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May 2, 2003

Secretary
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED²

MAY 02 2003

RE: Case No. EO-2003-0271

Missouri Public
Service Commission

Dear Mr. Roberts:

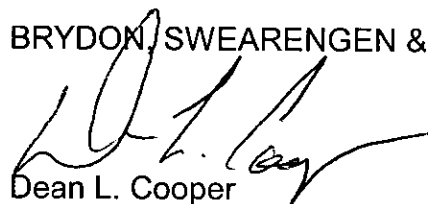
Enclosed please find an original and eight copies of the Rebuttal Testimony of John W. McKinney filed on behalf of Aquila, Inc., d/b/a Aquila Networks - MPS, Aquila Networks L&P. Please file stamp the enclosed extra receipt copy and return to me for my records.

If you have any questions concerning this matter, then please do not hesitate to contact me. Thank you very much for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:


Dean L. Cooper

DLC/tli

Enclosures

cc: Dana K. Joyce
John B. Coffman
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FILED²
MAY 02 2003
**Missouri Public
Service Commission**

Exhibit No.:
Issue: RTO Membership/Cost Recovery
Witness: John W. McKinney
Exhibit Type: Rebuttal
Sponsoring Party: Aquila, Inc.
d/b/a Aquila Networks - MPS
Aquila Networks - L&P
Case No.: EO-2003-0271
Date: May 2, 2003

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EO-2003-0271

REBUTTAL TESTIMONY

OF

JOHN W. MCKINNEY

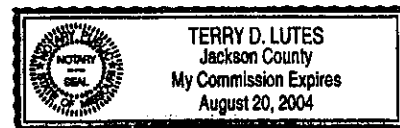
ON BEHALF OF

AQUILA, INC

D/B/A AQUILA NETWORKS - MPS

AQUILA NETWORKS L&P

JEFFERSON CITY, MISSOURI



**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
REBUTTAL TESTIMONY OF JOHN W. MCKINNEY
ON BEHALF OF AQUILA, INC. D/B/A
AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. EO-2003-0271**

1 **Q. Please state your name.**

2 A. My name is John W. McKinney.

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

4 A. I am employed by Aquila, Inc. ("AQN") as Vice President-Energy Resources.

5 **Q. Please state your business address.**

6 A. My business address is 10700 East 350 Highway, Kansas City, Missouri 64138.

7 **Q. What are your responsibilities in your position?**

8 A. I am responsible for various functions that deal with the energy resources of Aquila's
9 United States Network operations. The major functional areas that report to me are as
10 follows: fuel procurement, Integrated Resource Planning, long-term power contracts,
11 hourly transactions, transmission planning, and RTO/ISO coordination.

12 **Q. What is the purpose of your rebuttal testimony?**

13 A. I will be addressing AQN's areas of concern in response to AmerenUE's direct
14 testimony in support of its application for authority to participate in the Midwest ISO
15 through a contractual relationship with GridAmerica.

16 **Q. Is AQN opposed to AmerenUE's application that is a subject of this case?**

17 A. No. AQN does not oppose any part of AmerenUE's application.

1 **Q. If AQN does not object to the request in the application, what is AQN's interest**
2 **in this case?**

3 A. Since AQN's electrical system is interconnected with AmerenUE, AQN has a serious
4 interest in the outcome of this case. While AmerenUE's request is not problematic,
5 AQN seeks to provide an alternative to the direct case. This is because some of the
6 other parties have taken positions in similar filings that are of great concern to AQN.

7 **Q. Have any of the other parties in this case filed direct testimony besides**
8 **AmerenUE and GridAmerica?**

9 A. I am not aware of any direct testimony being filed by parties other than those you
10 mentioned.

11 **Q. Of the positions parties have taken in other RTO/ISO filings before the Missouri**
12 **PSC, which one is of the greatest concern to AQN?**

13 A. The Staff of the Missouri PSC in its recommendation in Case No. EO-2003-0015
14 proposed the following condition, among others, "Empire will not assert that the
15 Commission's approval of its application in the instant proceeding constitutes any
16 ratemaking determination, nor as a consequence of its membership or participation in
17 the Midwest ISO/SPP RTO that this Commission has lost any jurisdiction over any
18 ratemaking determinations relating to any costs that Empire may seek to recover in
19 retail rates that are related to its membership or participation in the Midwest ISO/SPP
20 RTO. Consequently, Empire will not seek to overturn, reverse, set aside, change or
21 enjoin, whether through appeal or the initiation or maintenance of any action in any
22 forum, a decision or order of this Commission which pertains to recovery,
23 disallowance, deferral or any other ratemaking treatment of any revenue, expense,

1 charge, cost or allocation, incurred or accrued by Empire in connection with, or as a
2 result of, its membership or participation in the Midwest ISO/SPP RTO, on the basis
3 that such revenue, expense, charge, cost or allocation has itself been filed with or
4 approved by the FERC.”

5 **Q. Why does this proposed condition concern AQN?**

6 A. Although its full meaning is unclear, it appears the Staff may be indicating that while
7 it agrees the public utilities of Missouri should join a RTO and ensure the Missouri
8 ratepayers enjoy the benefits, it is not sure the costs of joining a RTO are reasonable
9 or that the Commission should allow the recovery of the costs of belonging to the
10 RTO.

11 **Q. Would this Staff condition figure into AQN’s decision as to whether to turn over
12 operational control of its transmission assets to a RTO?**

13 A. Yes. Recoverability of costs would be a fundamental question that would be taken
14 into account. AQN does not believe it can turn over operational control of its
15 transmission assets to a RTO without an indication from the Commission as to how it
16 will address recovery of RTO costs.

17 **Q. Is this somehow different from other decisions AQN might make without
18 guidance from the Commission?**

19 A. Yes. The size of investment/costs and the ongoing nature of such costs raise the
20 stakes as to recoverability. Also, this is a new area. While the Commission’s
21 approach to AQN’s investment in a transmission line is well documented, there is no
22 guidance as to what RTO costs it believes are reasonable or recoverable. This is

1 information AQN must have to properly consider the ramifications of transferring
2 operational control of its transmission assets and becoming a member of a RTO.

3 **Q. Can the Commission issue a decision as to whether or not to grant this**
4 **application without determining what treatment it will give RTO costs?**

5 A. Perhaps not.

6 **Q. Why not?**

7 A. Although I am told it is not final, the Missouri Court of Appeals for the Western
8 District recently issued a decision that may have an impact on this question.

9 **Q. To what decision are you referring?**

10 A. *State ex rel. AG Processing, Inc. v. Public Service Commission*, Case No. WD60631
11 (April 22, 2003).

12 **Q. What is your understanding of the Court of Appeals' decision in that case?**

13 A. It is my understanding that the Court of Appeals found the recoverability of
14 acquisition premium to be a "necessary and essential" issue in the context of whether
15 a proposed merger is detrimental to the public interest. The Court did not believe it
16 would be sufficient to postpone this question until a future rate case.

17 **Q. Why do you believe that decision may have an impact on the case at hand?**

18 A. Whether and what RTO costs are reasonable and to be recovered may similarly have
19 an impact on the public interest. Thus, not only are the answers to these questions
20 necessary and essential to AQN's decision, they also may be a necessary, essential
21 and legally required aspect of the Commission's decision.

22 **Q. What do you propose as an alternative to AmerenUE's direct case?**

1 A. As an alternative to AmerenUE's direct case, AQN proposes that the Commission
2 make an express finding as to the reasonableness and recoverability of RTO costs as a
3 part of this application case.

4 **Q. Does this conclude your testimony at this time?**

5 A. Yes.