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| **Exhibit No.** | |
| **Issue:** | **Revenue Requirement** |
| **Witness:** | **Steven C. Carver** |
| **Type of Exhibit:** | **Direct Testimony** |
| **Sponsoring Party:** | **Veolia Kansas City Inc.** |
| **Case No.** | **HR-2011-0241** |
| **Date Testimony Prepared:** | **April 22, 2011** |

**BEFORE THE PUBLIC SERVICE COMMISSION**

**STATE OF MISSOURI**

**DIRECT TESTIMONY**

**OF**

**STEVEN C. CARVER**

**VEOLIA ENERGY KANSAS CITY, INC.**

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DIRECT TESTIMONY OF
STEVEN C. CARVER



**Attachments**

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**
**DIRECT TESTIMONY OF STEVEN C. CARVER**
**ON BEHALF OF VEOLIA ENERGY KANSAS CITY, INC.**
**CASE NO. HR-2011-0241**

Q. Please state your name and business address.

A. My name is Steven C. Carver. My business address is P.O. Box 481934, Kansas City, Missouri 64148.

Q. What is your present occupation?

A. I am a principal in the firm Utilitech, Inc., which specializes in providing consulting services for clients who actively participate in the process surrounding the regulation of public utility companies. Our work includes the review of utility rate applications, as well as the performance of special investigations and analyses related to utility operations and ratemaking issues.

Q. On whose behalf are you appearing in this proceeding?

A. Utilitech was retained by Veolia Energy Kansas City, Inc. (hereinafter "VEKC", "Veolia" or "Company") to assist in the preparation of a rate case filing on behalf of VEKC and to file testimony with this Commission regarding the Company's overall test year revenue requirement.

Q. Please summarize the purpose and content of your testimony.

A. Generally, my responsibilities in this docket encompass the review and evaluation of various elements of rate base and operating income included within the Company's overall revenue requirement. As a result, I address various adjustments to rate base and operating income, as identified on the earlier table of contents, as well as introduce the Company's proposed capital structure (Schedule SCC-3.D)[1] sponsored by Veolia witness Stephen G. Hill. Certain ratemaking adjustments may rely on information supplied by, or be co-sponsored in coordination with, Veolia witnesses Daniel Dennis, Keith Oldewurtel, Steven Weafer, Joseph Herz and Stephen Hill. The revenue requirement effect of the various Company adjustments and recommendations are reflected within the Veolia Joint Accounting Schedules, which are appended hereto as Veolia Schedule SCC-3.

Q. Did the Company recently initiate a corporate name change?

A. Yes. On April 4, 2011, the Commission approved the Company's request for a name change from "Trigen-Kansas City Energy Corporation" to "Veolia Energy Kansas City, Inc."[2] Company witness Oldewurtel will discuss this recent change.

## EDUCATION AND EXPERIENCE

Q. What is your educational background?

A. I graduated from State Fair Community College, where I received an Associate of Arts Degree with an emphasis in Accounting. I also graduated from Central Missouri State

[1] Schedule SCC-3 represents the Veolia Joint Accounting Schedules which support the Company's calculated revenue deficiency. Sub-schedule D is the proposed capital structure sponsored by Mr. Hill. For purposes of presentation, Sub-schedule D may be identified as Schedule SCC-3.D. Any abbreviated reference herein to Schedule D is intended to relate to Schedule SCC-3.D. Similar nomenclature applies to all sub-schedules contained within Schedule SCC-3.

[2] See Commission Order Recognizing Name Change and Approving Tariff Sheets, File No. HN-2011-0286, effective April 10, 2011.

University with a Bachelor of Science Degree in Business Administration, majoring in Accounting.

Q. Please summarize your professional experience in the field of utility regulation.

A. From 1977 to 1987, I was employed by the Missouri Public Service Commission ("MoPSC") in various professional auditing positions associated with the regulation of public utilities. In April 1983, I was promoted by the Missouri Commissioners to the position of Chief Accountant and assumed overall management and policy responsibilities for the Accounting Department. I provided guidance and assistance in the technical development of Staff issues in major rate cases and coordinated the general audit and administrative activities of the Department. In addition to my duties as Chief Accountant, I was also appointed in July 1983 as Project Manager of the Missouri Staff's audit of the construction costs of two nuclear generating stations owned by Missouri utilities.

I commenced employment with the firm in June 1987. During my employment with Utilitech, I have been associated with various regulatory projects on behalf of clients in the States of Arizona, California, Florida, Hawaii, Kansas, Illinois, Iowa, Indiana, Mississippi, Missouri, Nevada, New Mexico, New York, Oklahoma, Pennsylvania, Texas, Utah, Washington, West Virginia and Wyoming. I have conducted revenue requirement analyses and special studies involving various regulated industries (i.e., electric, gas, telephone, water and steam). Since joining the firm, I have occasionally appeared as an expert witness before the MoPSC on behalf of various clients, including the Commission Staff and other intervenors to utility rate cases. Additional information regarding my professional experience and qualifications are summarized in Veolia Schedules SCC-1 and SCC-2.

## EXECUTIVE SUMMARY

Q. What is the overall revenue deficiency quantified for the Company's regulated operations?

A. Based on a historical test year ended December 31, 2010, with certain known and measurable changes through early 2011,[3] the Company has quantified a revenue deficiency of about $3.7 million.[4] In comparison, Veolia's proposed tariffs seek the implementation of an overall rate increase of about $1.3 million, as more fully discussed by Company witness Dennis and summarized on Veolia Schedule DCD-2.

Q. In quantifying the revenue deficiency for VEKC, has a stringent cut-off date been applied for purposes of recognizing known and measurable changes?

A. In general terms, the first quarter of 2011 was generally targeted for recognizing known and measurable changes (e.g., fuel prices, salaries and wages, etc.). However, major elements of rate base (e.g., net plant and deferred income tax reserve balances), consumable costs and other corporate costs considered quantifiable changes through December 2010, as material changes were not observed subsequent to the 2010 test year.

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[3] Veolia's approach to the test year and quantification of known and measurable changes will be subsequently discussed herein.

[4] See Veolia Schedule SCC-3.A, as contained in the Veolia Joint Accounting Schedules attached hereto as Schedule SCC-3.

One annualization adjustment did incorporate a mid-2011 wage increase, but no material offsetting changes in other components of revenue requirement have been identified.

Q. Could you briefly describe the general nature of the regulated steam service provided by the Company?

A. Yes. As will be more fully discussed by Company witness Dennis, VEKC provides regulated steam to commercial customers, including retail business operations, governmental office buildings, hotels and owners/managers of multi-unit residential buildings in the downtown Kansas City area. These customers primarily use steam to heat and humidify occupied building space, to heat domestic water for laundry use, or in food preparation. An affiliate, Veolia Energy Missouri, Inc. ("VEMO" or "Veolia MO") also purchases steam at full tariff rates from VEKC for use in the provision of chilling service in limited areas of the downtown loop. Additionally, although service is not provided at regulated tariff rates, VEKC also sells process steam, pursuant to the terms and conditions of separately negotiated special contracts, to two industrial customers – National Starch and Chemical Company ("Starch") and Cargill, Incorporated ("Cargill").[5]

Q. How can the various Company Schedules and Adjustments that you sponsor be identified in the Veolia Joint Accounting Schedules?

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[5] These process steam customers are not captive customers whose only option is to receive utility service without feasible, alternative sources of energy. Rather, these are sophisticated commercial customers who have chosen to purchase steam from VEKC from among several feasible alternatives. Further, these customers have significant year-round steam requirements and voluntarily engage in extensive arm's-length negotiations before entering into contracts for process steam with the Company.

A. Schedule SCC-3 represents the Veolia Joint Accounting Schedules. Within these joint accounting schedules, the Company's recommended adjustments are listed on the schedule index located at the front of the joint accounting schedules. The name of the sponsoring witness is identified on this index and is also shown in the upper left-hand corner of each page contained within Schedule SCC-3.

Q. Mr. Carver, prior to the instant proceeding, have you ever submitted testimony on behalf of a utility in any regulatory proceeding?

A. Yes. I filed revenue requirement testimony on behalf of Trigen Kansas City Energy Corp. in the Company's last rate case before this Commission (Case No. HR-2008-0300). Other than these two steam rate cases, all of my testimony has been on behalf of the staff of various public service commissions, consumer advocate groups or state attorneys general, or other parties participating in a formal utility proceeding wherein I typically represent ratepayer interests.

Q. Please describe how the remainder of your testimony is organized.

A. The remainder of my testimony is arranged by topical section, following the table index presented previously. This index identifies the specific areas I address in testimony and references the testimony pages as well as any related adjustment identified in the joint accounting schedules.

## **TEST YEAR**

Q. Please briefly describe the test year approach used in this proceeding.

A. In quantifying overall revenue requirement, Veolia has employed a calendar 2010 historical test year,[6] recognizing identifiable known and measurable changes generally through the first quarter of 2011, plus the recognition of a former customer that has recently returned to the steam system. The various ratemaking adjustments proposed by Veolia attempt to balance the various elements of the ratemaking equation and capture material changes in the overall cost of providing utility service through early 2011.

Q. When you refer to balancing the various elements of the ratemaking equation, is it your intent to imply that each element of the ratemaking equation is developed in an identical manner?

A. No. In the ratemaking process, it is neither possible nor desirable to employ a stringent or mechanical method or approach to quantify each element of the ratemaking equation. Because the overall revenue requirement is comprised of various dissimilar elements, the technique employed to determine the ongoing level of revenues and expenses must be unique to the facts and circumstances underlying each element. Rather, it was my intent to indicate that the test year approach should be balanced and consistently applied to the various ratemaking elements, such that the resulting revenue requirement contains minimal quantification distortions.

Q. Why is the selection and balanced adjustment of a test year important in the determination of just and reasonable utility rates?

[6] Company witness Steven Weafer is sponsoring the unadjusted operating results for the 2010 historical test year.

A. The ratemaking equation commonly employed by this Commission, and other regulatory agencies, compares a required return on rate base to the investment return generated by adjusted test year operating results. If the return indicated by the adjusted operating results (i.e., adjusted test year operating income and rate base) is deficient, an increase in revenues is required to provide the utility an opportunity to earn a "reasonable" return on its investment. Conversely, an excessive return would support a reduction in utility revenues and rates.

For the ratemaking equation to function properly, the components comprising the equation (i.e., rate base, revenues, expenses and rate of return) must be reasonably representative of ongoing levels, internally consistent and comparable – within the context of test period parameters. To the extent that these components are not reasonably synchronized, a utility may not have the opportunity to earn its authorized return or, alternatively, may have the opportunity to earn in excess of the return authorized. By synchronizing or maintaining the comparability of revenues, expenses and investment, the integrity of the test year can be maintained with the reasonable expectation that the resulting rates will not significantly misstate the ongoing cost of providing utility service.

Consequently, it is critical that the ratemaking process properly synchronize only those known and measurable changes which occur during the test year or within a reasonable period subsequent thereto, rather than establish utility rates on inappropriate factors or inconsistent post-test year events. In this manner, regulators can best be assured that rates are reasonably based on ongoing cost levels.

Q. Could you explain the concept of "known and measurable" changes, as the Company has applied that concept in the current filing?

A. Yes. In general terms, the recognition of changes or adjustments to test year rate base and operating income should be consistently applied and limited to items that are fixed, known and measurable for ratemaking purposes. In my opinion, the following definition or explanation of the "known and measurable" concept, as commonly applied in utility ratemaking, is consistent with past Commission practice:

> **Known and measurable changes –** transactions or events that are:
> (a) Fixed in time. A qualifying transaction or event must be "fixed" within the test year or within the specified period following the test year – for example, during the first six months of 2011.
> (b) Known to occur. The transaction or event must be "known" to exist, in contrast with possible, uncertain or speculative changes.
> (c) Measurable in amount. The financial effect of the transaction or event can be "measured" or accurately quantified.

In this context, a transaction or event should only be considered known and measurable if it has been agreed to by contract or commitment, can be verified to have occurred within the specified time period, and can be quantified employing reliable data.

It is not uncommon for regulatory commissions to recognize or annualize transactions occurring within, or subsequent to, the historical test period for verifiable, yet balanced, changes which impact a utility's future earnings. However, it is also true that parties often differ on whether offsetting factors have been appropriately considered and how far outside the test year it may be appropriate to reach for changes. In my opinion, the recognition of known and measurable changes must be reasonably balanced or matched with offsetting factors. Otherwise, a distorted view of the cost of service will lead to improper rate adjustments. A consistent matching of both price and quantity changes is necessary to achieve this balance, particularly when volume changes, during or subsequent to the test year, offset price level changes.

Q. Based on your regulatory experience, is it reasonable to expect that changes occurring subsequent to a rate case test year will automatically put upward pressure on the cost of providing utility service?

A. No. It may be anticipated that the passage of time may result in increasing expenses (and investments), during periods of even modest inflation. As a result, the recognition of various revenue/expense annualization and/or normalization adjustments might be expected to consistently yield higher revenue requirements. However, revenue trends, productivity gains and reductions in certain operating expenses may offset the presumption of a generally increasing cost of service. Favorable and unfavorable revenue requirement influences can offset one another for many years, explaining how some utilities have been successful in avoiding base rate increases for extended periods of time.

All components of the ratemaking equation change over time. It is only by consistently analyzing the major cost of service components that a determination can be made as to whether the overall revenue requirement has changed materially. The key issue is whether revenues are growing faster or slower than the overall costs necessary to support those revenues.

## REVENUE REQUIREMENT & REVENUE CREDITING

Q. Referring to Veolia Schedule SCC-3, the change in overall revenue requirement, as set forth on Schedule SCC-3.A, is shown in two steps – "Gross Change In Overall Revenue Requirement" And "Calculated Revenue Deficiency." Could you please explain this presentation?

A. Yes. As will be discussed by Company witness Dennis, VEKC provides regulated steam service to numerous tariff customers located within the Company's certificated service territory and provides process steam service to two customers (Starch and Cargill) pursuant to the terms and conditions of negotiated special contracts. Although a cost of service study has been prepared, as required by the settlement agreement in the Company's last rate case, VEKC proposes to continue to "revenue credit" the margins associated with its process steam line of business for purposes of this proceeding.

Referring to Schedule SCC-3.A,[7] the "Gross Change in Overall Revenue Requirement" appearing at line 7 represents the overall revenue deficiency prior to recognizing (i.e., "revenue crediting") the margins associated with pro forma process steam sales. In comparison, the "Calculated Revenue Deficiency" appearing at line 8 represents the reduced revenue deficiency <u>after</u> recognizing the pro forma "revenue credit" associated with process steam sales.

Q. Could you describe the "revenue crediting" process?

[7] Veolia Schedule A is contained in the Veolia Joint Accounting Schedules attached hereto and also be identified as Veolia Schedule SCC-3.A.

A. Yes. There are two basic methods for apportioning joint and common costs between tariff and nontariff services. First, complex and detailed cost studies and analyses could be undertaken to assign and allocate revenues, expenses, fuel costs/savings, and investment between these lines of business. Strict reliance on the result of such detailed studies would require that each line of business be effectively treated as a stand-alone operation for regulatory purposes and assume responsibility for their respective costs (i.e., both directly assigned and allocated embedded costs).

Second, in lieu of assigning and allocating cost responsibility, the approach to overall revenue requirement could recognize the profitable nontariffed (or nonregulated) lines of business for purposes of quantifying the calculated revenue deficiency and setting regulated tariff rates. Such an approach could be implemented by either recognizing such lines of business (i.e., investment, revenues and expenses) above-the-line for ratemaking purposes <u>or</u> by removing the identifiable revenues, expenses and investment and then separately quantifying a “revenue credit” adjustment to the overall revenue deficiency calculation. Consistent with the Company’s filing in the last rate case, VEKC has employed the revenue crediting approach to reflect the contribution of the process steam line of business in reducing overall revenue requirement.

This approach effectively allows the Company to retain a return on its process steam investment equivalent to the weighted cost of capital considered in setting utility rates, with the excess margins used to mitigate or reduce overall revenue requirement. This proposed treatment of these nontariffed services decreases revenue requirement by about $3.3 million, based on VEKC's proposed capital structure and cost rates.

Q. As part of this rate filing, the Company submitted a class cost of service study. Why were the results of that study not used as the basis to assign and allocate costs to the nontariff process steam customers?

A. As discussed and sponsored by Company witness Herz, Veolia prepared a class cost of service study (i.e., CCOSS) as required by the settlement agreement approved by the Commission in the Company's last rate case (Case No. HR-2008-0300). The CCOSS attributes embedded cost responsibility to individual customer groups[8] based on a combination of assigning identifiable direct costs and allocating indirect costs.[9] While the CCOSS provided useful information in assessing the relative success of each customer group, under the existing rate structure, in covering embedded costs, this first ever CCOSS for VEKC did not attempt to evaluate or explicitly consider all costs and benefits – such as how to recognize the benefits of fuel cost savings resulting from more efficient utilization of the steam generation resources enabled by Veolia's large volume, high load factor customers.

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[8] The customer groups are represented by the tariff rate schedules for Standard Commercial Service ("SCS"), Large Commercial Service ("LSC") and Interruptible Heating Service ("IHS") plus the nontariffed process steam customers. The LCS class was further disaggregated between VEMO, Truman Medical Center ("TMC") and all other LCS customers in an effort to further consider the unique nature of the costs to serve these subgroups.

[9] Various allocation techniques were employed including the average and excess demand methodology for steam production costs, relative steam requirements for fuel and consumable costs, and the ratio of directly assigned expenses for administrative costs.

Since the Company's requested rate increase is conservatively less than the overall calculated revenue deficiency, the CCOSS results were used as an indicator to support the proposed distribution of the requested rate increase between tariff rate classes. The Company anticipates a series of rate case filings may be required increasing rates in a phased manner, in order to mitigate the effects of potential rate shock and recognize the impact of perceived competitive pressures. These rate filings may also involve further refinements to the CCOSS approach before the Company attempts to link its regulated tariff rates to a specific cost of service study. Thus, the Company has concluded that the results of the current CCOSS should be used as a guide in the current proceeding, but that it would be premature to solely rely on those results to design rates to produce sufficient revenues enabling full recovery of the costs attributed to each of the three regulated customer classes (SCS, LCS and IHS).

Q. By proposing to revenue credit the margins from its process steam line of business, is the Company necessarily committing to utilize this methodology in all future rate case proceedings?

A. No. The Company has proposed the revenue crediting approach in this proceeding for several reasons. First, this is only the second steam rate case filed by VEKC, or its predecessor Trigen Kansas City, since Kansas City Power & Light Company divested its steam property in the early 1990's. Second, the assembly of this rate filing, including the preparation of the CCOSS agreed to in the settlement of the last rate case, was a major undertaking for the Company at a time when the general state of the economy and unique business requirements demanded attention. Third, the revenue crediting methodology mitigates overall revenue requirement without the need to commit additional resources to further develop and enhance the CCOSS to fully and completely segregate the process steam line of business. Nevertheless, the Company may choose to continue using the revenue crediting methodology in future rate proceedings.

## RATEMAKING ADJUSTMENTS

Q. Are you sponsoring adjustments to both rate base and operating income for purposes of quantifying overall revenue requirement?

A. Yes. I am sponsoring various adjustments to VEKC's test year rate base and operating income.

Q. Could you identify and briefly describe the rate base adjustments you sponsor?

A. Yes. The following outline identifies and briefly describes each rate base adjustment:[10]

**B-2 Remove Process Steam:** Removes from rate base the direct net investment and deferred income tax reserve balance related to providing process steam service.

**B-3 Materials and Supplies:** Recognizes a thirteen-month average of materials and supplies inventory in rate base.

**B-4 Fuel Inventory:** Includes a thirteen-month test year average of fuel inventories recorded by VEKC.

**B-5 Prepayments:** Represents a thirteen month average of prepayments for inclusion in rate base.

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[10] These rate base adjustments are listed on Veolia Schedule SCC-3.B, page 2. Adjustment "B-1" was intentionally reserved and not used for purposes of the Company's direct filing.

Q. Could you identify and briefly describe the adjustments to operating income that you sponsor?

A. Yes. The following outline identifies and describes each operating income adjustment:[11]

**C-1 Revenue – Billed Basis Adjustment:** Adjusts test year tariff revenues from an accrued basis to a billed basis.

**C-2 Revenues – Customer Additions, Losses & Corrections:** Adjusts test year revenues to recognize known customer changes and corrections.

**C-3 Revenues – Weather Normalization:** Adjusts test year revenues to reflect 30-year NOAA normal heating and cooling degree days.

**C-4 Revenues – Update Demand & Capacity Revenues:** Adjusts test year revenues to reflect actual demand and capacity charges to be billed to customers beginning in April 2011.[12]

**C-5 Fuel Expense Annualization:** Annualizes fuel expense using 2011 coal and gas supply sources/prices, historical generation mix, annualized/normalized tariff sales and test year process steam sales.

**C-7 Pro Forma Purchase Power Expense:** Annualizes purchased power expense related to tariff sales and test year process steam sales.

**C-8 Consumables Expense:** Recognizes pro forma consumables expense related to regulated tariff sales and test year process steam sales, using 2010 water and sewer charges.

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[11] These revenue and expense adjustments are listed on Veolia Schedule SCC-3.C, pages 2 through 4. In addition, Veolia Adjustments "C-6" and "C-12" were intentionally reserved or left blank

[12] At the time this testimony was finalized, the annual assessment of changes or revisions to the demand (LCS) and capacity (IHS) charges based on peak-hour demand had not been completed. Adjustment "C-4" was reserved for purposes of updating test year revenues once the new billing detail becomes known.

**<u>C-9 Remove Process Steam</u>:** Removes from operating income the direct revenues and expenses, including fuel, purchased power and consumables expense, related to providing process steam service during the test year.

**<u>C-10 Income Tax Expense</u>:** Recognizes income tax effects associated with pro forma operating results at existing tariff rates.

**<u>C-11 Depreciation Annualization – Existing Rates</u>:** Annualizes book depreciation based on the depreciable original cost investment included in rate base and the book depreciation rates previously authorized by this Commission.

**<u>C-13 Bonus Compensation & Payroll Taxes</u>:** Removes bonus compensation for the employees working full time at VEKC.

**<u>C-14 Corporate Common Cost True-up</u>:** Adjustment to true-up corporate common costs for inclusion in overall revenue requirement, including the corporate operations of Thermal North America, Inc. ("TNAI") and Veolia Energy North America LLC ("VENA").

**<u>C-15 Property Tax</u>:** Annualizes real and personal property tax expense based on the 2010 Tax Bill.

**<u>C-16 Rate Case Expense</u>:** Recognizes a three-year amortization of a reasonably conservative estimate of outside legal and consulting services necessary to the preparation, presentation and support of the current rate filing.

**<u>C-17 Capitalize Employee Benefits & Payroll Taxes</u>:** Removes a portion of test year costs for employee benefits and payroll taxes that should have been capitalized, but were inadvertently charged 100% to operating expense during the 2010 test year.

**C-18 Wage, Payroll Tax & Benefit Annualization:** Annualizes straight-time pay, employee benefits and related payroll tax expense for the employees working full time at VEKC.

**C-19 Nonrecurring KDHE Charges:** Removes certain test year accruals relating to potential environmental claims.

## NET PLANT

Q. Please describe the Company's approach to the quantification of net plant for purposes of this rate case.

A. The net plant component of rate base represents the actual net original cost investment, comprised of gross plant in service and accumulated depreciation reserve, recorded by the Company at December 31, 2010.

Q. Please explain the reference to net original cost.

A. A utility's investment in property at the time the property is first dedicated to public use is generally identified as the original cost. When the Company first purchased the steam operations from Kansas City Power & Light Company in the early 1990's, VEKC's predecessor entity did not maintain its accounting records in conformance with original cost accounting. In 2005, Veolia identified this deficiency and undertook a detailed analysis to correct its accounting records in conformance with original cost accounting.

In MoPSC Case No. HM-2004-0618,[13] the Company and Staff entered into a negotiated settlement agreement that, in part, required Trigen-KC (now VEKC) to maintain its accounting records in conformance with the FERC uniform system of accounts, including net original cost accounting. This settlement agreement was approved by the Commission by a report and order issued in that docket, effective December 31, 2004.[14]

In the Company's last rate case (Case No. HR-2008-0300), the Commission approved a settlement agreement that, in part, validated that the Company's proposed correction and restatement of its original cost investment and the related accumulated depreciation reserve had complied with the requirements of Case No. HM-2004-0618.[15] VEKC has continued to maintain and update the underlying accounting documentation and has recorded the rebalancing of the depreciation reserve between specific subaccounts, as required in that settlement agreement.[16]

Q. Does the accumulated depreciation reserve balance included in rate base also reflect the book depreciation rates previously authorized by the Commission, as required by the settlement agreement in Case No. HM-2004-0618 and subsequently revised by the settlement agreement in Case No. HR-2008-0300?

[13] Case No. HM-2004-0618 involved a joint application of Trigen and TNAI for Commission authority to transfer the control and stock of Trigen-KC.

[14] See Order Approving Unanimous Stipulation And Agreement And Disclaiming Jurisdiction Over The Chilled Water Operations Of Trigen-Missouri Energy Corporation, Case No. HM-2004-0618, effective December 31, 2004.

[15] See paragraph 8 of the Order Approving Unanimous Stipulation And Agreement And Authorizing Tariff Filing, Case No. HR-2008-0300, effective September 26, 2008.

[16] See page 4 of the Stipulation and Agreement, dated September 9, 2008, Case No. HR-2008-0300.

A. Yes. The depreciation reserve balance has been maintained to recognize the book depreciation rates authorized by the Commission by Depreciation Authority Order No. 148, issued on June 9, 1983, and subsequently revised by the depreciation rates approved in Case No. HR-2008-0300.

Q. Has the Company proposed an adjustment to reflect new plant additions or otherwise update net plant subsequent to December 2010?

A. No. At the time the Company's rate case filing was finalized, no material plant additions or changes in 2011 were known. However, Veolia Adjustment B-1 was "reserved" in the event that any additions, revisions or modifications become known during the Commission's consideration of this rate request.

## PROCESS STEAM

Q. You previously described Veolia Adjustments B-2 and C-9 as removing the direct investment, revenues and expenses relating to process steam. Are these adjustments necessary elements of the Company's proposed revenue crediting treatment of the nontariffed process steam margins?

A. Yes. Since the process steam margins are recognized as a reduction in quantifying the calculated revenue deficiency on Veolia Schedule A, it is necessary to remove direct process steam revenues and costs from the determination of test year rate base and operating income. In the absence of such adjustments, revenue requirement could be materially misstated.

Q. When did Cargill first begin receiving steam service from the Company?

A. Unlike Starch, whose steam service originated under KCPL ownership, Cargill first began purchasing steam from the Company in May 2006. In 2008, Cargill expanded its operations at its Kansas City facility and increased the volume of steam purchased from VEKC. The 2010 test year includes a full year of process steam sales to both Starch and Cargill.

Q. Does Veolia Adjustment C-9 remove only the steam sales and related direct costs for the actual service provided to Cargill and Starch during the test year?

A. Yes.

Q. In quantifying the process steam "revenue credit" amount used to determine the "Calculated Revenue Deficiency," were any adjustments made to the steam sales or related costs associated with process steam sales?

A. Yes. The revenue credit calculation has been synchronized with other ratemaking adjustments to include the Company's proposed fuel prices, consumable costs, depreciation expense, and process steam sales.

## OTHER RATE BASE ADJUSTMENTS

Q. What is the purpose of Veolia Adjustments B-3, B-4 and B-5?

A. These adjustments represent the Company's proposal to include in rate base a thirteen-month average of materials and supplies, fuel inventory and prepayments, respectively. Unlike most regulated utilities that burn coal for energy production, VEKC has very limited storage capacity at the Grand Avenue Station. Because of this limited storage space, coal is delivered to Grand Avenue on virtually a daily basis during the peak winter months. As a consequence, the Company is unable to store coal quantities that equate to multiple months of coal burn.

Q. Does VEKC store any oil inventory at Grand Avenue?

A. No. Coal is the only fuel inventory stored at Grand Avenue.

## REVENUE ADJUSTMENTS

Q. Please describe Veolia Adjustments C-1 and C-2.

A. Veolia Adjustment C-1 reduces test year revenues to replace the accrual basis revenues recorded during the test year with billed basis revenues. Veolia Adjustment C-2 reflects a net increase to test year revenues to recognize the migration of one customer from the LCS tariff to the SCS tariff and the addition of one new LCS customer that had previously discontinued steam service several years ago.

Q. Please identify the new LCS customer.

A. As more fully discussed by Company witness Weafer, the General Services Administration ("GSA") Federal Bolling Building experienced an emergency situation in mid-2010 resulting from the failure of both of its electric boilers. At the time, the GSA contacted VEKC concerning the possibility of steam service being provided to the Federal Office Building on an emergency basis. Since GSA was a former customer of VEKC and the original steam line remained in the building, Veolia was able to respond to the GSA's emergency request and reconnected the steam line within four hours of the initial emergency call, mitigating possible closure of the facility for a potentially extended period. GSA was initially provided emergency steam service under the SCS tariff based on estimated steam usage.

A permanent meter was installed in 2011 and the parties are working to complete a steam service agreement, which will result in the provision of steam service under the LCS tariff. Veolia Adjustment C-2 removes the test year revenues for the emergency steam service under the SCS tariff and includes a full year of estimated annual revenues under the LCS tariff, for a net adjustment increasing test year revenues.

Q. Does the Company currently anticipate any additional customer migrations, additions or losses in 2011 while this rate case is in process?

A. No. I am not aware of any other customer changes of this type that are presently anticipated by the Company.

It should be noted, however, that the Company's LCS and IHS tariffs require an annual determination of the highest hourly peak use during the prior winter heating season (i.e., December 1 through March 31) for prospective billing purposes. The demand charge element of the LCS tariff is based on the highest peak hour use in the two immediately preceding winter heating seasons (i.e., 2009-2010 and 2010-2011) while the capacity charge under the IHS tariff is limited to the highest peak hour use in the immediately preceding winter heating season (i.e., 2010-2011). At the time this testimony was prepared, the Company's review and assessment of LCS and IHS peak hour use had not yet been completed.

Because of the potential effect such changes may have on pro forma revenues, the Company plans to update test year revenues and revise the proof of revenue calculation to incorporate the new demand and capacity charges once the peak hour data becomes available. At the present time, it is unknown whether such an update will increase or decrease test year revenues. Veolia Adjustment C-4 has been reserved for this purpose.

## WEATHER NORMALIZATION

Q. You previously indicated that Veolia Adjustment C-3 adjusts test year revenues to reflect 30-year NOAA normal heating and cooling degree days. Could you briefly describe the methodology employed to quantify the effect of weather variances from normal?

A. Yes. Using billed basis tariff steam sales (i.e., stated in terms of thousand pounds or "Mlbs" of steam), I prepared a ten year (2001 through 2010) regression analysis of monthly steam sales and both heating degree days and cooling degree days. The results of these regression analyses were used to quantify the effect of weather variances on steam sales underlying Veolia Adjustment C-3.

Q. Why did you select a ten year period for the number of observations used for the heating and cooling regression calculations?

A. Because Veolia provides steam service to a limited tariff customer base, the heating and cooling regression analyses involved only customers receiving continuous service throughout the regression period (i.e., “constant customers”). Excluding VEMO, the Company’s tariff customer count has dropped from 68 customers in January 1999 to about 57 customers in 2006 and to 53 by the end of 2010. However, there has been sufficient turnover in the customer base that 43 of the current tariff customers have effectively been eligible to receive steam service throughout the ten-year regression period. Consequently, the regression analysis was limited to the 43 “constant customers” with the regression results applied to all test year customer sales.

A similar approach was employed in the cooling regression analysis. The Company provides tariff steam that is used principally for cooling purposes to affiliate VEMO under two separate accounts. Since the most recent account was added in mid-2007, monthly usage data was only available for one of the two VEMO accounts for a period longer than four years – which had the effect of limiting the cooling regression to only one account. Because the cooling regression was based on the usage of one customer, the regression period was extended to January 2001, or a ten-year period, in order to increase the number of observations and maintain consistency with the heating regression calculation.

Q. What weather station was used for purposes of obtaining actual and normal degree day data?

A. Mindful of the Commission Staff’s longstanding weather data preference, Veolia’s weather regression analysis used actual and normal degree day data from the Kansas City International Airport.

Q. You previously referred to "cooling" degree days when describing the effect of weather variances on steam sales. Why are "cooling" degree days relevant to VEKC's operations?

A. For most tariff customers, the Company merely provides steam for any number of uses, including: space heating and humidification, domestic water heating, laundry use, and food preparation. One of VEKC's customers, affiliate VEMO, purchases steam under two separate accounts at full LCS tariff rates to support its <u>cooling</u> operations in downtown Kansas City. Although VEMO does purchase steam throughout the year, the bulk of those purchases occur during the non-heating season. For that reason, a separate weather regression analysis was prepared for the steam sales to VEMO using actual and normal "cooling" degree day data.

## <u>FUEL EXPENSE</u>

Q. Please describe Veolia Adjustment C-5.

A. Veolia Adjustment C-5 annualizes fuel expense based on historical data: fuel mix (i.e., coal and gas), unit efficiency, line loss and station use. This annualization included early-2011 delivered prices for coal and gas as well as coal handling and ash disposal.

Veolia Adjustment C-6 has been "reserved" as a placeholder for purposes of potentially recognizing pro forma fuel expense effects that might arise during the rate case due to changes in fuel supply sources, revisions in fuel mix for currently unforeseeable changes in coal/gas utilization, and/or unknown changes in fuel prices during the known and measurable period.

Q. What is the meaning of your statement that Veolia Adjustment C-6 has been "reserved as a placeholder"?

A. At the time the Company finalized its direct testimony, there were no known changes to fuel suppliers, fuel prices or generation mix beyond the factors embedded in the quantification of Veolia Adjustment C-5. However, recognizing that changes might arise that could increase or decrease pro forma fuel expense, Veolia Adjustment C-6 was "reserved as a placeholder" to capture such effects when and if they become known and measurable.

Q. In direct testimony, Company witness Weafer discusses a billing dispute that arose between VEKC and Missouri Gas Energy ("MGE"). Has the Company sought to recover any of the costs associated with this billing dispute in the current rate case?

A. No. As indicated by Mr. Weafer, the Company is contesting MGE's claim that VEKC owes over $3.8 million related to the alleged inaccurate measurement of natural gas delivered between April 2003 and June 2008. In order to avoid the termination of gas deliveries by MGE, VEKC agreed to a payment schedule for the alleged unbilled amounts that would continue through August 2014.[17] In August 2010, the Company filed

[17] According to Company witness Weafer, VEKC has thus far paid MGE $967,625 through March 2011 and will continue to pay $71,402.82 per month until August, 2014, pursuant to the current payment schedule.

legal action[18] against MGE which is still pending before the Circuit Court of Jackson County, Missouri.

For purposes of this rate case, Veolia Adjustment C-5 does not seek to include these payments to MGE in pro forma fuel expense, which effectively eliminates the actual test year payments from fuel expense. Pending resolution of this legal action, the ultimate cost to VEKC resulting from MGE's will continue to be unknown. However, once the Company's legal actions are concluded, VEKC will consider what options might be available with respect to any unrecovered payments to MGE associated with the natural gas billing dispute.

Q. In quantifying Veolia Adjustment C-5, were the process steam sales to Starch and Cargill included in or excluded from the determination of system requirements?

A. Except for sales adjustments for weather normalization (tariff customers) and customer adds and losses (tariff customers), Veolia Adjustment C-5 is based on actual 2010 test year steam sales volumes (i.e., billed basis), including sales to its process steam customers – Starch and Cargill. However, as previously discussed, Veolia Adjustment C-9 separately removes revenues and direct expenses, including fuel expense, relating to process steam operations from pro forma operating expense.

[18] The law suit was filed in the Circuit Court of Jackson County, Missouri, Case No. 1016-CV24880, on August 6, 2010, seeking in part a declaratory judgment limiting the amount MGE can lawfully demand and the recovery of damages the Company suffered as a result of MGE's actions.

Q. Does the Company consider both process steam customers to represent high load factor customers?

A. Yes. As high load factor customers, the process steam customers allow VEKC to more efficiently use coal to meet its steam generation needs, thereby avoiding the purchase of significant volumes of natural gas for boiler fuel.

Q. In quantifying Veolia Adjustment C-9, did the Company propose to effectively reduce the favorable fuel mix that is achievable only by serving the high load factor process steam customers?

A. No. Veolia did not rely on a fuel dispatch model for purposes of quantifying the amount of pro forma fuel expense included in overall revenue requirement. Although a reasonable case could be presented that the absence of the process steam loads (and even Truman Medical Center) could result in a significantly higher proportion of the Company's generation needs being met by typically higher cost natural gas, the Company did not recognize this cost penalty to regulated steam operations in preparing Veolia Adjustment C-9.

## PRO FORMA PURCHASED POWER EXPENSE

Q. Please describe Veolia Adjustment C-7.

A. During the 2010 test year, the net energy purchases by VEKC were less than historical levels but appeared to represent ongoing expected levels. Veolia Adjustment C-7 annualizes purchased power expense based on test year energy purchases and the pro forma effect of the electric tariff rates of Kansas City Power & Light Company ("KCPL") approved by this Commission that became effective on September 1, 2009. At the time this testimony was finalized, the Company was not yet able to incorporate the effect of the Commission's order approving final tariffs in KCPL's pending rate case.

## CONSUMABLES EXPENSE

Q. Please describe Veolia Adjustment C-8.

A. Veolia Adjustment C-8 annualizes consumables expense (i.e., water, sewer and other chemical costs) related to the steam requirements supporting pro forma steam sales to tariff customers. This adjustment recognizes the water and sewer rates billed by Kansas City, Missouri during the 2010 test year.

## INCOME TAX EXPENSE

Q. Please describe Veolia Adjustment C-10.

A. Veolia Adjustment C-10 annualizes test year income tax expense consistent with the various other pro forma revenue and expense adjustments proposed by the Company.

Q. In quantifying taxable income, does Veolia Adjustment C-10 recognize a deduction for interest expense using allocated interest or interest synchronization?

A. Veolia Adjustment C-10 does employ the interest synchronization methodology which represents a long-standing practice of this Commission. In essence, the weighted cost of debt included in VEKC's proposed capital structure (Veolia Schedule SCC-3.D) is multiplied times the Company's net investment in rate base (Veolia Schedule SCC-3.B) to determine the amount of interest expense deductible for ratemaking income tax purposes.[19]

Q. If the Commission were to subsequently adopt a weighted cost of debt or rate base different from that proposed by Veolia, would it be necessary to recalculate income tax expense as set forth on Veolia Adjustment C-10?

A. Yes. For ratemaking purposes, the amount of income tax expense and tax deductible interest expense included in the calculation of overall revenue requirement typically rolls-out from the various rate base, revenue and expense adjustments and the weighted cost of debt ultimately adopted by the Commission. As in all utility rate cases, income tax expense will need to be recalculated consistent with such findings, including the income tax deduction for interest expense.

## DEPRECIATION EXPENSE ANNUALIZATION

Q. Please describe Veolia Adjustment C-11.

A. Veolia Adjustment C-11 represents the annualization of depreciation expense based on the depreciable plant included in rate base and the book depreciation rates authorized by the Commission in the settlement of the Company's last rate case (Case No. HR-2008-0300). This adjustment reflects the incremental change to the level of book depreciation expense included in the 2010 test year.

Q. How was Veolia Adjustment C-11 quantified?

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[19] See Veolia Schedules SCC-3.B and SCC-3.D, as contained in the Veolia Joint Accounting Schedules attached hereto as Schedule SCC-3.

A. Book depreciation was annualized by multiplying the regulated investment in depreciable plant included in rate base as of December 31, 2010, by the accrual rates discussed previously. The aggregate amount of the pro forma depreciation was then compared to the amount of depreciation expense recorded during the test year to quantify the adjustment amount.

## BONUS COMPENSATION

Q. Please describe Veolia Adjustment C-13.

A. Veolia Adjustment C-13 removes the amount of bonus compensation and related payroll tax expense recorded during the test year, for the VENA[20] employees who worked during 2010 on behalf of Veolia's operations in Kansas City, Missouri. In order to narrow the areas of potential disagreement in this rate case, the Company has agreed to not seek recovery of any bonus compensation.

Q. By making this adjustment in the current rate case, is the Company necessarily committing to not seek recovery of such costs in a future rate case?

A. No. Whether the Company may or may not choose to seek recovery of bonus compensation in a future rate case will be based on the facts and circumstances existing at that time.

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[20] As more fully described by Company witness Weafer, both Veolia Energy Kansas City ("VEKC") and Veolia North America, LLC ("VENA") are wholly owned subsidiaries of Thermal North America, Inc. ("TNAI"). See Schedule SRW-1 attached to the direct testimony of Mr. Weafer. All employees physically located in the Kansas City area are employees of the legal entity VENA (fka, ThermalSource LLC). The direct costs (e.g., labor, benefits, etc.) associated with those employees are directly charged to either VEKC or VEMO based on the nature of the work performed.

**CORPORATE COMMON COST**

Q. Are most of the administrative and ownership functions related to the operations of VEKC undertaken by personnel located in Kansas City?

A. No. As discussed by Company witness Weafer, the day-to-day activities of directly operating, maintaining and managing the VEKC steam operations are the responsibility of VENA personnel located in Kansas City. However, the administrative and ownership functions for all VENAH properties are currently supported by VENA or VENAH personnel located in Boston, Massachusetts.

Q. Has an adjustment been prepared to annualize and normalize the allocation of corporate common costs to VEKC?

A. Yes. Veolia Adjustment C-14 recognizes a conservative, ongoing level of corporate common costs allocated to VEKC.

Q. How was Veolia Adjustment C-14 determined?

A. Company witness Weafer provided actual 2010 costs incurred by both TNAI and VENAH. In the normal course of business, certain cost center expenses are retained and not allocated to the various operating entities. In addition, other cost center expenses were removed for regulatory purposes and not allocated to VEKC for purposes of this rate case.[21] The voluntary removal of certain common costs initially allocated to VEKC was undertaken with the intention of conservatively eliminating elements of expense that are sometimes controversial in the rate setting process. As with other positions taken by

[21] The types of common costs not allocated to VEKC include: executive officer compensation, incentive or bonus pay, project development and sale/acquisition costs, lobbying and charitable contributions, if any.

the Company in this proceeding, VEKC may at some future date seek recovery of certain categories of common costs that are voluntarily eliminated in this proceeding. Using an allocation factor based on the 2010 actual revenues of the various VENAH properties benefiting from the common costs incurred, the adjusted corporate common costs were then allocated to VEKC and compared to actual charges recorded during the test year, with Veolia Adjustment C-14 representing the resulting difference.

## PROPERTY TAX ADJUSTMENT

Q. Please describe Veolia Adjustment C-15.

A. Veolia Adjustment C-15 is based on the actual amount of real and personal property taxes for 2010 allocated between VEKC and VEMO. The adjustment reduces test year expense due to an inadvertent oversight in assigning 100% of the 2010 property tax amount paid to VEKC, rather than allocating such amount between VEKC and VEMO.

## RATE CASE EXPENSE

Q. Please describe Veolia Adjustment C-16.

A. Veolia Adjustment C-16 adjusts actual Regulatory Commission Expense recorded during the test year to reflect a three-year amortization of a reasonably conservative estimate of “normal” outside legal and consulting services to assist in preparing, presenting and supporting this rate filing. Only two out of twenty-nine nationwide TNAI properties are state-regulated steam properties, with VEKC being the only Veolia state-regulated property in Missouri.[22] As such, neither TNAI nor VENA currently maintains permanent staff to prepare and present a formal rate case without outside assistance.

Q. How did the Company determine a "reasonably conservative" estimate of outside legal and consulting services to be incurred?

A. At the outset, it should be emphasized that the current rate filing is not considered to be a "normal" or "typical" rate case. While this is now the second steam heat rate case filed for this property since the late 1980's, significant outside resources were required to support this rate filing. None of the in-house Company witnesses that filed testimony in the last rate case are still employed by TNAI, VENA or any of the other affiliated entities. The settlement agreement in the last rate case also required the Company to prepare a class cost of service study and participate in a collaborative process with the other parties to that case, commencing no sooner than nine months prior the "next" rate filing. That collaborative process started in April 2010.

Coupled with the absence of a regulatory staff at the local or corporate level, these factors contribute to the likelihood that VEKC will incur higher outside services expense than what is being sought for recovery in rates. Regarding the question of exactly how a "reasonably conservative" estimate was derived, clearly professional judgment was required inasmuch as the Company has limited "actual" or "normal" experience to rely upon.

[22] Trigen-St. Louis Energy Corporation, a wholly-owned subsidiary of TNAI, is rate regulated by the Solid Waste Management District Commission, a municipal entity in St. Louis, MO.

## CAPITALIZE EMPLOYEE BENEFITS & PAYROLL TAXES

Q. Please describe Veolia Adjustment C-17.

A. Veolia Adjustment C-17 removes certain employee benefit costs and payroll taxes that should have been capitalized but were inadvertently charged direct to expense.

Q. How was Veolia Adjustment C-17 quantified?

A. During a review of the Company's test year payroll and benefit costs, it was determinate that a portion of capitalized labor had not been loaded for related benefit costs or payroll taxes. A composite loading rate was calculated[23] and multiplied by the capitalized labor costs that had not been properly loaded for benefit and payroll taxes, thereby decreasing test year expense.

## ANNUALIZE WAGES, PAYROLL TAXES & BENEFITS

Q. What is the purpose of Veolia Adjustment C-18?

A. Veolia Adjustment C-18 annualizes straight time labor costs based on 2010 year-end employees working on behalf of VEKC. In addition to year-end headcounts and labor rates, this adjustment also encompasses a 2011 wage increase and costs associated with the cost of the employers' 401-k match, group insurance, defined retirement contributions and payroll taxes – all of which vary directly with actual wages paid.

[23] The composite loading rate was calculated by dividing the total cost of workers' compensation, group insurance, retirement costs, payroll taxes, etc. by total VEKC straight time and overtime labor. See Veolia Workpaper C13.

## NONRECURRING CHARGES

Q. Please discuss and describe Veolia Adjustment C-19.

A. Veolia Adjustment C-19 removes the cost of certain test year accruals recorded by the Company with respect to potential environmental claims. As discussed by Company witness Weafer, VEKC received a Responsible Party Notification Letter ("Notification") dated February 1, 2010 from the Kansas Department of Health and Environment ("KDHE"). The Notification informed the Company that it was considered a Potentially Responsible Party in connection with the alleged sale of waste coal residue and/or bottom ash (the "Material") to a third party (McGraw Trucking) who used the Material as fill for the construction of a parking lot pad. KDHE also alleges that the third party did not obtain a solid waste permit allowing for the disposal of the Material in this manner.

The total cost to the Company is unknown and one or more other parties may ultimately be held responsible for a portion of the remediation costs. VEKC has indicated that it acted in good faith in the sale of the Material and had no knowledge that the purchaser failed to obtain all required disposal permits. Due to the magnitude of the potential remediation cost, the limited amount paid to date relative to the amount accrued during the test year, and the possibility that other responsible parties may participate in funding the remediation costs, Veolia Adjustment C-19 simply removes the accrued costs from test year expense as the Company is not seeking recovery at this time.

Q. Is it possible that VEKC may seek recovery of these costs in a future rate case?

A. Yes. The Company has not yet made a determination whether it will seek recovery of any of these costs in a future rate case, but is reserving its right to do so. Once the actual costs become known and a determination has been made regarding the participation of other potentially responsible parties in the cost of remediation, VEKC will possess sufficient information to know the final cost of remediation and assess whether its share of the costs is material to its overall operations. At that time, the Company may or may not seek to recover these unfortunate and unintended costs through utility rates.

Q. Is the Company seeking Commission authority to defer these accrued costs as either a regulatory asset or in some other miscellaneous deferred debit account on its books and records?

A. No. Although VEKC is not seeking explicit authority to defer these accrued costs in order to enhance current period results of operations, the Company is seeking to secure the right to potentially pursue recovery of its actual remediation costs in a future rate case as noted previously. Obviously, the Commission, the Commission Staff and any intervenors participating in such a future rate proceeding would have the opportunity to conduct discovery and develop a position in agreement with or opposition to any cost recovery request. VEKC merely seeks to retain the right to pursue recovery of its actual costs in a future rate case without counter claims that cost recovery would be barred by the prohibition against retroactive ratemaking.

Q. Does this conclude your direct testimony?

A. Yes.

**STEVEN C. CARVER**
**SUMMARY OF QUALIFICATIONS**

## Education and Experience

I graduated from State Fair Community College where I received an Associate of Arts Degree with an emphasis in Accounting. I also graduated from Central Missouri State University with a Bachelor of Science Degree in Business Administration, majoring in Accounting. Subsequent to the completion of formal education, my entire professional career has been dedicated to public utility investigations, regulatory analysis and consulting.

From 1977 to 1987, I was employed by the Missouri Public Service Commission in various professional auditing positions associated with the regulation of public utilities. In that capacity, I participated in and supervised various accounting compliance and rate case audits (including earnings reviews) of electric, gas and telephone utility companies and was responsible for the submission of expert testimony as a Staff witness.

In October 1979, I was promoted to the position of Accounting Manager of the Kansas City Office of the Commission Staff and assumed supervisory responsibilities for a staff of regulatory auditors, directing numerous rate case audits of large electric, gas and telephone utility companies operating in the State of Missouri. In April 1983, I was promoted by the Commission to the position of Chief Accountant and assumed overall management and policy responsibilities for the Accounting Department, providing guidance and assistance in the technical development of Staff issues in major rate cases and coordinating the general audit and administrative activities of the Department.

During 1986-1987, I was actively involved in a docket established by the Missouri Public Service Commission to investigate the revenue requirement impact of the Tax Reform Act of 1986 on Missouri utilities. In 1986, I prepared the comments of the Missouri Public Service Commission respecting the Proposed Amendment to FAS Statement No. 71 (relating to phase-in plans, plant abandonments, plant cost disallowances, etc.) as well as the Proposed Statement of Financial Accounting Standards for Accounting for Income Taxes. I actively participated in the discussions of a subcommittee responsible for drafting the comments of the National Association of Regulatory Utility Commissioners ("NARUC") on the Proposed Amendment to FAS Statement No. 71 and subsequently appeared before the Financial Accounting Standards Board with a Missouri Commissioner to present the positions of NARUC and the Missouri Commission.

In July of 1983 and in addition to my duties as Chief Accountant, I was appointed Project Manager of the Commission Staff's construction audits of two nuclear power plants owned by electric utilities regulated by the Missouri Public Service Commission. As Project Manager, I was involved in the staffing and coordination of the construction audits and in the development and preparation of the Staff's audit findings for presentation to the Commission. In this capacity, I coordinated and supervised a matrix organization of Staff accountants, engineers, attorneys and consultants.

Since commencing employment with Utilitech in June 1987, I have conducted revenue requirement and special studies involving various regulated industries (i.e., electric, gas, telephone and water) and have been associated with regulatory projects on behalf of clients in twenty State regulatory jurisdictions.

**Previous Expert Testimony**

I have appeared as an expert witness before the Missouri Public Service Commission on behalf of various clients, including the Commission Staff. I have filed testimony before utility regulatory agencies in Arizona, California, Florida, Hawaii, Kansas, Indiana, Nevada, New Mexico, Oklahoma, Pennsylvania, Utah, and Washington. My previous experience involving electric and gas company proceedings includes: Atmos Energy Corp., PSI Energy, Union Electric (now AmerenUE), Kansas City Power & Light, Missouri Public Service/ UtiliCorp United (now Aquila), Public Service Company of Oklahoma, Oklahoma Gas and Electric, Hawaii Electric Light Company, Hawaiian Electric Company, Maui Electric Company, Sierra Pacific Power/ Nevada Power, Gas Service Company, Northern Indiana Public Service Company, Arkla (a Division of NORAM Energy), Oklahoma Natural Gas Company, Missouri Gas Energy, Arizona Public Service Company, and The Gas Company (Hawaii). I have also sponsored testimony in telecommunications and water proceedings in various regulatory jurisdictions.

Schedule SCC-2 summarizes various regulatory proceedings in which I have filed testimony.

# STEVEN C. CARVER
## Summary of Previously Filed Testimony
## 1978 through 2011 (April)

| Utility | Jurisdiction | Agency | Docket/Case Number | Party Represented | Year | Areas Addressed |
|---|---|---|---|---|---|---|
| Kansas City Power & Light | Missouri | PSC | ER-78-252 | Staff | 1978 | Rate Base, Operating Income |
| Gas Service Company | Missouri | PSC | GR-79-114 | Staff | 1979 | Rate Base, Operating Income |
| United Telephone of Missouri | Missouri | PSC | TO-79-227 | Staff | 1979 | Rate Base, Operating Income, Affiliated Interest |
| Kansas City Power & Light | Missouri | PSC | ER-80-48 | Staff | 1980 | Operating Income, Fuel Cost |
| Gas Service Company | Missouri | PSC | GR-80-173 | Staff | 1980 | Operating Income |
| Southwestern Bell Telephone | Missouri | PSC | TR-80-256 | Staff | 1980 | Operating Income |
| Missouri Public Service | Missouri | PSC | ER-81-85 | Staff | 1981 | Operating Income |
| Missouri Public Service | Missouri | PSC | ER-81-154 | Staff | 1981 | Interim Rates |
| Gas Service Company | Missouri | PSC | GR-81-155 | Staff | 1981 | Operating Income |
| Gas Service Company | Missouri | PSC | GR-81-257 | Staff | 1981 | Interim Rates |
| Union Electric Company | Missouri | PSC | ER-82-52 | Staff | 1982 | Operating Income, Fuel Cost |
| Southwestern Bell Telephone | Missouri | PSC | TR-82-199 | Staff | 1982 | Operating Income |
| Union Electric Company | Missouri | PSC | ER-83-163 | Staff | 1983 | Rate Base, Plant Cancellation Costs |
| Gas Service Company | Missouri | PSC | GR-83-207 | Staff | 1983 | Interim Rates |
| Union Electric Company | Missouri | PSC | ER-84-168/ EO-85-17 | Staff | 1984 1985 | Construction Audit, Operating Income |
| Kansas City Power & Light | Missouri | PSC | ER-85-128/ EO-85-185 | Staff | 1983 1985 | Construction Audit, Rate Base, Operating Income |
| St. Joseph Light & Power | Missouri | PSC | EC-88-107 | Public Counsel | 1987 | Rate Base, Operating Income |
| Northern Indiana Public Service | Indiana | IURC | 38380 | Consumer Counsel | 1988 | Operating Income |
| US West Communications | Arizona | ACC | E-1051-88-146 | Staff | 1989 | Rate Base, Operating Income |
| Dauphin Consol. Water Supply Co. | Pennsylvania | PUC | R-891259 | Staff | 1989 | Rate Base, Operating Income, Rate Design |

**STEVEN C. CARVER**
**Summary of Previously Filed Testimony**
**1978 through 2011 (April)**

| Utility | Jurisdiction | Agency | Docket/Case Number | Party Represented | Year | Areas Addressed |
|---|---|---|---|---|---|---|
| Southwest Gas Corporation | Arizona | ACC | E-1551-89-102<br>E-1551-89-103 | Staff | 1989 | Rate Base, Operating Income |
| Southwestern Bell Telephone | Missouri | PSC | TO-89-56 | Public Counsel | 1989<br>1990 | Intrastate Cost Accounting Manual |
| Missouri Public Service | Missouri | PSC | ER-90-101 | Public Counsel/ Staff | 1990 | UtiliCorp United Corporate Structure/ Diversification |
| City Gas Company | Florida | PSC | 891175-GU | Public Counsel | 1990 | Rate Base, Operating Income, Acquisition Adjustment |
| Capital City Water Company | Missouri | PSC | WR-90-118 | Jefferson City | 1991 | Rehearing - Water Storage Contract |
| Southwestern Bell Telephone Company | Oklahoma | OCC | PUD-000662 | Attorney General | 1991 | Rate Base, Operating Income |
| Public Service of New Mexico | New Mexico | PSC | 2437 | USEA | 1992 | Franchise Taxes |
| Citizens Utilities Company | Arizona | ACC | ER-1032-92-073 | Staff | 1992<br>1993 | Rate Base, Operating Income |
| Missouri Public Service Company | Missouri | PSC | ER-93-37 | Staff | 1993 | Accounting Authority Order |
| Public Service Company of Oklahoma | Oklahoma | OCC | PUD-1342 | Staff | 1993 | Rate Base, Operating Income, Acquisition Adjustment |
| Hawaiian Electric Company | Hawaii | PUC | 7700 | Consumer Advocate | 1993 | Rate Base, Operating Income |
| US West Communications | Washington | WUTC | UT-930074, 0307 | Public Counsel/ TRACER | 1994 | Sharing Plan Modifications |
| US West Communications | Arizona | ACC | E-1051-93-183 | Staff | 1994 | Rate Base, Operating Income |
| PSI Energy, Inc. | Indiana | IURC | 39584 | Consumer Counselor | 1994 | Operating Income, Capital Structure |
| Arkla, a Division of NORAM Energy | Oklahoma | OCC | PUD-940000354 | Attorney General | 1994 | Rate Base, Operating Income |
| Kauai Electric Division of Citizens Utilities Company | Hawaii | PUC | 94-0097 | Consumer Advocate | 1995 | Hurricane Iniki Storm Damage Restoration |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-940000477 | Attorney General | 1995 | Rate Base, Operating Income |

**STEVEN C. CARVER**
**Summary of Previously Filed Testimony**
**1978 through 2011 (April)**

| Utility | Jurisdiction | Agency | Docket/Case Number | Party Represented | Year | Areas Addressed |
|---|---|---|---|---|---|---|
| US West Communications | Washington | WUTC | UT-950200 | Attorney General/ TRACER | 1995 | Rate Base, Operating Income |
| PSI Energy, Inc. | Indiana | IURC | 40003 | Consumer Counselor | 1995 | Rate Base, Operating Income |
| GTE Hawaiian Tel; Kauai Electric - Citizens Utilities Co.; Hawaiian Electric Co.; Hawaii Electric Light Co.; Maui Electric Company | Hawaii | PUC | 95-0051 | Consumer Advocate | 1996 | Self-Insured Property Damage Reserve |
| GTE Hawaiian Telephone Co., Inc. | Hawaii | PUC | 94-0298 | Consumer Advocate | 1996 | Rate Base, Operating Income |
| Oklahoma Gas and Electric Company | Oklahoma | OCC | PUD-960000116 | Attorney General | 1996 | Rate Base, Operating Income |
| Public Service Company | Oklahoma | OCC | PUD-0000214 | Attorney General | 1997 | Rate Base, Operating Income |
| Arizona Telephone Company (TDS) | Arizona | ACC | U-2063-97-329 | Staff | 1997 | Rate Base, Operating Income, Affiliate Transactions |
| US West Communications | Utah | UPSC | 97-049-08 | Committee of Consumer Services | 1997 | Rate Base, Operating Income |
| Missouri Gas Energy | Missouri | PSC | GR-98-140 | Public Counsel | 1998 | Revenues, Uncollectibles |
| Sierra Pacific Power Company | Nevada | PUCN | 98-4062<br>98-4063 | Utility Consumers Advocate | 1999 | Sharing Plan |
| Hawaii Electric Light Co., Power Purchase Agreement (Encogen) | Hawaii | PUC | 98-0013 | Consumer Advocate | 1999 | Keahole CT-4/CT-5 AFUDC, Avoided Cost |
| Kansas City Power & Light Company | Missouri | MoPSC | EC-99-553 | GST Steel Company | 1999 | Complaint Investigation |
| US West Communications | New Mexico | NM PRC | 3008 | PRC Staff | 2000 | Rate Base, Operating Income |
| Hawaii Electric Light Company | Hawaii | PUC | 99-0207 | Consumer Advocate | 2000 | Keahole pre-PSD Common Facilities |

# STEVEN C. CARVER
## Summary of Previously Filed Testimony
## 1978 through 2011 (April)

| Utility | Jurisdiction | Agency | Docket/Case Number | Party Represented | Year | Areas Addressed |
|---|---|---|---|---|---|---|
| US West/ Qwest Communications | Arizona | ACC | T-1051B-99-105 | Staff | 2000 | Rate Base, Operating Income |
| The Gas Company | Hawaii | PUC | 00-0309 | Consumer Advocate | 2001 | Rate Base, Operating Income, Nonreg Svcs. |
| Craw-Kan Telephone Cooperative, Inc. | Kansas | KCC | 01-CRKT-713-AUD | KCC Staff | 2001 | Rate Base, Operating Income |
| Home Telephone Company, Inc. | Kansas | KCC | 02-HOMT-209-AUD | KCC Staff | 2002 | Rate Base, Operating Income |
| Wilson Telephone Company, Inc. | Kansas | KCC | 02-WLST-210-AUD | KCC Staff | 2002 | Rate Base, Operating Income |
| SBC Pacific Bell | California | PUC | 01-09-001 / 01-09-002 | Office of Ratepayer Advocate | 2002 | New Regulatory Framework / Earnings Sharing Investigation |
| JBN Telephone Company | Kansas | KCC | 02-JBNT-846-AUD | KCC Staff | 2002 | Rate Base, Operating Income |
| Kerman Telephone Company | California | PUC | 02-01-004 | Office of Ratepayer Advocate | 2002 | General Rate Case, Affiliate Lease, Nonregulated Transactions |
| S&A Telephone Company | Kansas | KCC | 03-S&AT-160-AUD | KCC Staff | 2003 | Rate Base, Operating Income, Nonreg Alloc |
| PSI Energy, Inc. | Indiana | IURC | 42359 | Consumer Counselor | 2003 | Rate Base, Operating Income, Nonreg Alloc |
| Arizona Public Service Company | Arizona | ACC | E-10345A-03-0437 | ACC Staff | 2004 | Rate Base, Operating Income |
| Qwest Corporation | Arizona | ACC | T-01051B-03-0454 & T-00000D-00-0672 | ACC Staff | 2004 | Rate Base, Operating Income, Nonreg Alloc |
| Verizon Northwest Inc. | Washington | WUTC | UT-040788 | Attorney General/ AARP/ WeBTEC | 2004 | Rate Base, Operating Income |
| Public Service Company | Oklahoma | OCC | PUD-200300076 | Attorney General | 2005 | Operating Income |
| Hawaiian Electric Company | Hawaii | PUC | 04-0113 | Consumer Advocate | 2005 | Rate Base, Operating Income |
| Citizens Gas & Coke Utility | Indiana | IURC | 42767 | Consumer Counselor | 2005 | Operating Income, Benchmarking Study |
| AmerenUE d/b/a Union Electric Co. | Missouri | MoPSC | ER-2007-0002 | State of Missouri | 2006 | Revenue Requirement |
| Hawaii Electric Light Company | Hawaii | PUC | 05-0315 | Consumer Advocate | 2007 | Rate Base, Operating Income & Keahole Units |

**STEVEN C. CARVER**
**Summary of Previously Filed Testimony**
**1978 through 2011 (April)**

| Utility | Jurisdiction | Agency | Docket/Case Number | Party Represented | Year | Areas Addressed |
|---|---|---|---|---|---|---|
| Hawaii Electric Company | Hawaii | PUC | 2006-0386 | Consumer Advocate | 2007 | Rate Base, Operating Income |
| Maui Electric Company | Hawaii | PUC | 2006-0387 | Consumer Advocate | 2007 | Rate Base, Operating Income |
| Trigen-Kansas City Energy Corp. | Missouri | MoPSC | HR-2008-0300 | Trigen-KC | 2008 | Revenue Requirement |
| Southwestern Public Service | Texas | PUCT | 35763 | Alliance of Xcel Muni. | 2008 | Rate Base, Operating Income |
| The Gas Company, LLC | Hawaii | PUC | 2008-0081 | Consumer Advocate | 2009 | Rate Base, Operating Income, Nonutility |
| Hawaiian Electric Company | Hawaii | PUC | 2008-0083 | Consumer Advocate | 2009 | Rate Base, Operating Income |
| Southwestern Public Service | Texas | PUCT | 37135 | Alliance of Xcel Muni. | 2009 | Transmission Cost Recovery Factor |
| Maui Electric Company | Hawaii | PUC | 2009-0163 | Consumer Advocate | 2010 | Rate Base, Operating Income |
| Hawaii Electric Light Company | Hawaii | PUC | 2009-0164 | Consumer Advocate | 2010 | Rate Base, Operating Income |
| Atmos Pipeline – Texas | Texas | RRC | 10000 | Atmos Texas Muni. | 2010 | Rate Base, Operating Income |
| AmerenUE d/b/a Ameren Missouri | Missouri | MoPSC | ER-2011-0028 | Missouri Industrial Energy Consumers | 2011 | Revenue Requirement |
| Veolia Energy Kansas City | Missouri | MoPSC | HR-2011-0241 | Veolia-KC | 2011 | Revenue Requirement |

**VEOLIA ENERGY KANSAS CITY**
**CASE NO. ER-2011-0241**
**INDEX TO ACCOUNTING EXHIBITS**
**AND SUPPORTING SCHEDULES**

| Schedule/ Adjustment | Description | Witness |
|---|---|---|
| A | CHANGE IN GROSS REVENUE REQUIREMENT | Carver |
| B | SUMMARY OF JURISDICTIONAL RATE BASE | Carver |
| C | SUMMARY OF OPERATING INCOME | Carver |
| D | CAPITAL STRUCTURE SUMMARY | Carver/Hill |

VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
CHANGE IN GROSS REVENUE REQUIREMENT
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | SCHEDULE REFERENCE | COMPANY PROPOSED |
|---|---|---|---|
| | (A) | (B) | (C) |
| 1 | Proposed Rate Base | Sch. SCC-3.B | $ 11,608,700 |
| 2 | Rate of Return | Sch. SCC-3.D | 7.63% |
| 3 | Operating Income Required | | 885,744 |
| 4 | Net Operating Income Available | Sch. SCC-3.C | (3,412,621) |
| 5 | Operating Income Deficiency | | 4,298,365 |
| 6 | Revenue Conversion Factor | Sch. SCC-3.A-1 | 1.63353 |
| 7 | **Gross Change in Overall Revenue Requirement** | | **$ 7,021,508** |
| 8 | **Calculated Revenue Deficiency** | | **$ 3,692,253** |

VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
REVENUE CONVERSION FACTOR
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | SCHEDULE REFERENCE | COMPANY PROPOSED |
|---|---|---|---|
| | (A) | (B) | (C) |
| 1 | Gross Intrastate Revenue | | 100.000000% |
| 2 | Less: Uncollectible Revenue | **(a)** | 0.000000% |
| 3 | Total Revenue | Line 1+ 2 | 100.000000% |
| 4 | Less: Taxes on Local Revenue | **(a)** | 0.000000% |
| 5 | Taxable Income | Line 3 + 4 | 100.000000% |
| 6 | Less: Kansas City Earnings Tax | | 0.006191 |
| 7 | Less: Effective State Income Tax | | 5.2006% |
| 8 | Less: Effective Federal Income Tax | | 32.9631% |
| 9 | Net Operating Earnings | Lines 5-6-7-8 | 61.2172% |
| 10 | Revenue Conversion Factor | Line 1/Line 9 | 1.63353 |

**FOOTNOTES:**

**(a)** Placeholder components, not used in pending rate application.

VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
SUMMARY OF JURISDICTIONAL RATE BASE
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | UNADJUSTED TEST YEAR **(a)** | TEST YEAR ADJUSTMENTS **(b)** | COMPANY PROPOSED |
|---|---|---|---|---|
| | (A) | (B) | (C) | (D) |
| 1 | **Original Cost** | | | |
| 2 | Utility Plant In Service | $64,748,944 | $ (9,184,354) | $ 55,564,590 |
| 3 | Depreciation Reserve | (39,273,718) | 735,388 | (38,538,330) |
| 4 | Net Plant In Service | 25,475,226 | (8,448,966) | 17,026,259 |
| 5 | **Deductions** | | | |
| 6 | Customer Advances for Construction | (6,499,887) | - | (6,499,887) |
| 7 | Contributions In Aid of Construction | - | - | - |
| 8 | Customer Deposits | - | - | - |
| 9 | Deferred Income Tax | (1,546,742) | 767,591 | (779,151) |
| 10 | **Additions** | | | |
| 11 | Fuel Inventories | 358,634 | (222) | 358,412 |
| 12 | Materials and Supplies | 1,484,827 | (2,199) | 1,482,628 |
| 13 | Prepayments | 2,498 | 17,941 | 20,439 |
| 14 | **Total Rate Base** | $ 19,274,555 | $ (7,665,855) | $ 11,608,700 |
| | | (a) | (b) | |

**FOOTNOTES:**

**(a)** Source: Veolia general ledger for year ended 12/31/10
**(b)** Source: Veolia Schedule SCC-3.B, page 2.

Witness: Carver



VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
SUMMARY OF COMPANY PROPOSED RATE BASE ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | ADJUSTMENT NUMBER / SCHEDULE REFERENCE | | | | | | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| | | B-1 | B-2 | B-3 | B-4 | B-5 | B-6 | B-7 | B-8 | |
| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) |
| 1 | **Original Cost** | | | | | | | | | |
| 2 | Utility Plant In Service | $ - | $ (9,184,354) | $ - | $ - | $ - | $ - | $ - | $ - | $ (9,184,354) |
| 3 | Depreciation Reserve | - | 735,388 | - | - | - | - | - | - | 735,388 |
| 4 | Net Plant In Service | - | (8,448,966) | - | - | - | - | - | - | (8,448,966) |
| 5 | **Deductions** | | | | | | | | | |
| 6 | Customer Advances for Construction | - | - | - | - | - | - | - | - | - |
| 7 | Contributions In Aid of Construction | - | - | - | - | - | - | - | - | - |
| 8 | Customer Deposits | - | - | - | - | - | - | - | - | - |
| 9 | Deferred Income Tax | - | 767,591 | - | - | - | - | - | - | 767,591 |
| 10 | **Additions** | | | | | | | | | |
| 11 | Fuel Inventories | - | - | - | (222) | - | - | - | - | (222) |
| 12 | Materials and Supplies | - | - | (2,199) | - | - | - | - | - | (2,199) |
| 13 | Prepayments | - | - | - | - | 17,941 | - | - | - | 17,941 |
| 14 | **Total Rate Base** | $ - | $ (7,681,375) | $ (2,199) | $ (222) | $ 17,941 | $ - | $ - | $ - | $ (7,665,855) |

**ADJUSTMENTS:**

**B-1** **Reserved**
**B-2** REMOVE PROCESS STEAM
**B-3** MATERIALS AND SUPPLIES
**B-4** FUEL INVENTORY
**B-5** PREPAYMENTS
**B-6** **Reserved**
**B-7** **Reserved**
**B-8** **Reserved**

Witness: Carver

VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
SUMMARY OF OPERATING INCOME
FOR THE TEST YEAR ENDED DECEMBER 31, 2010



| LINE NO. | DESCRIPTION | REFERENCE | TOTAL COMPANY UNADJUSTED TEST YEAR **(a)** | TEST YEAR ADJUSTMENTS **(b)** | COMPANY PROPOSED |
|---|---|---|---|---|---|
| | (A) | (B) | (C) | (D) | (E) |
| 1 | **REVENUES:** | | | | |
| 2 | Operating revenues | | $ 19,254,674 | $ (12,262,446) | $ 6,992,228 |
| 3 | Rent from steam property | | 61,644 | 3,331 | 64,975 |
| 4 | Other Revenues | | 158,054 | (56,813) | 101,241 |
| 5 | **Total Revenues** | (Lines 2...4) | 19,474,372 | (12,315,928) | 7,158,444 |
| 6 | **O&M EXPENSES:** | | | | |
| 7 | Fuel Expense | | 11,267,458 | (6,263,617) | 5,003,841 |
| 8 | Other Production Expense | | 6,837,346 | (2,535,300) | 4,302,046 |
| 9 | Distribution Expense | | 332,475 | - | 332,475 |
| 10 | Customer Accounts Expense | | 0 | - | - |
| 11 | Customer Serv & Info Expense | | 18,000 | - | 18,000 |
| 12 | Administrative & General Expense | | 2,247,172 | (122,719) | 2,124,454 |
| 13 | Subtotal | (Lines 7...11) | 20,702,452 | (8,921,636) | 11,780,816 |
| 14 | Depreciation Expense | | 586,626 | (175,692) | 410,934 |
| 15 | **Total O & M Expense** | (Lines 12+13) | 21,289,078 | (9,097,328) | 12,191,750 |
| 16 | Operating Income Before Taxes | (Lines 5-14) | (1,814,706) | (3,218,600) | (5,033,306) |
| 17 | Taxes Other Than Income Tax | | 825,367 | (107,535) | 717,832 |
| 18 | Income Taxes | | (1,552,817) | (785,699) | (2,338,517) |
| 19 | **Net Operating Income** | (Lines 15-16-17) | $ (1,087,256) | $ (2,325,365) | $ (3,412,621) |
| | | | (a) | (b) | |

**FOOTNOTES:**

**(a)** Source: Veolia income statement for year ended 12/31/10

**(b)** Source: Veolia Schedule SCC-3.C, p. 4.

Witness: Carver



VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
SUMMARY OF COMPANY PROPOSED NOI ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | ADJUSTMENT NUMBER / SCHEDULE REFERENCE | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C-1 | C-2 | C-3 | C-4 | C-5 | C-6 | C-7 | C-8 | C-9 | SUBTOTAL |
| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) |
| 1 | **REVENUES:** | | | | | | | | | | |
| 2 | Operating revenues | $ (47,390) | $ 210,465 | $ (146,686) | $ - | $ - | $ - | $ - | $ - | $ (12,278,835) | $ (12,262,446) |
| 3 | Rent from steam property | 3,331 | - | - | - | - | - | - | - | - | 3,331 |
| 4 | Other Revenues | 579 | - | - | - | - | - | (40,887) | - | (16,505) | (56,813) |
| 5 | **Total Revenues** | (43,479) | 210,465 | (146,686) | - | - | - | (40,887) | - | (12,295,340) | (12,315,928) |
| 6 | **O&M EXPENSES:** | | | | | | | | | | |
| 7 | Fuel Expense | - | - | - | - | 663,111 | - | 27,261 | - | (6,953,989) | (6,263,617) |
| 8 | Other Production Expense | - | - | - | - | - | - | - | 196,178 | (1,220,208) | (1,024,030) |
| 9 | Distribution Expense | - | - | - | - | - | - | - | - | - | - |
| 10 | Customer Accounts Expense | - | - | - | - | - | - | - | - | - | - |
| 11 | Customer Serv & Info Expense | - | - | - | - | - | - | - | - | - | - |
| 12 | Administrative & General Expense | - | - | - | - | - | - | - | - | - | - |
| 13 | Subtotal | - | - | - | - | 663,111 | - | 27,261 | 196,178 | (8,174,196) | (7,287,647) |
| 14 | Depreciation Expense | - | - | - | - | - | - | - | - | (184,650) | (184,650) |
| 15 | **Total Operation & Maintenance Expense** | - | - | - | - | 663,111 | - | 27,261 | 196,178 | (8,358,847) | (7,472,297) |
| 16 | Operating Income Before Taxes | (43,479) | 210,465 | (146,686) | - | (663,111) | - | (68,148) | (196,178) | (3,936,494) | (4,843,631) |
| 17 | Taxes Other Than Income Tax | - | - | - | - | - | - | - | - | - | - |
| 18 | Income Taxes | - | - | - | - | - | - | - | - | - | - |
| 19 | **Net Operating Income** | $ (43,479) | $ 210,465 | $ (146,686) | $ - | $ (663,111) | $ - | $ (68,148) | $ (196,178) | $ (3,936,494) | $ (4,843,631) |

**ADJUSTMENTS:**

C-1 REVENUES - BILLED BASIS ADJUSTMENT
C-2 REVENUES - CUSTOMER ADDITIONS, LOSSES & CORRECTIONS
C-3 REVENUES - WEATHER NORMALIZATION
C-4 **Reserved**
C-5 FUEL EXPENSE ANNUALIZATION
C-6 ** Reserved **
C-7 PRO FORMA PURCHASED POWER EXPENSE
C-8 CONSUMABLES EXPENSE ANNUALIZATION
C-9 REMOVE PROCESS STEAM

Witness: Carver



VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
SUMMARY OF COMPANY PROPOSED NOI ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | PRIOR PAGE SUBTOTAL | ADJUSTMENT NUMBER / SCHEDULE REFERENCE C-10 | C-11 | C-12 | C-13 | C-14 | C-15 | C-16 | C-17 | SUBTOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) |
| 1 | **REVENUES:** | | | | | | | | | | |
| 2 | Operating revenues | $ (12,262,446) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ (12,262,446) |
| 3 | Rent from steam property | 3,331 | - | - | - | - | - | - | - | - | 3,331 |
| 4 | Other Revenues | (56,813) | - | - | - | - | - | - | - | - | (56,813) |
| 5 | **Total Revenues** | (12,315,928) | - | - | - | - | - | - | - | - | (12,315,928) |
| 6 | **O&M EXPENSES:** | | | | | | | | | | |
| 7 | Fuel Expense | (6,263,617) | - | - | - | - | - | - | - | - | (6,263,617) |
| 8 | Other Production Expense | (1,024,030) | - | - | - | (125,966) | - | - | - | (25,256) | (1,175,253) |
| 9 | Distribution Expense | - | - | - | - | - | - | - | - | - | - |
| 10 | Customer Accounts Expense | - | - | - | - | - | - | - | - | - | - |
| 11 | Customer Serv & Info Expense | - | - | - | - | - | - | - | - | - | - |
| 12 | Administrative & General Expense | - | - | - | - | (63,229) | (137,742) | - | 34,117 | - | (166,854) |
| 13 | Subtotal | (7,287,647) | - | - | - | (189,195) | (137,742) | - | 34,117 | (25,256) | (7,605,723) |
| 14 | Depreciation Expense | (184,650) | - | 8,958 | - | - | - | - | - | - | (175,692) |
| 15 | **Total Operation & Maintenance Expense** | (7,472,297) | - | 8,958 | - | (189,195) | (137,742) | - | 34,117 | (25,256) | (7,781,415) |
| 16 | Operating Income Before Taxes | (4,843,631) | - | (8,958) | - | 189,195 | 137,742 | - | (34,117) | 25,256 | (4,534,513) |
| 17 | Taxes Other Than Income Tax | - | - | - | - | - | - | (129,966) | - | - | (129,966) |
| 18 | Income Taxes | - | (785,699) | - | - | - | - | - | - | - | (785,699) |
| 19 | **Net Operating Income** | $ (4,843,631) | $ 785,699 Roll-Out | $ (8,958) | $ - | $ 189,195 | $ 137,742 | $ 129,966 | $ (34,117) | $ 25,256 | $ (3,618,847) |

**ADJUSTMENTS:**

**C-10** INCOME TAX EXPENSE -- PROFORMA
**C-11** DEPRECIATION ANNUALIZATION - EXISTING RATES
**C-12** **Reserved**
**C-13** BONUS COMPENSATION
**C-14** CORPORATE COMMON COST TRUE UP ADJUSMENT
**C-15** PROPERTY TAX ADJUSTMENT
**C-16** RATE CASE EXPENSE AMORTIZATION
**C-17** CAPITALIZE EMPLOYEE BENEFITS & PAYROLL TAXES

Witness: Carver



VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
SUMMARY OF COMPANY PROPOSED NOI ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | PRIOR PAGE SUBTOTAL | ADJUSTMENT NUMBER / SCHEDULE REFERENCE | | | | | | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | C-18 | C-19 | C-20 | C-21 | C-22 | C-23 | C-24 | C-25 | |
| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) |
| 1 | **REVENUES:** | | | | | | | | | | |
| 2 | Operating revenues | $ (12,262,446) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ (12,262,446) |
| 3 | Rent from steam property | 3,331 | - | - | - | - | - | - | - | - | 3,331 |
| 4 | Other Revenues | (56,813) | - | - | - | - | - | - | - | - | (56,813) |
| 5 | **Total Revenues** | (12,315,928) | - | - | - | - | - | - | - | - | (12,315,928) |
| 6 | **O&M EXPENSES:** | | | | | | | | | | |
| 7 | Fuel Expense | (6,263,617) | - | - | - | - | - | - | - | - | (6,263,617) |
| 8 | Other Production Expense | (1,175,253) | 233,546 | (1,593,594) | - | - | - | - | - | - | (2,535,300) |
| 9 | Distribution Expense | - | - | - | - | - | - | - | - | - | - |
| 10 | Customer Accounts Expense | - | - | - | - | - | - | - | - | - | - |
| 11 | Customer Serv & Info Expense | - | - | - | - | - | - | - | - | - | - |
| 12 | Administrative & General Expense | (166,854) | 44,135 | - | - | - | - | - | - | - | (122,719) |
| 13 | Subtotal | (7,605,723) | 277,681 | (1,593,594) | - | - | - | - | - | - | (8,921,636) |
| 14 | Depreciation Expense | (175,692) | - | - | - | - | - | - | - | - | (175,692) |
| 15 | **Total Operation & Maintenance Expense** | (7,781,415) | 277,681 | (1,593,594) | - | - | - | - | - | - | (9,097,328) |
| 16 | Operating Income Before Taxes | (4,534,513) | (277,681) | 1,593,594 | - | - | - | - | - | - | (3,218,600) |
| 17 | Taxes Other Than Income Tax | (129,966) | 22,431 | - | - | - | - | - | - | - | (107,535) |
| 18 | Income Taxes | (785,699) | - | - | - | - | - | - | - | - | (785,699) |
| 19 | **Net Operating Income** | $ (3,618,847) | $ (300,112) | $ 1,593,594 | $ - | $ - | $ - | $ - | $ - | $ - | $ (2,325,365) |

**ADJUSTMENTS:**

C-18 ANNUALIZE WAGES, PAYROLL TAXES & BENEFITS
C-19 NONRECURRING CHARGES
C-20 **Reserved**
C-21 **reserved**
C-22 **reserved**
C-23 **reserved**
C-24 **reserved**
C-25 **reserved**

VEOLIA ENERGY KANSAS CITY
CASE NO. ER-2011-0241
CAPITAL STRUCTURE SUMMARY
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

| LINE NO. | DESCRIPTION | CAPITAL RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|
| | (A) | (B) | (C) | (D) |
| 1 | Long-term Debt | 52.00% | 6.130% | 3.19% |
| 2 | Short-term Debt | 0.00% | 0.000% | 0.00% |
| 3 | Common Equity - mid return | 48.00% | 9.250% | 4.44% |
| 4 | Total Capitalization | 100.00% | | 7.63% |
| | | (a) | (a) | (a) |

**FOOTNOTES:**

**(a)** Source: Direct testimony of Company witness Stephen Hill, Schedule 10.