

Exhibit No.:

Issues: Straight-Line Tax
Depreciation and IRC
Section 199 Deduction

Witness: Jeffrey J. Stamm

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Jeffrey J. Stamm

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ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF JEFFREY J. STAMM
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Jeff Stamm. My business address is 20 W. 9th St., Kansas City, MO 64105.

3 Q. What is your occupation?

4 A. I am employed by Aquila, Inc. as Vice President-Taxes.

5 Q. Please briefly describe your education and professional background.

6 A. I graduated from Rockhurst College in 1985 with a B.S.B.A. in Accounting. I received a

7 J.D. from the University of Missouri-Kansas City School of Law in 1988. I received a

8 license to practice law in Missouri in 1988 and became a licensed certified public

9 accountant in Missouri in 1994. I have been employed in my current position since 2002.

10 Prior to my employment at Aquila, I was a Principal at Arthur Andersen LLP. Prior to

11 joining Andersen in 1998, I managed the Tax Department at Kansas City Power & Light

12 Co. Prior to joining Kansas City Power & Light Co. in 1995, I was a Senior Tax

13 Attorney at Hallmark Cards, Inc.

14 **EXECUTIVE SUMMARY**

15 Q. What is the purpose of your testimony in this proceeding before the Missouri Public
16 Service Commission ("Commission")?

17 A. The purpose of my testimony is to provide support for the Company's position regarding
18 taxes, specifically straight-line tax depreciation and the deduction for domestic

19 productions activities provided in Internal Revenue Code ("IRC") §199.

STRAIGHT-LINE TAX DEPRECIATION

Q. What is straight-line tax depreciation?

A. Straight-line tax depreciation is the ratemaking method of spreading the tax depreciation deductions allowed by the IRC and other tax authorities over multiple accounting periods.

Q. How is straight-line tax depreciation different from both book depreciation and tax depreciation?

A. Book depreciation is based on a system of depreciation and accounting policies ordered by the Commission to spread the book cost of an asset over multiple accounting periods for purposes of ratemaking. Tax depreciation is based on provisions in the IRC and other tax authorities that spread the tax cost of an asset, via tax deductions, over multiple tax - accounting periods using methods and rates mandated by tax authorities. Straight-line tax depreciation is the ratemaking system of spreading the tax depreciation deductions over the book depreciation accounting periods for the asset. Thus, both tax depreciation and straight-line tax depreciation relate to tax depreciation deductions, not book depreciation deductions. However, tax depreciation and straight-line tax depreciation generally allocate the tax depreciation over different periods.

Q. How did the Company calculate tax depreciation in this case?

A. The Company used the tax depreciation system rates and methods originally elected in the years in which the property was placed in service. The tax depreciation methods are shown in attached Schedule JJS-1.

Q. Please describe the calculation for straight-line tax depreciation?

1 A. Straight-line tax depreciation is computed by multiplying annualized book depreciation
2 expense by the ratio of the tax basis of depreciable plant to the book basis of depreciable
3 plant. The ratios used in this case to calculate straight-line tax depreciation in this case
4 are 94.20% for MPS and 93.65% for L&P.

5 Q. How was the ratio used to calculate straight-line tax depreciation determined?

6 A. Pursuant to the Unanimous Stipulation and Agreement in MPS Case No. ER-2004-0034
7 and L&P Case No. ER-2004-0024, the method used by the Commission's staff (Staff) to
8 calculate the tax deduction for book depreciation in the calculation of regulated income
9 tax expense will continue to be used in future rate cases until the tax study is completed
10 or another method is mutually agreed upon. Since the tax study is not yet completed, the
11 Company used the Staff method to calculate straight-line tax depreciation.

12 **IRC SECTION 199 DEDUCTION FOR DOMESTIC PRODUCTION ACTIVITIES**

13 Q. Do your tax calculations include a deduction under new IRC §199?

14 A. Yes. Although Aquila will not be entitled to the deduction, we prepared an estimate of
15 hypothetical deductions for MPS and L&P on a standalone basis. The tax deduction for
16 MPS is \$551,312. L&P would not be entitled to a deduction on a standalone basis.
17 Please see attached schedule JJS-2 MPS and JJS-2 L&P for the calculations.

18 Q. Does this conclude your testimony?

19 A. Yes it does.

| <u>Tax Vintage</u> | <u>Tax Depreciation System</u> | <u>Tax Depreciation Method</u> |
|---------------------------|---|---|
| Pre-1970 | Class Life System (CLS) | Straight-line |
| 1970 | Class Life System (CLS) | Accelerated |
| 1971-1980 | Class Life Asset Depreciation Range (ADR) | Accelerated |
| 1981-1986 | Asset Cost Recovery System (ACRS) | Accelerated |
| 1987-2005 | Modified Asset Cost Recovery System (MACRS) | Accelerated |

Aquila Networks - MPS
Manufacturing Deduction - 2005

| | <u>Taxable Income</u> | <u>QPAI</u> |
|---|-----------------------|-------------|
| Base | 18,377,076 | 37,959,019 |
| Manufacturing Deduction percentage (applicable for 2005 & 2006) | 0.0300 | 0.0300 |
| Manufacturing deduction (Limited by taxable income) | <u>551,312</u> | <u>0</u> |
| Revenue impact: | | |
| Combined federal & state income tax rate | 0.3839 | 0.3839 |
| Tax effect | 211,649 | 0 |
| Revenue requirement | 1.6161 | 1.6161 |
| Revenue impact (reduction in revenue required) | 342,046 | 0 |

Aquila Networks - L&P
Manufacturing Deduction - 2005

| | <u>Taxable Income</u> | <u>QPAI</u> |
|---|-----------------------|-------------|
| Base | (6,166,097) | (2,457,022) |
| Manufacturing Deduction percentage (applicable for 2005 & 2006) | 0.0300 | 0.0300 |
| Manufacturing deduction | <u>0</u> | <u>0</u> |
| Revenue impact: | | |
| Combined federal & state income tax rate | 0.3839 | 0.3839 |
| Tax effect | 0 | 0 |
| Revenue requirement | 1.6161 | 1.6161 |
| Revenue impact (reduction in revenue required) | 0 | 0 |

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

In the matter of Aquila, Inc. d/b/a Aquila
Networks-MPS and Aquila Networks-L&P,
for authority to file tariffs increasing electric
rates for the service provided to customers in
the Aquila Networks-MPS and Aquila
Networks-L&P area

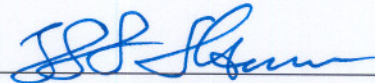
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Case No. ER-_____

County of Jackson)
) ss
State of Missouri)

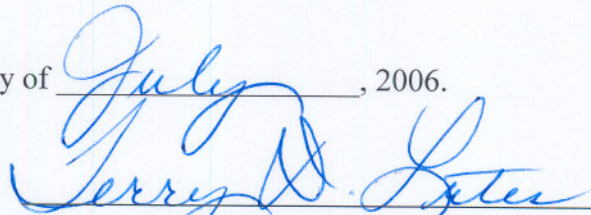
AFFIDAVIT OF JEFF STAMM

Jeff Stamm, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Jeff Stamm;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.



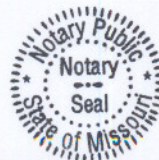
Jeff Stamm

Subscribed and sworn to before me this 3rd day of July, 2006.


Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008