7 provided a right to get into line to negotiate a contract. According to Mr. Kriemer,  
8 Siemens said there are the openings we have, if you can live with them, you can get in  
9 line. He added that the purchase was a speculative purchase since Aquila did not have  
10 any actual off-take contracts for the CTs generation.

11  
12 Q. WHAT WAS THE PURPOSE OF THE OPTION PERIOD EXTENSION PAYMENT?

13 A. Option Payment No. 2 (i.e., the \$3 million option payment) was for the period extension  
14 that allowed MEP to continue its negotiations until the Equipment Supply Agreement was  
15 signed on or about September 2001. Company's response to OPC Data Request No. 1033  
16 included a letter from Siemens to Aquila, dated July 30, 2001, that stated:

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18 \*\*  
19 \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_

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(Emphasis added by OPC)

Furthermore, Company added:

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It's my belief that Option Payment No. 2, just like Option Payment No. 1, was a "premium" payment that the non-regulated affiliate, MEP, paid to guarantee certain CT manufacturing slots during the negotiation process in this particular speculative venture.

Q. WHY SHOULD THE \$3 MILLION OPTION PERIOD EXTENSION PAYMENT BE EXCLUDED FROM THE ORIGINAL COST METHOD VALUATION?

A. The \$3 million option payment was a speculation premium (just like the first option payment). The service provided to MEP for the payment was not a part of the product's actual costs, it was in fact intended for the purchase of "time" to complete the

1 negotiations for its speculative purchase of the combustion turbines. It was not an actual  
2 cost of the combustion turbines themselves. The ESA, and Company responses to OPC  
3 DR No. 14 and MPSC Staff DR No. 5, clearly state that the original contract price of the  
4 CTs was \$70,455,285 (not including any option fee, change order, un-located or other  
5 labor costs).

6  
7 The reality of the situation is that the CTs should probably never have been purchased if  
8 MEP did not have a contract in place to produce sufficient revenues to cover their cost,  
9 and apparently it did not. In any event, the speculation costs should not be considered the  
10 responsibility of the regulated Missouri operations because they were incurred by a non-  
11 regulated affiliate to further its own self-serving interests. The costs are not something  
12 for which the ratepayers of the regulated company should be held responsible. Public  
13 Counsel believes that the \$3 million option payment was nothing more than a "premium"  
14 MEP paid to guarantee manufacturing slots so that it could further its speculative power  
15 market activities.

16  
17 Q. ARE THERE OTHER COSTS WHICH SHOULD ALSO BE EXCLUDED FROM THE  
18 ORIGINAL COST METHOD VALUATION?

19 A. Yes. The CTs in question are for the most part older used equipment. Even though the  
20 CTs have not been utilized in an actual generating capacity, the Missouri regulated

operation was not the original purchaser plus, the equipment's age at the time of its proposed in-service date at the South Harper site will approximate two and one-half years. Therefore, I believe that an adjustment for some depreciation associated with the age of the CTs should be included in the determination of the original cost method valuation.

Q. DOES BECK RECOGNIZE THAT DEPRECIATION IS A VALID COST FOR THE APPRAISAL PROCESS?

A. Yes. In response to MPSC Staff Data Request No. 35, Company provided a copy of the Professional Services Agreement between it and R. W. Beck. On page one of Exhibit A, it states:

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\*\*  
(Emphasis added by OPC)

Referencing the cost approach to valuation, on page two it states:

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
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(Emphasis added by OPC)

Q. DID BECK INCLUDE A DEPRECIATION ADJUSTMENT IN ITS ANALYSIS?

A. Beck included a total reduction in value adjustment of \$900,000 relating to product modifications and rehabilitation costs of the previously stored CTs (provided in Company's response to OPC DR No. 14 and MPSC Staff DR No. 5 (Beck's summary sheet of the valuation is attached as Schedule TJR-2 to this testimony), and classified as \*\* \_\_\_\_\_ \*\* per the response to MPSC Staff DR No. 35). The adjustments, which I believe are an attempt to recognize costs similar in nature to depreciation are admirable, but insufficient.

For example, if we assume a thirty year operating life, the annual depreciation cost associated with the CTs approximates \$2,312,866 (i.e., ESA contract price \$70,455,285 plus Option Payment for Addition Services - \$320,000 plus Change Order No. (\$1,389,300) divided by thirty). Two and one-half years time the \$2,312,866 annual deprecation approximates \$5,782,165. If we reduce that amount by Beck's product modifications and rehabilitation adjustments, the value for depreciation not recognized in the original cost method valuation approximates \$4,882,165 (i.e., \$5,782,165 less \$900,000).



1 Q. DOES PUBLIC COUNSEL BELIEVE THAT THERE SHOULD BE AN  
2 ADJUSTMENT IN BECK'S ORIGINAL COST METHOD VALUATION THAT  
3 RECOGNIZES THE ADDITIONAL DEPRECIATION YOU CALCULATED?

4 A. Normally, depreciation is only taken against plant that is actually in service, however, the  
5 instant case creates a special situation in which I believe a depreciation-like adjustment  
6 would be appropriate. Aquila's non-regulated affiliate purchased the equipment for a  
7 speculative IPP venture that did not pan out. The equipment was then stored for a  
8 number of years before being assigned and transferred to the operations of the regulated  
9 utility. Even though the equipment was not actually placed in service it is now several  
10 years older. It's likely that the equipment has been surpassed by technological  
11 improvements and its costs, which were incurred in a seller's market, are not  
12 representative of pricing that exists in today's market for similar equipment.

13  
14 Q. BY HOW MUCH ARE THE CTs OVERVALUED, ACCORDING TO PUBLIC  
15 COUNSEL ANALYSIS?

16 A. Public Counsel believes that Beck's original cost method valuation could overstate the  
17 cost of the CTs by as much as \$7,882,150 (i.e., the \$3 million Option Payment No. 2 plus  
18 the Un-located costs plus a depreciation-like adjustment of \$4,882,165 for obsolescence  
19 and current market pricing impacts).

Q. IS THE ORIGINAL COST METHOD VALUATION OF THE TRANSFORMERS AND  
BREAKERS ALSO EXCESSIVE?

A. Yes. Public Counsel believes that Beck's appraisal overvalues the costs of the transformers and generator breakers together by approximately \$3,300. Since Beck utilized the same valuation for the transformers and generator breakers in both its cost approach original cost and replacement cost methods, both valuations are excessive by that amount.

Q. PLEASE IDENTIFY THE PROPER COSTS FOR THE TRANSFORMERS.

A. Company's response to OPC Data Request No. 1002 provided a copy of Purchase Order No. 5262 that identified the following costs Company incurred for the transformers:

3 main power transformers @ \$405,666.67 each	\$1,217,000
3 auxiliary transformers @ \$47,000 each	141,000
Freight	<u>280,000</u>
Total	\$1,638,000

Subsequently, the Aries II Power Project was delayed so a Change Order No. 1 was written to address necessary cost changes to accommodate the project delay:

<u>Change Order No. 1 – Storage Costs</u>	
Concrete pads for storage	\$ 18,000
Crating	5,000

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1	Assembly/disassembly before/after testing	1,200
2	Crane service	5,720
3	Maintenance of units in storage	12,000
4	Testing after storage & before shipment	<u>36,000</u>
5	Total	\$ 77,920

8 The Change Order No. 1 costs were later modified by a Change Order No. 2 which was  
9 written to allow HICO to reschedule manufacturing of the purchased material and place  
10 all goods into storage due to the Aries II Power Project delay:

12	<u>Change Order No. 2 – Storage Costs</u>	
13	Concrete Pads For Storage	\$ 9,000
14	Crating	3,000
15	Assembly/Disassembly Before/After Testing	500
16	Crane Service	3,000
17	Maintenance Of Units In Storage	6,000
18	Testing After Storage & Before Shipment	<u>25,000</u>
19	Total	\$ 46,500

22 The final purchase cost of the transformers was:

24	3 Main Power Transformers @ \$405,666.67 each	\$1,217,000
25	3 Auxiliary Transformers @ \$47,000 each	141,000
26	Freight	<u>280,000</u>
27	Sub-Total	\$1,638,000
28	Change Order No. 2	46,500
29	B&M EPC Costs <sup>1</sup>	<u>90,015</u>
30	Total	\$1,774,515

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<sup>1</sup>Additional Burns & McDonnell costs (which mostly, if not all, were project management type costs) resulted in a total cost for the transformers of approximately \$1,774,515.

It is the Public Counsel's understanding that the order changes, and B&M costs, were incurred in association with either the Aries II Power Project, or its delay and ultimate cancellation. These costs are completely unrelated to the South Harper construction and should not be construed as a part of the cost of that construction or the plant investment assigned to it. The only valid and reasonable costs associated with the transformers, in their proposed capacity, is the \$1,638,000 which includes their actual purchase price plus freight.

Q. PLEASE IDENTIFY THE PROPER COSTS FOR THE GENERATOR BREAKERS.

A. The Company's response to OPC Data Request No. 1004 provided a copy of Purchase Order 5360 that identified the following costs Company incurred for the generator breakers:

3 Generator Circuit Breaker @ \$239,500 each	\$718,500
Freight @ \$8,750 each	<u>26,250</u>
Subtotal	\$744,750
Performance Bond	<u>7,500</u>
Total	\$752,250

1 Subsequently, the Aries II Power Project was delayed so a Change Order No. 1 was  
2 written to address necessary cost changes to accommodate the project delay:  
3

<u>Change Order No. 1</u>	
Storage Fees	\$ 7,500
Finance Charges	<u>4,320</u>
Total	\$11,820

10 The Change Order No. 1 costs were later modified by a Change Order No. 2 which was  
11 written to allow HICO to reschedule manufacturing of the purchased material and place  
12 all goods into storage due to the Aries II Power Project delay:  
13

<u>Change Order No. 2</u>	
Storage Fees Month 1-6 \$500 per	\$ 7,380
Storage Fees Month 7-12 \$750 per	9,000
Finance Cost	4,320
Areva Service Rep. Supervision	<u>8,000</u>
Total	\$28,700

22 The final purchase cost of the generator breakers was:  
23

3 Generator Circuit Breaker @ \$239,500 each	\$718,500
Freight @ \$8,750 each	<u>26,250</u>
Subtotal	\$744,750
Performance Bond	<u>7,500</u>
Subtotal	\$752,250
Change Order No. 2	28,700

B&M EPC Costs <sup>1</sup>	<u>22,899</u>
Total	\$803,849

<sup>1</sup> Additional Burns & McDonnell costs (which mostly, if not all, were project management type costs) resulted in a total cost for the generator breakers of approximately \$803,849.

Again, it is the Public Counsel's belief that the order changes and B&M costs were incurred in association with either the Aries II Power Project itself, or its subsequent delay and ultimate cancellation. These costs are completely unrelated to the South Harper construction and should not be construed as a part of the cost of that construction or the plant investment assigned to it. In addition, I agree with Beck's appraisal that the cost of the performance bond should be excluded. The only valid and reasonable costs associated with the generator breakers, in their proposed capacity, is the \$744,750 which includes their actual purchase price plus freight.

Q. IF THE EXCESSIVE EQUIPMENT COSTS YOU HAVE IDENTIFIED WERE REMOVED FROM BECK'S COST APPROACH ANALYSIS WOULD THE VALUATION FOR THE ORIGINAL COST METHOD BE LESS THAN THE AMOUNT DETERMINED IN BECK'S REPLACEMENT COST METHOD?

A. Yes. Incorporating Public Counsel's adjustments for the excessive equipment costs into Beck's original cost method calculation would result in a value of \$63,746,570 (i.e., \$71,632,020 less CTs \$7,882,150 less transformers and generator breakers \$3,300). The

1 replacement cost method valuation reduced by excessive transformer and generator  
2 breaker costs approximates \$70,793,550 (i.e., \$70,796,850 less transformers and  
3 generator breakers \$3,300). The result is that the original cost method value is  
4 approximately \$7,046,980 less than the value determined in the replacement cost method  
5 (i.e., replacement cost method \$70,793,550 less original cost method \$63,746,570).  
6 Beck's conclusion that the replacement cost method valuation is a lower cost than the  
7 original cost method valuation is incorrect, and since it is incorrect, it is not appropriate  
8 for this Commission to order a determination that it is the "reasonable" value at which the  
9 equipment should be booked on the records of the Missouri regulated operation.  
10

1 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES BECK'S MARKET  
12 APPROACH VALUATION IS EXCESSIVE.

13 A. In an attempt to verify the validity and accuracy of the six offers identified in the Beck  
14 appraisal, and the Company's response to OPC Data Request Nos. 14, 1006 and MPSC  
15 Staff DR No. 5, I reviewed the terms and adjustments associated with the offers. My  
16 review of the offers, and additional documents and sources of information, identified  
17 several major inconsistencies that if incorporated into Beck's appraisal would  
18 significantly change the identified results and probable conclusions.  
19

20 Q. WHAT INCONSISTENCIES HAVE YOU IDENTIFIED?

1 A. The most glaring inconsistencies are represented by the internet offers obtained by Beck  
2 to support its conclusions. For example, the costs for the combustion turbines, before  
3 adjustment, for Offers 4, 5 and 6 are described in the response to OPC Data Request Nos.  
4 14, 1006 and MPSC Staff DR No. 5, and the appraisal, as \$78 million, \$99 million and  
5 \$45 million, respectively. However, on or about February 3, 2005, I performed an  
6 internet search for those properties wherein I contacted the sellers of the equipment. The  
7 sellers responses to me stated that the selling price per combustion turbine was \$15  
8 million, \$15 million and \$22 million per unit (the offers are attached to this testimony as  
9 Schedule TJR-3). Translating the per unit costs into comparable total costs, my internet  
10 search indicates that a more accurate costing of Offers 4, 5, and 6 may actually be \$45  
11 million, \$45 million and \$66 million, respectively. That is, the appraisal's Offer 4 is \$33  
12 million too high, its Offer 5 is \$54 million too high and its Offer 6 is \$21 million too low.

13  
14 Q. DOES THE PUBLIC COUNSEL HAVE CONCERNS WITH THE COST OF OFFER  
15 NO. 6?

16 A. Yes. It seems abnormal that the cost associated with Offer 6 rose from \$15 million per  
17 unit to \$22 million per unit while the other internet offers identified dropped significantly.  
18 I am of the opinion that the seller was merely trying to bargain for a higher price due to  
19 fact that it apparently had another party that was keenly interested in the equipment. For



1 example, the seller in its response to Public Counsel stated that they were working with  
2 another party looking for the same equipment, and that they were project participants.  
3

4 Q. DID THE PUBLIC COUNSEL LOCATE OTHER COMBUSTION TURBINES FOR  
5 SALE WHOSE COSTS WERE MORE IN LINE WITH THE RESULTS OF ITS  
6 INTERNET SEARCH RESULTS FOR OFFERS 4 AND 5?

7 A. Yes. I located the following two additional combustion turbine sales (the offers are  
8 attached to this testimony as Schedule TJR-4) that I believe are relevant to this issue:  
9

- 10 1. The first sale was an offer for six 92.6MW Westinghouse 501D5 combustion  
11 turbines at an estimated price of \$15 million each. These combustion turbines are  
12 apparently of similar design and size to those transferred from the Aquila affiliate  
13 at the much higher cost; however, seller did indicate that some additional  
14 conversion costs of approximately \$4 million per unit may be required.  
15
- 16 2. The second sale was for three 156MW MHI M501F combustion turbines at a  
17 current price of \$13 million each. These combustion turbines are much larger  
18 than those transferred from the Aquila affiliate, but it's my understanding that they  
19 are a newer version in the evolutionary timeframe of gas turbines than the  
20 W501D5 at issue.  
21  
22

23 Assuming that the two offers described above are reasonable, the total offer prices for  
24 three combustion turbines would approximate \$45 million and \$36 million, respectively.  
25 These costs appear to be more inline with the costs I received from the sellers for Beck's  
26 Offers 4 and 5 thus, I believe they substantiate that the rise in the cost of Offer 6 is

abnormal under current pricing circumstances. Either way, the combustion turbine costs I've identified are significantly lower than the offer costs which Beck relied on to value Aquila's equipment.

Q. DID THE PUBLIC COUNSEL'S REVIEW UNCOVER ANY ADDITIONAL COST INFORMATION THAT INDICATES THE BECK DATA IS EXCESSIVE?

A. Yes. Additional searching on my part yielded costing information contained within the reference Gas Turbine World 2003 Handbook. It's my understanding that the Gas Turbine World Handbook is a highly respected and accepted source of project planning design and construction operation for combustion turbine projects. In fact, Company's response to MPSC Staff Data Request No. 41 states that Gas Turbine World is a publication that provides annual price levels, which are arrived at by a consensus of industry users and industry suppliers for budgeting purposes.

On page 20 of the GTW Handbook (the reference is attached to this testimony as Schedule TJR-5) it lists the following price for a simple cycle plant of a type similar to that transferred to the Missouri regulated operation by the Aquila non-regulated affiliate:

Genset - W501D5A, 120,500kW, 9840 Btu, 34.75 efficiency, plant price  
**\$19,9000,000, per kW \$165**

(Emphasis added by OPC)

1 The combustion turbine is similar to those transferred from the Aquila non-regulated  
2 affiliate, but its published sale price is significantly lower than most of the offers in  
3 Beck's appraisal. At a price of \$19.9 million each, the cost of three combustion turbines  
4 would approximate \$59.7 million. Excluding the appraised cost of the transformers and  
5 breakers, the \$59.7 million is approximately \$8.7 million less than Beck's replacement  
6 cost method value (i.e., \$68.4 as shown in the responses to OPC DR No. 14 and MPSC  
7 Staff DR No. 5 ) for the combustion turbines.

8  
9 Furthermore, it is an interesting fact that Beck's appraisal quotes higher prices for CTs  
10 that are at least one year older than a similar CT is priced in the reference book. It is  
11 particularly interesting when one contemplates that at the time the Aquila affiliate  
12 purchased the CTs a price premium may have been placed on the purchase, and  
13 subsequent to that purchase there has been a softening in the market for combustion  
14 turbines.

15  
16 Q. IS THE PUBLIC COUNSEL AWARE THAT DURING THE TIME PERIOD THAT  
17 AQUILA'S NON-REGULATED AFFILIATE PURCHASED THE COMBUSTION  
18 TURBINES IT WAS CONSIDERED TO BE A "TIGHT" MARKET THUS, A  
19 PREMIUM WAS BEING CHARGED FOR NEW TURBINES?

1 A. Yes, Aquila's own documents make this point. Referencing the Aries II Power Project,  
2 Public Counsel sought information from the Company regarding the project in general  
3 and its ultimate disposition. Company indicated that the project was cancelled due to  
4 termination of the RFP process; however, on page seven of the Proposal Overview and  
5 Executive Summary, page 7, provided in the Company's response to OPC Data Request  
6 No. 1009, it states:

7  
8 **Development success for combustion turbine base power-generating**  
9 **facilities in the current competitive market demands the speculative**  
10 **reservation of manufacturing slots with the major manufacturers of**  
11 **this type of equipment. Recognizing their powerful position, these**  
12 **manufacturers have demanded significant non-refundable reservation**  
13 **fees and price premiums for this equipment in addition to a major**  
14 **shift of manufacturing, deliver, and performance risks to the future**  
15 **Owners of this equipment.**

16  
17 **Aquila Inc. recognized the need to provide a speculative schedule of**  
18 **exclusive future deliveries of combustion turbines in order to support**  
19 **its capacity growth strategy. To this end, the three Siemens**  
20 **Westinghouse 501D5A ECONOPAC packaged electric generating units**  
21 **were reserved by executed Letter of Intent and the payment of the**  
22 **required reservation fee during the first quarter of 2000. Upon successful**  
23 **completion of a Power Sales Agreement, Aquila Inc. will assign these**  
24 **turbines to MEPPH and direct the delivery to Pleasant Hill Missouri for**  
25 **used in the development of the Aries II facility.**

26  
27 (Emphasis added by OPC)  
28  
29

30 Q. DOES A TIGHT MARKET NOW EXIST FOR THE COMBUSTION TURBINES?

1 A. Based on my review of combustion turbine current costs, it's my belief that the market for  
2 combustion turbines has weaken since Aquila's non-regulated affiliate purchased the  
3 combustion turbines it transferred to the Missouri regulated operation. This position is  
4 further collaborated by the Market Offers 2 and 3 contained in Beck's appraisal  
5 Company's response to OPC Data Request No. 1006, which provided documentation  
6 supporting those offers, contains language in the Rolls Royce offer that states due to a  
7 softening of the power market in March of 2002 the units were placed in storage. Also,  
8 the SWPC offer adds that times have changed, market is down. (i.e., Offers 2 and 3,  
9 respectively).

10  
11 Q. IS THE PUBLIC COUNSEL AWARE OF ANY OTHER INFORMATION THAT  
12 WOULD SUPPORT THE COMPANY DOCUMENTATION THAT THE MARKET  
13 PRICE FOR THE SIEMENS W501D5A ECONOPAC HAS SOFTENED?

14 A Yes have personally reviewed an RFP response, for a peer Missouri utility, wherein  
15 early 2004 the utility received a firm offer for a W501D5A Econopac for a price that was  
16 significantly less than the price reported in the Gas Turbine World Handbook for the  
17 previous year. The offer included equipment in storage which had been previously  
18 purchased from Siemens Westinghouse, but had not been installed. In essence, if Aquila  
19 had issued competitive bids for the combustion turbines, rather than relieve its  
20 unregulated affiliate of the financial pressures associated with the affiliates stranded

equipment, it's possible that the three combustion turbines could have been purchased for a price that was far below the value recommended in Beck's appraisal.

Q. ARE THERE ALSO PROBLEMS WITH THE COSTS BECK DETERMINED FOR OFFERS 1, AND 3?

A. Yes. Offer 1 was an August 7, 2002 response from the Aquila non-regulated affiliate MEP to an RFP from Kansas City Power & Light Company ("KCPL") for combustion turbines, transformers, breakers, etc. The cost at which the equipment was offered was \$23 million per set of equipment according to the Company's responses to OPC DR No. 14 and MPSC Staff DR No. 5. KCPL did not accept the offer. Public Counsel sought to discover why KCPL rejected the offer. In its response to OPC Data Request No. 1016, Company stated:

The KCPL Bid Letter was verbally solicited by KCPL as part of final planning for the addition of peaking capacity to their system. This opportunity was one of several turbine procurement choices being evaluated by KCPL resulting from an RFP issued in mid 2002. Aquila was not on the original RFP mailing list but was allowed to submit the bid proposal since **Aquila had surplus equipment resulting from its decision to exit the Merchant Energy businesses.** Following the bid submittal, Aquila had several follow-up meeting with KCPL in an attempt to reach agreement. There was no formal written reply submitted by KCPL and they subsequently terminated all procurement activity without a commitment.

(Emphasis added by OPC)

1  
2 However, in its response to MPSC Staff Data Request No. 38 Company provided a letter,  
3 dated October 11, 2002, from Aquila to KCPL that stated the following:  
4

5 \*\*  
6  
7  
8  
9  
10  
11  
12  
13  
14

\*\*

(Emphasis added by OPC)

15 It's Public Counsel's understanding that KCPL may have been more interested in the other  
16 equipment (which had a similar operating capacity and a significantly lower offer cost)  
17 thus, the offer for the Siemens equipment was withdrawn, by Aquila's non-regulated  
18 operation, and cannot be considered to have been a reasonable offer for Beck's  
19 comparable market approach cost analysis. It was not a reasonable or realistic offer to  
20 use in the market approach cost analysis because it was neither accepted nor rejected by  
21 KCPL. The offer was merely pulled from the bid table by MEP approximately two  
22 months after it was issued. Even if it were considered to be an actual offer, based on the  
23 documents provided by Aquila, it did not appear to me that KCPL was interested in the  
24 Siemens equipment. It's quite possible that KCPL found the cost for the Siemens

1 equipment to be too high or, at least, not a particularly good bargain when compared to  
2 other offers. In any event, the Siemens equipment offer was withdrawn by MEP long  
3 before Beck actually prepared its analysis thus, Beck should have been aware the offer  
4 did not exist and was not a reasonable comparable.  
5

6 Q. WHAT IS THE PROBLEM WITH OFFER 3?

7 A. Beck's appraisal contains an adjustment in excess of \$2 million to Offer 3 for technical  
8 field assistance ("TFA"); however, the documentation provided in the Company's  
9 responses to OPC Data Request Nos. 14, 1006 and MPSC Staff DR No. 5 state that the  
10 \$19 million per unit offer includes the TFA cost. On page 2 of the offer, it states:  
11

12 We would estimate the price when we get done, assuming you will want  
13 the same TFA etc, as the original contract at about \$19M.  
14  
15

16 If the documentation is correct, Beck may be overvaluing the Offer 3 adjusted value by an  
17 amount in excess of \$2 million.  
18

19 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THE  
20 CONCLUSIONS ARRIVED AT IN BECK'S APPRAISAL.



A. I believe that the costs and conclusions arrived at in the R. W. Beck appraisal are neither accurate nor valid. Based on my review of the equipment's actual costs, the R. W. Beck appraisal, and other supporting documents, it is my belief that the cost at which Beck recommended the equipment transfer is excessive.

Beck's appraisal treats the valuing of the equipment under the market approach as a surrogate for the income approach, believing that a potential purchaser should pay the lesser of the cost approach or the income approach. If that is true, current market pricing information indicates that the value of the equipment under Beck's cost approach replacement cost method is not supported by the value of the equipment under its market approach. In fact, the values Beck determined under both the cost and market approaches are, for the most part, unreasonable, and unsupportable. The results for both methods culminate in excessive pricing of the equipment's cost when compared to actual market conditions, and the correction of errors in Beck's analysis.

Therefore, the Company's request that the Commission issue an order determining the transfer price of the equipment to be "reasonable" should not be done because the price at which the transfer occurred is in fact not "reasonable" at all. Since the value of the transfer price, which is what Beck's appraisal recommended, is not a reasonable amount at which to value the equipment a detriment to ratepayers would occur should the

1 Commission make such a determination. As such, Public Counsel believes that a  
2 determination of the equipment's value (along with the costs of the entire South Harper  
3 plant investment) would be better left to the detailed audit processes, and investigation by  
4 all interested intervening parties and stakeholders, in the Company's current general rate  
5 increase case.  
6

7 **V. PERMISSION TO ENTER INTO A SALE AND LEASEBACK**  
8 **ARRANGEMENT WHEREBY LEGAL TITLE TO THE CTs WILL BE**  
9 **CONVEYED TO PECULIAR TO OBTAIN FINANCING FOR THE**  
10 **INSTALLATION AND CONSTRUCTION OF THE ELECTRIC**  
11 **GENERATION STATION THROUGH THE ISSUANCE BY PECULIAR**  
12 **OF TAX-ADVANTAGED REVENUE BONDS UNDER THE ACT**

13 **Q. DOES THE PUBLIC COUNSEL OPPOSE AQUILA'S PROPOSED**  
14 **ARRANGMENTS FOR THE SALE AND LEASEBACK WITH THE CITY OF**  
15 **PECULIAR OR ITS INVESTMENT FINANCING?**

16 **A.** As long as the Commission does not order or acquiesce to any valuation or  
17 ratemaking assessment of the general or specific terms and conditions of the  
18 sale/leaseback and financing arrangements Company proposes to enter into, the  
19 Public Counsel will present no opposition to the issues in the instant case. In the  
20 event that the Commission seeks to order or assign a valuation or ratemaking  
21 action associated with the inherent costs identified in the general and specific  
22 terms and conditions of the actions, the Public Counsel would oppose the actions  
23 in their entirety. Our opposition would be based upon the fact that the actions

requested are inherently tied to the valuation of the equipment that was transferred from Aquila's non-regulated affiliate to the Missouri regulated operation. Public Counsel believes that the equipment's alleged value, as proposed by Company, is excessive in that it is not representative of current market conditions and pricing and was not valued via a competitive bid process.

**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**

**Q. DOES THE PUBLIC COUNSEL OPPOSE AQUILA'S PROPOSED  
ARRANGMENTS FOR THE PLEDGING AND CONVEYANCE OF THE  
ASSETS AS SECURITY FOR THE REVENUE BONDS?**

**A.** As long as the Commission does not order or acquiesce to any valuation or ratemaking assessment of the general or specific terms and conditions of the pledge, indenture of trust or the revenue bonds Company proposes to enter into, the Public Counsel will not oppose the actions. In the event that the Commission seeks to order or assign a valuation or ratemaking action associated with the inherent costs identified in the general and specific terms and conditions of the actions, the Public Counsel would oppose the actions in their entirety. Our opposition would be based upon the fact that the actions requested are

1 inherently tied to the valuation of the equipment that was transferred from Aquila's non-  
2 regulated affiliate to the Missouri regulated operation. Public Counsel believes that the  
3 equipment's alleged value, as proposed by Company, is excessive in that it is not  
4 representative of current market conditions and pricing and was not valued via a  
5 competitive bid process.

6  
7 **VII. OTHER REQUESTS CONTAINED WITHIN THE AQUILA APPLICATION.**

8 Q. WHAT CONCERNS DOES PUBLIC COUNSEL HAVE WITH THE OTHER  
9 REQUESTS CONTAINED WITHIN AQUILA'S APPLICATION?

10 A. As I described earlier, Aquila listed the following requests of the Commission in its  
1 Application:

- 12
- 13 A. Finding that the relief requested in this Application is not  
14 detrimental to the public interest;
  - 15
  - 16 B. Authorizing Aquila Networks-MPS to record on its regulated  
17 books of account a transfer price of \$70,796,850 related to its  
18 acquisition from AE of the CTs;
  - 19
  - 20 C. Finding that the fair market value of the CTs is \$70,796,850;
  - 21
  - 22 D. Finding that the proposed transaction does not provide a financial  
23 advantage to AE;
  - 24
  - 25 E. Authorizing Aquila to sell and convey to Peculiar all real estate,  
26 facilities equipment and installations necessary to install, construct,  
27 control, manage, and maintain the Project;
  - 28

- 1 F. Authorizing Aquila to lease the Project from Peculiar and operate  
2 the Project;  
3  
4 G. Authorizing Aquila to cause the Project to be pledged to the  
5 Trustee under the terms of the Indenture as security for the holders  
6 of the Bonds;  
7  
8 H. Authorizing Aquila to enter into and perform in accordance with  
9 the terms of the Agreement;  
10  
11 I. Authorizing Aquila to enter into and perform in accordance with  
12 the terms of the Lease;  
13  
14 J. Authorizing Aquila to enter into and perform in accordance with  
15 the terms of the Indenture;  
16  
17 K. Authorizing Aquila to enter into and perform in accordance with  
18 any and all other necessary agreements and instruments under the  
19 Act;  
20  
21 L. Authorizing Aquila to do any and all other things incidental,  
22 necessary or appropriate to the performance of any and all acts  
23 specifically to be authorized in such order or orders; and  
24

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

29 Public Counsel opposes items A through D because it is our belief, as described in the  
30 prior testimony, that the \$70,796,850 transfer price is **not** a reasonable fair market value  
31 for the equipment, is indeed detrimental to the public interest and does in fact provide a  
32 financial advantage to the non-regulated affiliate AEP. Public Counsel also opposes the  
33 requests in items G through L due to the fact that, as written, it appears that Company is

1 requesting the Commission to provide an order that supports a future ratemaking  
2 determination for its actions. Public Counsel recommends that the Commission not  
3 validate Company's request for an order that allows "authorizing Aquila to cause the  
4 Project to be pledged to the Trustee **under the terms of the Indenture,**" "to enter into  
5 **and perform in accordance with**" of any of the various agreements or financing  
6 documents nor, "**to do any and all other things incidental, necessary or appropriate**  
7 **to the performance of any and all acts specifically to be authorized in such order or**  
8 **orders.**" Each of these requests contains "carte blanche" language which attempts to gain  
9 for the Company unwarranted support for ratemaking of the associated costs. Each of the  
10 requests, A-D and G-L, are completely unwarranted and unsupported given that the filing  
11 of the instant case actually consists of nothing more than a notification to the Commission  
12 of an affiliated transaction that, I believe, does not meet the requirements of the Affiliate  
13 Transactions Rule 4 CSR 240-20.015.

14  
15 Q. DOES THE PUBLIC COUNSEL OPPOSE AQUILA'S REQUESTS IN ITEMS E AND  
16 F?

17 A. No. Public Counsel has no opposition to the Company entering into the arrangements to  
18 sell and lease the plant provided the associated ratemaking impact of the costs is not  
19 determined or ordered in the instant case.  
20

**VIII. OTHER INFORMATION.**

Q. IS THERE ANY OTHER INFORMATION REGARDING THIS CASE OF WHICH THE COMMISSION SHOULD BE AWARE?

A. Yes. It's my understanding, that the Company desires a Commission order that would provide it with an additional degree of certainty as to the value of the equipment costs that may be allowed in future rates. While the Company is not specifically seeking ratemaking treatment of the costs in the instant case, were the Commission to issue an order determining the value proposed as reasonable, such order would provide Aquila (and possibly the financial industry and investors) with some assurance that it would not need to further write-down the costs of the equipment below what it currently has recorded.

Q. ISN'T IT POSSIBLE THAT A FURTHER WRITEDOWN OF THE COST OF THE EQUIPMENT COULD OCCUR AT THE CONCLUSION OF AQUILA'S CURRENT GENERAL RATE INCREASE CASE?

A. Yes. Even if the Commission were to agree in this instant case that the costs of the equipment are reasonable, it is likely that those costs will be challenged by parties in the Company's current general rate increase case. If the parties are successful in their challenges, and the Commission orders that a true and accurate value of the equipment is

1 actually less than that proposed in the instant case, it is probable that Aquila will have to  
2 make another entry in its financial records to further write-down the costs booked.

3  
4 In essence, Aquila's desire for a determination of the equipment costs in this case does not  
5 actually prevent a further write-down, but should the Commission provide Aquila with  
6 the determination it seeks it would provide the Company with an inappropriate advantage  
7 in the general rate increase case. The advantage provided to Company would be that the  
8 burden of proof for the equipment's value would transfer to parties other than Aquila and  
9 its non-regulated affiliate since the Commission would have already determined the  
10 alleged costs reasonable.

1  
12 Q. DOES THE COMMISSION HAVE TO MAKE ANY DETERMINATION OF THE  
13 VALUE OF THE EQUIPMENT IN THIS CASE?

14 A. No. It is the Public Counsel's position that the Commission should not prejudice the  
15 parties in the current general rate increase case by making a determination that the fair  
16 market value of the equipment, as alleged by Aquila, is reasonable. It is not. In fact,  
17 quite the opposite is true in that the transfer price, as determined in Beck's appraisal, has  
18 significant flaws and cannot be relied on to provide what is a "reasonable" transfer price.  
19



1 Q. IS IT EXPECTED THAT THE VALUE OF THE EQUIPMENT ALONG WITH THE  
2 REST OF THE SOUTH HARPER CONSTRUCTION COSTS WILL BE REVIEWED  
3 AND DETERMINED IN AQUILA'S CURRENT ELECTRIC GENERAL RATE  
4 INCREASE CASE?

5 A. Yes, and it is the Public Counsel's belief that the current general rate increase case is the  
6 appropriate arena in which to determine the value of those costs.

7  
8 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THE ACTIONS  
9 SOUGHT BY THE COMPANY'S APPLICATION?

10 A. Public Counsel has reviewed the Company's support for the Application, along with  
11 additional independent documents and sources, in order to provide a rationale unbiased  
12 examination of the actions Company seeks. It is my belief that the Commission is not  
13 required to, nor should it, agree to or make any determination in this case, of the value of  
14 the equipment transferred from the unregulated affiliate to the Missouri regulated utility.  
15 Neither should the Commission issue an order containing language that would provide  
16 the Company with any unwarranted support for ratemaking of the associated costs of the  
17 equipment at issue, or the South Harper plant investment and its financing. It is the  
18 Public Counsel's belief that a determination of the equipment's cost, and its associated  
19 financing, should be made in conjunction with Aquila's current rate increase case.

1       However, should the Commission decide that a determination of the equipment costs  
2       (including associated plant investment and financing costs) is to be made in the instant  
3       case, I believe that the costs identified in the 2003 GTW Handbook are a more reasonable  
4       estimate of the actual costs that the regulated utility would have incurred for the  
5       combustion turbines had it issued RFPs for the equipment to be put into service in 2005.  
6       Public Counsel believes the GTW published prices are a more accurate source for the  
7       equipment costs than the R. W. Beck appraisal given that the appraisal contains  
8       inaccurate costs and conclusions. Furthermore, it is my belief, based on the market  
9       pricing I have reviewed, that had the Company actually issued competitive bids for the  
10      equipment it is possible that the prices it would have paid may have been significantly  
11      less than the GTW Handbook published prices. Thus, I believe, that the GTW published  
12      prices are a more moderate position that benefits both the shareholder and the ratepayer.

13  
14   Q.   DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

15   A.   Yes, it does.