

Exhibit No.:

Issues: Fuel and PP Energy,  
SO<sub>2</sub> Expense,  
Purchases Power  
Capacity, Gas  
Reservation Charge,  
ESF/IBU Corporate  
Allocations, Allocation  
Factors, Injuries and  
Damages Expense,  
Bad Debts Expense,  
Transmission Expense,  
Dues & Donations  
Expense, Advertising  
Expense, RTO Expense,  
Income Tax Expense,  
Accumulated Deferred  
Income Taxes Offset,  
And Cash Working  
Capital

Witness: Ronald A. Klote

Sponsoring Party: Aquila Networks-MPS  
& L&P

Case No.: ER-

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Ronald A. Klote

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF RONALD A. KLOTE  
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 Ronald A. Klotz and my business address is 10700 East 350 Highway,  
3 Kansas City, Missouri.

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

5 A. I am employed by Aquila, Inc. ("Aquila" or "Company"), as Director of Regulatory  
6 Accounting Services.

7 Q. Please describe your educational background and experience.

8 A. In 1992, I received a Bachelor of Science Degree in Accountancy from the University of  
9 Missouri-Columbia. I am a Certified Public Accountant holding a certificate in the State  
10 of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of  
11 increasing responsibilities in the auditing division. I conducted and led various auditing  
12 engagements of company financial statements. In 1995, I joined Water District No. 1 of  
13 Johnson County as a Senior Accountant. This position involved extensive operational  
14 and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as  
15 a Senior Consultant. This position involved special accounting and auditing projects in  
16 the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila  
17 holding various positions within the Regulatory department.

18 Q. Have you previously testified before any regulatory bodies?

1 A. Yes. I have testified before the California Public Utilities Commission, the Public Utilities  
2 Commission of Colorado and the Missouri Public Service Commission.

3 Q. What is the purpose of your testimony in this proceeding?

4 A. The purpose of my testimony is to describe certain accounting adjustments made to  
5 Aquila Networks – MPS (“MPS”) and Aquila Networks – L&P (“L&P”) electric rate case  
6 filing.

7 Q. Please identify the schedules and any adjustments that you are sponsoring.

8 A. I am sponsoring the following cost of service (operational) adjustments and allocation  
9 issues:

- 10 • FPP – 10 Fuel and Purchased Power Energy (MPS & L&P)
- 11 • FPP – 17 SO<sub>2</sub> (Sulfur Dioxide) Emission Allowances (MPS & L&P)
- 12 • FPP – 20 Purchased Power Capacity (MPS & L&P)
- 13 • FPP – 50 Reservation Charges (MPS)
- 14 • CS – 20 ESF/IBU Corporate Allocations (MPS & L&P)
- 15 • Utility Allocation Factors (MPS & L&P)
- 16 • Jurisdictional Allocation Factors (MPS only)
- 17 • CS – 30 Injuries and Damages Expense (MPS & L&P)
- 18 • CS – 35 Bad Debts Expense (MPS & L&P)
- 19 • CS – 57 Transmission Expense (MPS & L&P)
- 20 • CS – 60 Dues & Donations Expense (MPS & L&P)
- 21 • CS – 65 Advertising Expense (MPS & L&P)
- 22 • CS – 76 Regional Transmission Organization (“RTO”) Expense (MPS & L&P)

- TAX-1 Current & Deferred Income Tax Expense (MPS & L&P)

In addition, I am sponsoring the following rate base adjustments:

- RBO – 30 Accumulated Deferred Income Taxes (MPS & L&P)
- WC – 50 Cash Working Capital (MPS & L&P)

**FUEL AND PURCHASED POWER ENERGY (FPP-10)**

Q. What is the purpose of cost of service Adjustment No. FPP-10 Fuel and Purchased Power Energy made to MPS and L&P's electric operations?

A. The purpose of Adjustment No. FPP-10 is to annualize fuel and purchased power energy expense, net of off-system and demand charges, and to compare the annualized level to actual expenses for test year ended December 31, 2004.

Q. Please explain how Adjustment No. FPP-10 was calculated for both MPS and L&P?

A. The annualized level of fuel and purchased power energy expense was obtained from the MPS and L&P fuel runs utilizing the Fuel and Purchased Power Dispatch Model ("FPPDM"). The FPPDM examines the stand-alone MPS and L&P systems, as well as, jointly dispatching the generation and purchase power to manage the total combined load in the most efficient manner possible. The output of the FPPDM includes only the actual fuel cost and transportation expense for coal and oil used for electric generation and only the commodity or energy portion of the natural gas and purchase power contracts in the annualization. Any reservation or demand charge associated with the contracts will be addressed in other rate case adjustments. The annualized fuel amount includes fuel adders not contained in the FPPDM. Fuel adders include mine additives, such as freeze treatment and dust suppression, rail car leases and maintenance, non-labor fuel handling and fly-ash

1 removal. The annualized amount for fuel adders is equivalent to the per book amounts as  
2 recorded during the test year. The details and various inputs of the FPPDM will be further  
3 addressed in the direct testimony of Company witness Jerry Boehm.

4 Q. What does the output of the FPPDM contain for the stand-alone MPS system?

5 A. The MPS stand-alone FPPDM output contains the generation fuel for MPS power plants  
6 (owned and leased) and purchase power contract usage to specifically serve the MPS retail  
7 electric load.

8 Q. What does the output of the FPPDM contain for the stand-alone L&P system?

9 A. The L&P stand-alone FPPDM output contains the generation fuel for L&P power plants  
10 (owned and leased) and purchase power contract usage to specifically serve the L&P retail  
11 electric load.

12 Q. What does the output of the FPPDM joint dispatch run contain?

13 A. The output of the FPPDM joint dispatch run contains the combined generation fuel and  
14 purchase power requirements needed to satisfy the loads for both the MPS and L&P  
15 systems. All the generation owned or contracted for by MPS and L&P is combined with all  
16 the power purchased under contract with MPS and L&P to create a total pool of resources to  
17 draw energy from. The FPPDM joint dispatch run draws energy from all the various  
18 available resources to satisfy the needs of both the MPS and L&P systems.

19 Q. Is the joint dispatch fuel run less than the sum of the MPS and L&P stand-alone fuel runs  
20 produced by the FPPDM?

21 A. Yes.

22 Q. Which fuel run was used to produce the fuel and purchase power adjustment No. FPP-10?

1 A. The joint dispatch fuel run produced from the FPPDM was allocated between MPS and  
2 L&P to determine the annualized fuel and purchase power requirements for each system  
3 and calculate Adjustment No. FPP-10.

4 Q. Were the MPS and L&P stand-alone FPPDM fuel runs used to allocate the joint dispatch  
5 fuel usage?

6 A. Yes. The sum of the MPS and L&P stand-alone fuel runs was divided into MPS stand-  
7 alone fuel run to determine the allocation percentage for MPS. Likewise, the sum of the  
8 MPS and L&P stand-alone fuel runs was divided into L&P stand-alone fuel run to  
9 determine the allocation percentage for L&P.

10 Q. How were these allocation percentages used to split the fuel and purchase power expenses  
11 between MPS and L&P.

12 **MPS**

13 A. The allocation percentage for MPS was multiplied by every fuel or purchase power expense  
14 produced in the joint dispatch model, including plants and contracts associated with L&P.  
15 The results were used as the annualized expense for fuel and purchased power for MPS.

16 **L&P**

17 A. The allocation percentage for L&P was multiplied by every fuel or purchase power expense  
18 produced in the joint dispatch model, including plants and contracts associated with MPS.  
19 The results were used as the annualized expense for fuel and purchased power for L&P.

20 Q. How do the annualized expenses compare to actual expenses for the test year?

21 A. The actual adjustment amount for fuel and purchase power is provided in the testimony of  
22 Company witness Susan Braun, specifically Schedule SKB-4.

**SO2 (SULFUR DIOXIDE) EMISSION ALLOWANCES (FPP-17)**

Q. What is the purpose of Adjustment No. FPP-17 SO2 Emission Allowances made to both MPS and L&P's cost of service?

A. This adjustment annualizes the SO2 emission allowances required for the fossil fuel plants MPS and L&P currently operate, have an operating ownership of, and one plant Aquila purchases power from. Annually, each operating plant is issued a certain number of emission allowances by the Federal Environmental Protection Agency ("EPA"). As the plants operate and produce sulfur dioxide, these allowances are used. Each of the plants normally requires more allowances than the EPA issues for a calendar year. Therefore, Aquila must purchase additional allowances to meet those requirements. Adjustment No. FPP-17 compares the forecasted annual consumption of allowances to the actual amounts recorded to FERC Accounts 509 and 555 in 2004 and adjusts per books to reflect the forecasted requirements.

Q. Please explain how Adjustment No. FPP-17 was calculated for both MPS and L&P?

**MPS:**

A. The forecast number of emission allowances for MPS was determined by using the plant production and the blend of coals needed to produce the energy. First, the free emission allowances issued by the EPA for each plant were subtracted from the forecast number of allowances required for the year. Second, the remaining allowance purchase requirement was multiplied by the projected unit cost per allowance of \$700. This is based on the forward pricing forecast for allowances utilizing Argus Air Daily – market assessments



1 Third, the annualized emission allowance cost was compared to the amount booked in  
2 FERC Account 509 for the test year ending December 31, 2004.

3 Q. Has Aquila recently purchased any SO2 allowances, and if so at what price?

4 A. Yes. In March 2005 Aquila purchased 5000 allowances at the EPA annual auction for  
5 \$691.07 per allowance.

6 Q. What is the adjustment in this case for MPS emission allowances?

7 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
8 specifically Schedule SKB-4.

9 **L&P**

10 A. L&P employed the same method for calculating the annualized level of emission  
11 allowances as MPS. L&P owns the Lake Road generating facility and participates in the  
12 Iatan generating plant. In addition to those two generating facilities, L&P has a purchase  
13 power contract with the Nebraska Public Power Division ("NPPD") Gentlemen plant.  
14 Through this contract, L&P is billed and pays for the emission allowances required to  
15 produce power under the contract. L&P has an obligation to provide enough emission  
16 allowances to meet the needs for their generation from all three of these facilities. The  
17 annualized emission allowance cost equals the forecast number of allowances less the free  
18 allowances issued by the EPA for those facilities, multiplied by the per unit cost of an  
19 emission allowance. The annualized emission allowance cost was compared to the amount  
20 booked as emissions allowances in FERC Accounts 509 and 555 for the test year ending  
21 December 31, 2004.

22 Q. What is the adjustment amount in this case for L&P emission allowances?

1 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
2 specifically Schedule SKB-4.

3 **PURCHASED POWER CAPACITY (FPP-20)**

4 Q. Please explain the purpose of cost of service Adjustment No. FPP-20 Purchased Power  
5 Capacity for both MPS and L&P.

6 A. Adjustment No. FPP-20 annualizes purchased power capacity expense to reflect the known  
7 and measurable changes in capacity charges in the MPS and L&P purchased power  
8 contracts commencing in contract year 2005. This adjustment is necessary to properly  
9 reflect the on-going level of purchased power capacity costs used to determine the future  
10 rates of MPS and L&P. See Aquila witness Mike Apprill's testimony for details concerning  
11 the purchased power contracts.

12 Q. Are the aforementioned contracts included in this filing?

13 A. No. These contracts are confidential and proprietary. They will be made available to the  
14 appropriate parties to this case, pursuant to the Commission's Protective Order.

15 Q. Please explain how Adjustment No. FPP-20 was calculated for MPS and L&P?

16 **MPS:**

17 A. Adjustment No. FPP-20 annualizes two purchased power capacity contracts for 2005: The  
18 Nebraska Public Power District ("NPPD") Cooper plant and Project X. The annualized  
19 level of capacity costs include 75 MW of capacity purchased from NPPD Cooper effective  
20 January 2005. In addition, the Project X capacity contract includes purchases of 200 MW  
21 expected to commence in the third quarter of 2005. The annualized level of expense was  
22 calculated by multiplying the MW capacity purchases per month for twelve months by their

1        respective contract price per MW-month. MPS' annualized capacity expense was  
2        compared to actual per books expense at December 31, 2004.

3        Q.     What is the adjustment amount in this case for MPS' purchase power capacity?

4        A.     The adjustment amount is provided in the testimony of Company witness Susan Braun,  
5        specifically Schedule SKB-4.

6        **L&P:**

7        A.     Adjustment No. FPP-20 for L&P annualizes a single purchase power capacity contract for  
8        this case: Nebraska Public Power District ("NPPD") Gentlemen plant. The annualized level  
9        of capacity purchases includes 100 MW of capacity from NPPD Gentlemen, which became  
10       effective June 2004. The same process was used for L&P as for MPS to calculate the  
11       annualized capacity expense

12       Q.     What is the adjustment amount in this case for L&P's purchase power capacity?

13       A.     The adjustment amount is provided in the testimony of Company witness Susan Braun,  
14       specifically Schedule SKB-4.

15       **RESERVATION CHARGES (FPP-50)**

16       Q.     What is the purpose of Adjustment No. FPP-50 Reservation Charges made to MPS?

17       A.     The purpose of this adjustment is to annualize the natural gas reservation charges incurred  
18       by MPS under the gas transportation contracts to serve the Greenwood and South Harper  
19       generating facilities. The annualization of the gas reservation charges is compared to the  
20       per book amounts for the test year ending December 31, 2004.

21       Q.     Have there been any significant changes in the gas reservation charges from the test year  
22       per books totals?

1 A. Yes. MPS will allow its gas transportation agreement with Southern Star Central Gas  
2 Pipeline (“SSCGP”) serving the Merchant Energy Partners (“MEP”) plant to expire  
3 effective May 31, 2005. The primary transportation agreement for the South Harper plant  
4 has been executed with Panhandle Eastern Pipe Line Company (“PEPL”). The  
5 commencement of the reservation charges for the PEPL agreement is projected for July 1,  
6 2005.

7 Q. Please explain how Adjustment No. FPP-50 was calculated for MPS.

8 A. Two primary gas transportation agreements are in place to provide service to MPS’  
9 Greenwood and South Harper generating facilities. These agreements include a  
10 reservation component necessary to ensure that guaranteed service is available to both  
11 plants. The Greenwood plant is served exclusively through SSCGP and MPS carries a  
12 firm transportation contract with SSCGP. The South Harper plant will be connected to  
13 both PEPL and SSCGP. MPS has secured firm transportation service through PEPL as  
14 the primary supplier to the South Harper plant. The SSCGP interconnect provides MPS  
15 with an alternative source of supply which can compete with PEPL. The annualized  
16 reservation expense for the SSCGP Greenwood contract and the PEPL South Harper  
17 contract is compared to the per book gas reservation expenses for the test year ending  
18 December 31, 2004.

19 Q. What is the adjustment amount in this case for MPS’ gas reservation charges?

20 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
21 specifically Schedule SKB-4.

**ESF / IBU CORPORATE ALLOCATIONS (CS-20)**

Q. What does ESF and IBU acronyms above represent?

A. ESF represents “Enterprise Support Functions” i.e., corporate functions. IBU represents “Intra-Business Unit” i.e. operations support departments. These represent the two groups that are maintained by Aquila for system cost allocations.

Q. Please explain Adjustment No. CS-20, ESF / IBU Corporate Allocations adjustment.

A. Adjustment No. CS-20, ESF / IBU Corporate Allocations adjustment consists of test year “residual” ESF and IBU allocation pool dollars being reallocated to MPS and L&P business units based on recomputed ESF / IBU allocation factors. The recomputed ESF / IBU corporate allocation factors used for this rate case proceeding consist of the following two components:

- ESF / IBU allocation factors effective December 31, 2004.
- ESF / IBU allocation factors impacted by the addition of the South Harper peaking plant cost.

Q. Please provide some background on how corporate costs are assigned or allocated to business units.

A. Aquila assigns or allocates costs to its various business units using one of three methods identified below:

- Direct Assignment of Costs: These consist of costs that are directly assignable or associated with a specific business unit. This type of cost is specifically charged to a department residing under a specific jurisdiction.

- 1       • Allocation of Costs Based on a Specific Cost Driver: This type of allocation  
2       includes allocating net costs remaining after direct assignment contained in the  
3       corporate allocation pool and attributing them to specific business units based  
4       upon a specific cost driver. This includes developing an allocation factor that has  
5       a direct cause and effect relationship with the types of costs being allocated. An  
6       example of this would include allocating payroll costs based on the number of  
7       paychecks issued or employee headcount contained in certain departments.
- 8       • Allocation of Costs Based on a “General” Allocator: Costs located in departments  
9       that are general in nature and benefit the organization as a whole are allocated  
10      using the “3-Factor Massachusetts Formula”. The Massachusetts formula consists  
11      of the arithmetic average of payroll charged to expense, gross margin and net  
12      plant.

13   Q.   What cost allocation methodology above does Adjustment No. CS-20 reallocate  
14       “residual” test year allocation pool costs?

15   A.   Adjustment No. CS-20 relates to both allocation pools associated with specific cost drivers  
16       and allocation pools that are generally allocated. In essence, any cost allocated in any given  
17       month by a factor different than the allocation factor in effect at December 31, 2004, would  
18       be adjusted in Adjustment No. CS-20. In addition, any cost allocated by an allocation factor  
19       based on a plant component, including the general allocator, was re-computed and applied  
20       to “residual” test year allocation pool costs to include the impact of the South Harper  
21       peaking plant.

1 Q. What percentage of total allocation pool costs are allocated using a specific cost driver  
2 versus a general allocation methodology?

3 A. For the year ended December 31, 2004, approximately 71% of the total allocation pool  
4 dollars are allocated via a specific cost driver while the remaining 29% are generally  
5 allocated using the Massachusetts Formula.

6 Q. How often does Aquila make changes to its allocations cost drivers?

7 A. Aquila continually reviews the allocation process in order to ensure that costs are  
8 properly assigned to the various Business Units so that their financial performance can be  
9 properly measured. The statistics associated with the allocations cost drivers are updated  
10 annually at mid-year based upon the actual historical experience of the prior year. This  
11 ensures that the most accurate cost causative driver is in place with the most recent  
12 statistical data. For most centralized corporate departments, there exists a specific cost  
13 driver that results in the most accurate causative relationship to the Business Unit being  
14 serviced. Adjustment No. CS-20 includes the most current cost drivers and statistics  
15 available at the time this case was prepared adjusted for the addition of the South Harper  
16 peaking plant.

17 Q. Where can an explanation of Aquila's cost allocation driver's be found?

18 A. Aquila's 2004 Corporate Cost Allocation Manual is included with Aquila's March 2005  
19 Annual Affiliate Filing to the Commission.

20 Q. As previously mentioned, please explain what is meant by reallocating net "residual"  
21 allocation pool dollars?

1 A. The term “residual” refers to the net remaining allocation pool dollars that have not been  
2 included in other rate case adjustment areas in this application. The following is a listing  
3 of the types of costs that have been removed from the allocation pool since they have  
4 been rate case adjusted individually and thus, not included in Adjustment No. CS-20.  
5 Each Aquila witness performed adjustments on allocated dollars following the same  
6 methodology as outlined in my testimony and as utilized in Adjustment No. CS-20.  
7 Types of costs excluded from the allocation pool include:

8 1) Payroll (CS-5), Incentives (CS-6), Employee Pensions and Benefits (CS-11),  
9 Payroll Taxes (CS-85) – Aquila witness Amy Murray.

10 2) Injuries and Damages (CS-30), Dues and Donations (CS-60), Advertising (CS-65)  
11 – Aquila witness Ron Klote

12 3) Depreciation Expense (CS-95) – Aquila witness Susan Braun.

13 Q. Besides adjusting the ESF and IBU total allocation pool for individual rate case  
14 adjustments, have you made other adjustments to the allocation pool dollars that were  
15 allocated to MPS and L&P during the test year?

16 A. Yes. Certain costs are retained in corporate business units and are not allocated out to  
17 Network business units. As such, they are not included as part of the total allocation  
18 pool. In addition, a review was performed of several ESF and IBU departments that did  
19 allocate costs to MPS and L&P during the test year and transactions were removed that  
20 should not be passed along to the ratepayer. These amounts have been removed from the  
21 “residual” allocation pool.



1 Q. Please describe how the addition of the South Harper peaking facility impacted allocation  
2 factors based on plant drivers.

3 A. Aquila is currently constructing the South Harper peaking facility near Peculiar, MO, that  
4 is scheduled to go on line later this year. The construction costs have been added to the  
5 MPS generation gross plant and net plant cost driver statistics. Since the addition of the  
6 South Harper plant is expected to be considered in rate base in this rate case proceeding,  
7 it is appropriate to add the plant costs to all appropriate plant cost driver statistics.

8 Q. How does the adjustment to the cost driver statistics for the South Harper peaking facility  
9 impact the allocations to MPS and L&P?

10 A. Total allocations to MPS increased approximately 1.9% and allocations to L&P decreased  
11 approximately 0.9% from adjusting "residual" allocated dollars to the current adjusted  
12 allocation factors.

13 Q. What was the amount of the MPS & L&P Adjustment No. 20, ESF / IBU Corporate  
14 Allocations adjustment for this rate case proceeding?

15 A. Please refer to the testimony of Company witness Susan Braun's, specifically Schedule  
16 SKB-4 for the MPS & L&P corporate allocations adjustment amount.

17 **UTILITY ALLOCATION FACTORS**

18 Q. Have additional allocation factors been developed for MPS for this rate case filing?

19 A. Yes. MPS is a combination electric and gas utility. As such, the Peoplesoft financial  
20 accounting system is maintained at the utility or "product" level. Utility allocation factors  
21 have been developed for the FERC account 900 series based on test year detail. These  
22 allocation factors were used to allocate certain rate case adjustment amounts impacting

1 the income statement. In addition, an MPS general allocator has been developed which is  
2 based on MPS plant balances between electric and gas utilities. Certain rate case  
3 adjustments have used the general plant allocator to distribute costs between the electric  
4 and gas utilities.

5 Q. Please identify the utility allocation factors developed for the MPS adjustments.

6 A. Please see Schedule RAK-1 attached to my testimony.

7 Q. Have additional allocation factors been developed for L&P for this rate case?

8 A. Yes. L&P is a combination electric, gas and steam utility. As described above for MPS,  
9 utility allocation factors have been developed for the FERC account 900 series based on test  
10 year detail (after the electric / steam allocation process described later in my testimony).  
11 These allocation factors were used to allocate certain rate case adjustments impacting the  
12 income statement. In addition, an L&P general allocator has been developed which is  
13 based on plant balances between electric, gas and steam utilities. Certain rate case  
14 adjustments have used the general plant allocator to distribute costs between the electric,  
15 gas and steam utilities.

16 Q. Is there an additional electric / steam allocation for the L&P industrial steam operations?

17 A. Yes.

18 Q. Why is an additional allocation for L&P steam operations used?

19 A. Two separate products are produced at the L&P Lake Road Station: electricity for Aquila  
20 Networks' electric power grid, and process steam (referred to as "Industrial Steam")  
21 delivered to several industrial customers located near the Lake Road Station. The two  
22 business operations are referred to as the electric and steam jurisdictions.

1 Q. Please explain how the steam allocation factors that Aquila uses to allocate the L&P  
2 steam operations are developed.

3 A. The steam allocation factors are developed using an analysis of Lake Road plant  
4 equipment used to produce the steam product, Lake Road plant payroll charged to O&M,  
5 and the total Lake Road plant coal burn (the ratio of three years of steam coal fuel to three  
6 years of Lake Road coal fuel) factors. With the development of the steam allocation  
7 factors, the following types of costs are distributed between the electric and steam  
8 products:

- 9 • Plant
- 10 • Operations and Maintenance Expenses
- 11 • Administrative and General Expenses
- 12

13 Q. Are these steam allocation factors applied to electric costs on a regular monthly basis?

14 A. No. In the last L&P rate case, (Case Nos. ER-2004-0034 and HR-2004-0024  
15 (Consolidated)) it was stipulated that “expenses for L&P steam operations will be allocated  
16 for ratemaking, but that Aquila should be granted a waiver from the Commission’s  
17 requirement expressed in a prior order that such expenses be booked monthly within  
18 Aquila’s accounting system.” As such, electric and steam operations are consolidated in the  
19 Peoplesoft financial accounting system (except for direct assignments) and allocated for  
20 ratemaking purposes.

21 Q. Please identify the utility allocation factors developed for L&P rate case adjustments.

22 A. Please see Schedule RAK-2 attached to my testimony.

**JURISDICTIONAL ALLOCATON FACTORS**

Q. Please explain the jurisdictional allocation factors developed for this rate proceeding.

A. MPS electric operations encompass both retail and wholesale jurisdictions. As such, allocation factors have been developed to allocate electric operation costs between retail and wholesale jurisdictions. The jurisdictional factors are based on various demand, energy, transmission and distribution statistics from our five wholesale customers compared to the total MPS system.

Q. Please identify the jurisdictional allocation factors developed for the MPS rate case adjustments.

A. Please see Schedule RAK-3 attached to my testimony.

**INJURIES & DAMAGES EXPENSE (CS-30)**

Q. Please explain the costs included as injuries and damages in Adjustment No. CS-30.

A. The injuries and damages (“I&D”) liability reserve FERC account 228.2 consists of four major areas:

- General Liability
- Worker’s Compensation
- Property Damage
- Auto Liability.

The liability reserve houses all accrued claims expensed in FERC account 925, I&D expense. The liability reserve is relieved when payment of I&D claims under the four categories listed above takes place.

1 Q. Please explain how Adjustment No. CS-30, I&D expense, was calculated for both MPS  
2 and L&P's electric operations for purposes of this rate proceeding.

3 **MPS:**

4 A. The Company obtained a three-year payout history from FERC account 228.2 that shows  
5 the payout history for I&D claims. From this payout history, a three-year average was  
6 calculated on actual electric claims paid for the 12 months ended December 31, 2002,  
7 2003 and 2004. The computed three-year average represents MPS's annualized level of  
8 I&D expense included in this rate case filing.

9 Q. Why was a three-year average chosen?

10 A. I&D claims can vary significantly from year to year. A three-year average was used to  
11 establish an appropriate on-going level of I&D expense for MPS by leveling out  
12 fluctuations in the reserve account that can exist from one year to the next depending on  
13 claims activity. This method is also consistent with the method used by the Commission  
14 Staff ("Staff") in MPS's last two rate proceedings, Case No. ER-2001-672 and Case No.  
15 ER-2004-0034.

16 Q. Were there any adjustments made to actual electric paid claims for the test year ended  
17 December 31, 2004 that has been included in the three-year average calculation?

18 A. Yes. In March 2005, a journal entry was made to record insurance claims paid from May  
19 2004 through February 2005 that had not been correctly recorded at the business unit  
20 level on a monthly basis. As such, an adjustment was made to account 228.2 to include  
21 only the claims that pertain to the 2004 test year used in this case.

22 Q. Please continue explaining how the I&D expense adjustment was completed.

1 A. The annualized level of I&D expense for MPS was then compared to the electric claim  
2 accruals recorded in FERC account 925000 during the test year ended December 31,  
3 2004. Next, the payroll jurisdictional allocation factor was applied to MPS's electric I&D  
4 adjustment amount to determine MPS's electric jurisdictional adjustment applicable to  
5 retail operations.

6 Q. What was the amount of the MPS Adjustment No. 30, I&D expense for this rate case  
7 proceeding?

8 A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule  
9 SKB-4 for the MPS I&D adjustment amount.

10 **L&P:**

11 A. L&P employed the same method for calculating the annualized level of I&D expense  
12 included in its rate case filing. First, a three-year payout history was obtained from FERC  
13 account 228.2 that shows the payout history for I&D. From this payout history, a three-  
14 year average was calculated on actual electric claims paid for the 12 months ended  
15 December 31, 2002, 2003 and 2004.

16 Q. Were there any additional steps required in the calculation of the three-year average  
17 claims payout that differ from MPS?

18 A. Yes. Unlike MPS, a manual allocation was necessary to assign a percentage of L&P's  
19 claims between electric and gas that were paid during 2002. This was the result of claims  
20 that were recorded without a product (i.e. electric, gas, or common) during 2002.

21 Q. What was the basis of the allocation percentage used to allocate claims recorded with no  
22 product?

1 A. Due to the nature of the claims, the allocation percentage was based on the percentage of  
2 electric employees compared to total employees (electric and gas) during 2002, resulting  
3 in an electric allocation percentage of 94.35%. The 94.35% was then applied to the total  
4 claims recorded without a product during the 12 months ended December 31, 2002 to  
5 determine L&P's electric portion of paid claims to include in the calculation of the three-  
6 year average claim payout.

7 Q. Were there any adjustments made to actual electric paid claims for the test year ended  
8 December 31, 2004 that has been included in the three-year average calculation?

9 A. Yes. Similar to MPS, a journal entry was made in March 2005 to record insurance claims  
10 paid from May 2004 through February 2005 that had not been correctly recorded at the  
11 business unit level on a monthly basis. Therefore, an adjustment was made to FERC  
12 account 228.2 to include claims pertaining to the 2004 test year.

13 Q. Please continue.

14 A. After calculating L&P's three-year average electric claim payout, an electric/steam A&G  
15 allocation percentage was applied to the three-year average to determine L&P's  
16 annualized level of I&D expense for both the electric and steam operations.

17 Q. Please continue explaining how the I&D expense adjustment was completed.

18 A. The annualized level of I&D expense for L&P's electric operations was then compared to  
19 the electric claim accruals recorded in FERC account 925000 during the test year ended  
20 December 31, 2004.

21 Q. What was the amount of the L&P Adjustment No. 30, I&D expense for this rate case  
22 proceeding?

1 A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule  
2 SKB-4 for the L&P I&D adjustment amount.

3 **BAD DEBT EXPENSE (CS-35)**

4 Q. What is the purpose of the bad debt adjustment in CS-35?

5 A. The bad debt adjustment updates MPS' and L&P's electric jurisdictional test year per book  
6 bad debt expense to be in line with MPS' new weather normalized electric jurisdictional  
7 revenue level. The first step annualizes MPS' uncollectible account via net write-offs to an  
8 annualized level for the test year. The annualized level of bad debt expense is calculated by  
9 multiplying the actual average net write-off rate for the last 3 years times that adjusted test  
10 year level of jurisdictional electric operating revenues.

11 Q. Why was a three-year average chosen?

12 A. Net write-offs vary from year to year. A three-year average better represents an on-going  
13 level of bad debt expense for MPS and L&P by leveling out fluctuations in bad debt write-  
14 offs that can exist from one year to the next. This method is also consistent with the method  
15 used by the Staff in MPS's last rate proceeding, Case No. ER-2004-0034.

16 Q. Please continue.

17 A. Next, the new electric jurisdictional bad debt level is compared with MPS' & L&P's  
18 electric jurisdictional per books bad debt expense. The difference is the electric  
19 jurisdictional bad debt adjustment.

20 Q. Why is the three-year average used composed of non-contiguous years?

21 A. An examination of the net write-offs for the past three years showed 2002 write-offs to be  
22 significantly greater than either the prior year or the two subsequent years. Using 2002 in



1 the three-year average would unfairly skew the data for the test year annualized bad debt  
2 expense. It was decided to retain a three-year average but to substitute 2001 for 2002 in  
3 the three-year average.

4 Q. What was the amount of the MPS and L&P Adjustment No. 35, Bad Debt Expense for  
5 this rate case proceeding?

6 A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule  
7 SKB-4 for the MPS and L&P Bad Debt expense adjustment amount.

8 **TRANSMISSION EXPENSE (CS-57)**

9 Q. What is the purpose of the transmission expense Adjustment No. CS-57 made to MPS  
10 and L&P?

11 A. The purpose of this adjustment is to annualize the firm electric transmission secured by  
12 MPS and L&P under current purchased power contract obligations and compare it to the  
13 actual per book electric transmission expense for the test year ending December 31, 2004.

14 **MPS**

15 Q. How was the annualized level of transmission expense calculated for MPS?

16 A. The annualized level of MPS transmission expense was computed by multiplying the  
17 contract transmission capacity in MW by the corresponding contract price in dollars per  
18 MW-month for a fixed one-year period. Other intermittent transmission services were  
19 secured and used to transport off-system sales, economy energy (energy purchased at spot  
20 prices lower than on-system peaking generation) during the test year ending December  
21 31, 2004. The per book amounts of intermittent transmission expense recorded during  
22 the test year has been used for the annualized level for purposes of this rate filing. The

1 total annualized level of transmission expense was then compared to actual transmission  
2 expense for the test year, resulting in an adjustment to MPS' cost of service.

3 Q. What is the adjustment amount in this case for MPS' transmission expense?

4 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
5 specifically Schedule SKB-4.

6 **L&P**

7 Q. How was the annualized level of L&P transmission expense calculated?

8 A. The annualized level of L&P transmission expense was computed by multiplying the  
9 contract transmission capacity in MW by the corresponding individual contract price in  
10 dollars per MW-month for a fixed one-year period. The annualized level of expense was  
11 then compared to actual transmission expense recorded during the test year, resulting in  
12 an adjustment to L&P's cost of service.

13 Q. What is the adjustment amount in this case for L&P's transmission expense?

14 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
15 specifically Schedule SKB-4.

16 **DUES & DONATIONS EXPENSE (CS-60)**

17 Q. Please explain Adjustment No. CS-60, Dues and Donations Expense.

18 A. This adjustment eliminates all dues and donations charged above-the-line to MPS and  
19 L&P's electric operations except Edison Electric Institute ("EEI") and Electric Power  
20 Research Institute ("EPRI") dues. The expenses relating to EEI and EPRI have been  
21 included in both MPS and L&P's cost of service because they provide a benefit to  
22 ratepayers.

1 Q. What benefit does EEI provide to ratepayers?

2 A. EEI fosters the exchange of information on topics such as utility operations and  
3 environmental legislation. Member utilities and other interested parties rely upon EEI for  
4 authoritative analysis and critical industry data. EEI also conducts forums for member  
5 company representatives to discuss issues and strategies to advance the industry and to  
6 ensure a competitive position in a changing marketplace.

7 Q. Have any lobbying costs associated with EEI been eliminated from this adjustment?

8 A. Yes. Percentages associated with lobbying activity compared to all other EEI activity  
9 were obtained from EEI and used to calculate the disallowance of lobbying expenditures  
10 for the test year ended December 31, 2004. The percentages are based on EEI's actual  
11 lobbying expenditures for calendar year 2003 which were identified as lobbying and  
12 political expenditures under the Lobbying Disclosure Act of 1995.

13 Q. What benefit does EPRI provide to ratepayers?

14 A. EPRI was established in 1973 as an independent, non-profit center for electricity and  
15 environmental research. EPRI's collaborative science and technology portfolio now spans  
16 every aspect of power generation, delivery and end-use, drawing upon a world-class  
17 network of scientific, engineering and technical talent. Through the power of  
18 collaboration, EPRI is able to leverage the collective resources of its clients to address the  
19 industry's toughest and most critical challenges related to generation, delivery and end-  
20 use, with a special focus on safe, reliable, cost-effective electricity and environmental  
21 stewardship.

1 Q. What specific EPRI programs has Aquila found to be a direct benefit to the Company and  
2 ratepayers?

3 A. A few examples include fluid spill containment systems, pollution control device  
4 development, regulatory comments and potential future development in environmental  
5 regulations.

6 Q. What was the amount of the MPS and L&P Adjustment No. 60, Dues and Donations  
7 Expense for this rate case?

8 A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule  
9 SKB-4 for the MPS and L&P Dues and Donations expense adjustment amount.

10 **ADVERTISING EXPENSE (CS-65)**

11 Q. Please explain Adjustment No. CS-65, Advertising Expense.

12 A. This adjustment eliminates all advertising expenses recorded to above-the-line accounts for  
13 the test year ending December 31, 2004 except those expenses for informational and safety  
14 advertisements that directly benefit MPS and L&P electric customers.

15 Q. What do the informational and safety advertisements consist of?

16 A. The informational and safety advertising expenses remaining in operating expenses relate  
17 to news releases, customer bill inserts, newspaper advertisements, and newsletters. News  
18 releases, customer bill inserts and newspaper advertisements regarding safety and  
19 Company information were distributed twice during the test year.

20 Q. Please describe the general content of these items.

21 A. These advertisements inform the public of Dig-Rite and Call Before You Dig programs  
22 that help residents avoid potential expense as well as serious or fatal injury.

1 Q. What was the amount of the MPS and L&P Adjustment No. 65, Advertising Expense for  
2 this rate case?

3 A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule  
4 SKB-4 for the MPS and L&P advertising expense adjustment amount.

5 **REGIONAL TRANSMISSION ORGANIZATION EXPENSE (CS-76)**

6 Q. Please explain the purpose of Cost of Service Adjustment No. CS-76 Regional  
7 Transmission Organization Expense for both MPS and L&P.

8 A. Adjustment No. CS-76 involves expenses associated with the Midwest Independent  
9 Transmission System Operator (“MISO”), a Regional Transmission Organization  
10 (“RTO”) whose main objective is to operate and monitor the electric transmission system  
11 to ensure equal access by all electric industry participants and to maintain or improve  
12 electric system reliability in the Midwest United States. Adjustment No. CS-76  
13 annualizes the impact of a full year of transmission membership dues as a result of  
14 joining the RTO at current membership rates.

15 Q. Please explain how Adjustment No. CS-76 was calculated for both MPS and L&P?

16 **MPS**

17 A. The expected membership dues for MPS are calculated using the 2004 native load in  
18 MWH’s multiplied by the MISO participation fee in dollars per MWH resulting in MPS’  
19 on-going level of expense as a full participant of the RTO. The annualized level of  
20 expense was then compared to actual RTO expense for the test year, resulting in an  
21 adjustment to MPS’ cost of service.

22 Q. What is the adjustment amount in this case for MPS’ RTO expense?

1 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
2 specifically Schedule SKB-4.

3 **L&P**

4 A. Similar to MPS, the expected membership dues for L&P are calculated using the 2004  
5 native load in MWH's multiplied by the MISO participation fee in dollars per MWH.  
6 The result is the on-going level of expense L&P will incur as a full participant of the  
7 RTO. The annualized level of expense was then compared to actual RTO expense for the  
8 test year, resulting in an adjustment to L&P's cost of service.

9 Q. What is the adjustment amount in this case for L&P's RTO expense?

10 A. The adjustment amount is provided in the testimony of Company witness Susan Braun,  
11 specifically Schedule SKB-4.

12 **CURRENT & DEFERRED INCOME TAX EXPENSE (TAX – 1)**

13 Q. Please explain the current income tax expense adjustments calculated in Schedule 8 of  
14 MPS and L&P's revenue requirement models.

15 A. Certain adjustments are made to net income to compute the current provision for income  
16 tax expense. These adjustments begin by taking adjusted net income and applying  
17 various adjustments which either add to and subtract from net income to obtain net  
18 taxable income for ratemaking. The adjustments are the result of various book versus tax  
19 timing differences and their implementation under separate tax methods: flow-through  
20 versus normalization. The resulting net taxable income for ratemaking is then multiplied  
21 by the appropriate federal and state tax rates to obtain the current provision for income  
22 taxes. A federal tax rate of 35% and a state income tax rate of 6.25% were used in this

1 calculation resulting in an overall effective tax rate of 38.3886%. The difference between  
2 the calculated current income tax provision and the per book income tax provision is the  
3 current income tax provision adjustment.

4 Q. Please describe the adjustments to net income before taxes.

5 A. The following are adjustments made to net income before taxes:

- 6 • Book depreciation (including transportation depreciation) expense is added to net  
7 income. This amount is added back to net income to avoid deducting depreciation  
8 amounts twice for income tax purposes. Tax straight-line depreciation replaces book  
9 depreciation as a deduction from income for the income tax calculation.
- 10 • Schedule M meals and entertainment, contributions in aid of construction and  
11 advances for construction as estimated for the 2004 test year have been added back to  
12 income. This amount has historically been included as an add back in determining the  
13 current income tax provision. The timing differences associated with contributions in  
14 aid of construction and advances for construction are normalized with deferred  
15 income taxes computed as discussed below.
- 16 • Interest expense is subtracted from net income before taxes. It is calculated by  
17 multiplying net rate base by the weighted average cost of debt proposed in this  
18 proceeding. This interest synchronization technique ensures the interest deduction in  
19 the income tax expense calculation equals the interest expense provided in rates.
- 20 • Tax depreciation is subtracted from net income. It is divided into two components:  
21 (1) Tax straight-line depreciation and (2) Tax depreciation in excess of tax straight-  
22 line depreciation. Tax straight-line depreciation represents book depreciation expense

1 restated to reflect the tax basis of plant in service. No deferred taxes are provided for  
2 tax straight-line depreciation, thus it can be considered a flow through item. Tax  
3 depreciation in excess of tax straight-line depreciation is simply the difference  
4 between the tax straight-line depreciation calculation and the total tax depreciation  
5 deduction. The excess tax depreciation is normalized in this filing, thus the  
6 appropriate deferred income tax amounts are provided for in the income tax provision  
7 calculation.

8 Q. Please explain how the tax straight-line depreciation amount was computed in this rate  
9 case filing for both MPS and L&P.

10 A. As stated in Appendix E of the Unanimous Stipulation and Agreement in Case No. ER-  
11 2004-0034 and Case No. HR-2004-0024, Aquila agreed to completing a formal tax study  
12 to develop the best methodology for computing regulated income tax expense. In  
13 particular, developing a mutually agreeable basis for computing a tax deduction  
14 associated with depreciation expense for ratemaking purposes. As such, Aquila has  
15 agreed to the following:

16 The Staff method used to calculate the tax deduction for book depreciation in the  
17 calculation of regulated income tax expense in this case will continue to be used  
18 in future rate cases until this study is completed or another method is mutually  
19 agreed upon.

20 At the time of this filing, the tax study is not complete. As such, the method proposed by  
21 staff in case no. ER-2004-0034 has been used to compute the tax straight-line  
22 depreciation amount for this rate case filing. This calculation includes the calculation of



1 a ratio of tax basis versus book basis depreciable plant used in the previous rate case  
2 filing.

3 Q. Please describe the deferred income tax adjustment.

4 A. The deferred income tax adjustment is broken down into the following three components:

5 1. Schedule M timing differences: Contributions in aid of construction and Advances  
6 for construction. These add backs to income are tax affected and normalized  
7 consistent with staff's calculation in the prior rate case filing.

8 2. The second component of deferred tax expense represents the tax affected timing  
9 difference between tax straight-line depreciation expense and tax depreciation  
10 expense. This is consistent with the normalization calculation in the previous rate  
11 case filing.

12 3. The third component includes an amortization of excess deferred income taxes  
13 resulting from the 1986 Tax Reform Act. This calculation is the result of the 1986  
14 Tax Reform Act which created excess deferred tax amounts associated with  
15 depreciation timing differences. As such, a manual amortization has been created to  
16 amortize excess deferred taxes created from the change in tax rates back to customers.

17 The combination of the above three components make up the amounts recorded as  
18 deferred income tax expense.

19 Q. What was the amount of the MPS and L&P current and deferred income tax expense  
20 adjustment for this rate case proceeding?

1 A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule  
2 SKB-4 for the MPS and L&P current and deferred income tax expense adjustment  
3 amounts.

4 **ACCUMULATED DEFERRED INCOME TAXES (RBO – 30)**

5 Q. Please describe the accumulated deferred income tax offset to rate base.

6 A. The accumulated deferred income tax offset to rate base includes the accumulation of tax  
7 effected timing differences between the general ledger and tax accounting records. These  
8 items are known as schedule M's in the company's annual tax return. The majority of  
9 timing differences included in this filing are from general ledger accounts that include  
10 timing differences associated with plant activity. They include both MPS and L&P  
11 directly assigned timing differences, as well as, corporate timing differences which are  
12 common to all Aquila jurisdictions.

13 Q. What time period was used for accumulated deferred income taxes?

14 A. Accumulated deferred income taxes are based on actual and estimated timing differences  
15 through December 31, 2004.

16 Q. Please explain how the accumulated deferred income tax amount was computed.

17 A. The accumulated deferred income tax amount includes the following components:

- 18 • Accumulated deferred income taxes include timing differences recorded in MPS and  
19 L&P FERC account 190 and 282. Balances in FERC account 190 and 282 at  
20 December 31, 2004 include timing differences based on actual tax return filings  
21 through December 31, 2003 and estimates for the period ending December 31, 2004.

- Accumulated deferred income taxes include MPS and L&P allocable share of balances recorded in corporate FERC account 282. As described above, FERC account 282 at December 31, 2004 includes timing differences based on actual tax return filings through December 31, 2003 and estimates for the period ending December 31, 2004.

Q. How were accumulated deferred taxes not directly assigned to electric, gas or steam utilities allocated between electric, gas and steam utilities in this rate case?

A. The majority of the tax effected timing differences residing in accumulated deferred income tax balances are associated with different depreciation methods. As such, plant utility allocation factors were applied to the accumulated deferred income tax balances to allocate between the utilities. The electric accumulated deferred income tax balance was then multiplied by the appropriate jurisdictional factor to obtain the electric jurisdictional accumulated deferred income tax balance.

Q. What is the total electric accumulated deferred income tax rate base offset for MPS & L&P?

A. Please refer to the testimony of Company witness Susan Braun, specifically Schedule SKB-2 for the MPS & L&P accumulated deferred income tax rate base offset amounts.

#### **CASH WORKING CAPITAL (WC-50)**

Q. What is Cash Working Capital?

A. Cash Working Capital ("CWC") is the amount of cash necessary for MPS and L&P to pay the day-to-day expenses incurred to provide electric service to their customers.

1 Q. Is the method used in the current rate case to calculate MPS and L&P CWC requirements  
2 the same method that has been used in previous cases?

3 A. Yes, the method has been proposed by Commission Staff in numerous rate proceedings  
4 including Case Nos. ER-99-0247, ER-2001-0672, and ER-2004-0034.

5 Q. Please explain this method.

6 A. A lead/lag study determines the amount of cash that is necessary on a day-to-day basis to  
7 provide energy services to customers. A lead/lag study analyzes the cash flows related to  
8 the payments received from its customers for the provision of electric service and the  
9 disbursements made by MPS and L&P to its suppliers and vendors of goods and services  
10 necessary to provide the energy services. A lead/lag study determines the number of days  
11 MPS and L&P has to make payments after receiving goods or services from a vendor and is  
12 compared with the number of days it takes to receive payment for the energy services  
13 provided to its customers.

14 Q. What are the sources of CWC?

15 A. Ultimately, shareholders and ratepayers provide all sources of cash working capital.

16 Q. How do shareholders supply CWC?

17 A. When MPS/L&P expends funds to pay for an expense before the ratepayers provide the  
18 cash through rates, the shareholders are the source of the funds. This cash represents a  
19 portion of the shareholders' total investment in MPS and L&P. The shareholders are  
20 compensated for the CWC funds they provided by the inclusion of these funds in rate base.  
21 By including these funds in rate base, the shareholders earn a return on the funds they have  
22 invested.

1 Q. How do ratepayers provide CWC?

2 A. Ratepayers supply CWC when they pay for energy services received before MPS and L&P  
3 pay expenses incurred to provide that service. Ratepayers are compensated for the CWC  
4 that they provide by reducing rate base by the amount of CWC the ratepayers provide.

5 Q. How is the amount of CWC provided by both the ratepayers and shareholders generally  
6 determined?

7 A. A lead/lag study is performed.

8 Q. How are lead/lag study results interpreted?

9 A. A positive CWC requirement indicates that, in the aggregate, the shareholders provided the  
10 CWC for the test year. This means that, on average, the Company paid the expenses  
11 incurred to provide the energy service to the ratepayers before the ratepayers paid the  
12 Company for the provision of utility service.

13 A negative requirement indicates that, in aggregate, the ratepayers provided the CWC  
14 during the test year. This means that, on average, the ratepayers paid for their electric  
15 service before the utility paid the expense incurred to provide those services.

16 Q. Was there a lead/lag study prepared for MPS and L&P for this rate case proceeding?

17 A. Yes. A lead/lag study was prepared using mainly 2004 test year data.

18 Q. What was the result of the lead / lag study performed for 2004?

19 A. The results of the lead / lag demonstrates that in the aggregate ratepayers have supplied  
20 funds to the utility to pay for expenses prior to the utility paying for the same expenses. As  
21 such, a rate base offset amount will be included in this rate case filing.

22 Q. Where can the calculation of the Cash Working Capital calculation be found?

1 A. Please see Schedules RAK - 4 & RAK – 5 attached to my testimony which details the  
2 calculation of the Cash Working Capital rate base offset for MPS and L&P, respectively.  
3 Included within the calculation are the computed lead / lag days which were updated for the  
4 2004 test year.

5 Q. Please explain the components of the calculation of CWC that appears on Schedules RAK-  
6 4 & RAK - 5.

7 A. The components of the calculation are as follows:

- 8 1) Column A (Account Description) lists the types of significant cash expenditures that  
9 MPS and L&P pay on a day-to-day basis.
- 10 2) Column B (Test Year Expense) provides the amount of annualized expense included in  
11 the cost of service. It shows the dollars associated with the items listed in column A on  
12 an adjusted Missouri jurisdictional basis.
- 13 3) Column C (Revenue Lag) indicates the number of days between the midpoint of the  
14 provision of service by MPS and L&P and the payment for the service by the ratepayer.
- 15 4) Column D (Expense Lead) indicates the number of days between the receipt of and the  
16 payment for the goods and services (i.e. cash expenditures) used to provide service to  
17 the ratepayers.
- 18 5) Column E (Net Lag) results from the subtraction of the Expense Lead (column D) from  
19 the Revenue Lag (column C).
- 20 6) Column F (Factor) expresses the CWC lag in days as a fraction of the total days in the  
21 test year. This is accomplished by dividing the Net Lags in column E by 365 days.

1           7) Column G (CWC Requirement) reflects the average amount of cash necessary to  
2           provide service to the ratepayer. This is computed by multiplying the Test Year  
3           Expenses (column B) by the CWC Factor (column F).

4    Q.    Does this conclude your direct testimony?

5    A.    Yes.

**Rate Case Utility Allocation Factors  
Aquila Networks - MPS**

12/31/04		
Electric	Gas	Total

<b>TOTAL PLANT %</b>	93.904 %	6.096 %	100.000 %
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**A&G Accounts (Rolling 12 Mos)**

901000	Cust Accts Supervision	83.949 %	16.051 %	100.000 %
902000	Cust Accts Meter Reading Expen	86.449 %	13.551 %	100.000 %
903000	Cust Accts Records & Collectio	83.751 %	16.249 %	100.000 %
904000	Uncollectible Accounts	64.682 %	35.318 %	100.000 %
905000	Misc Customer Accounts	76.747 %	23.253 %	100.000 %
907000	Customer Service Supervision	95.756 %	4.244 %	100.000 %
908000	Customer Assistance Exp	0.000 %	100.000 %	100.000 %
909000	Informational & Instruct Ads	84.253 %	15.747 %	100.000 %
910000	Misc Cust Service & Info	84.249 %	15.751 %	100.000 %
911000	Sales Supervision	79.575 %	20.425 %	100.000 %
912000	Sales Demonstrating & Selling	79.664 %	20.336 %	100.000 %
913000	Sales Advertising Expenses	61.011 %	38.989 %	100.000 %
916000	Miscellaneous Sales Expenses	82.006 %	17.994 %	100.000 %
920000	Admin And General Salaries	87.119 %	12.881 %	100.000 %
921000	Office Supplies And Expense	89.710 %	10.290 %	100.000 %
922000	Admin Exp Trans Credit	88.647 %	11.353 %	100.000 %
922001	FDC Loading	110.067 %	(10.067)%	100.000 %
923000	Outside Services Employed	89.583 %	10.417 %	100.000 %
924000	Property Insurance	99.633 %	0.367 %	100.000 %
925000	Injuries And Damages	90.781 %	9.219 %	100.000 %
926000	Employee Pensions & Benefits	87.400 %	12.600 %	100.000 %
928000	Regulatory Commission Exp	79.697 %	20.303 %	100.000 %
929000	Duplicate Charges - Credit	100.000 %	0.000 %	100.000 %
930100	General Advertising Expenses	88.569 %	11.431 %	100.000 %
930200	Miscellaneous General Exp	89.592 %	10.408 %	100.000 %
930201	Environ Remed-MO Electric	99.971 %	0.029 %	100.000 %
931000	A & G Rents	86.243 %	13.757 %	100.000 %
935000	Maintenance General Plant	90.553 %	9.447 %	100.000 %



**Rate Case Utility Allocation Factors  
Aquila Networks - L&P**

		12/31/04			
		Electric	Gas	Steam	Total
<b>TOTAL PLANT %</b>		94.624%	2.295%	3.081%	100.000%
<b><u>A&amp;G Accounts (Rolling 12 Mos)</u></b>					
901000	Cust Accts Supervision	72.690 %	27.310 %	0.000 %	100.000 %
902000	Cust Accts Meter Reading Expen	91.683 %	8.317 %	0.000 %	100.000 %
903000	Cust Accts Records & Collectio	92.524 %	7.476 %	0.000 %	100.000 %
904000	Uncollectible Accounts	93.365 %	6.635 %	0.000 %	100.000 %
905000	Misc Customer Accounts	69.553 %	30.447 %	0.000 %	100.000 %
907000	Customer Service Supervision	99.833 %	0.167 %	0.000 %	100.000 %
908000	Customer Assistance Exp	0.000 %	100.000 %	0.000 %	100.000 %
909000	Informational & Instruct Ads	91.862 %	8.138 %	0.000 %	100.000 %
910000	Misc Cust Service & Info	87.540 %	12.460 %	0.000 %	100.000 %
911000	Sales Supervision	91.323 %	8.677 %	0.000 %	100.000 %
912000	Sales Demonstrating & Selling	91.582 %	8.418 %	0.000 %	100.000 %
913000	Sales Advertising Expenses	82.635 %	17.365 %	0.000 %	100.000 %
916000	Miscellaneous Sales Expenses	91.271 %	8.729 %	0.000 %	100.000 %
920000	Admin And General Salaries	89.282 %	5.552 %	5.166 %	100.000 %
921000	Office Supplies And Expense	90.909 %	3.830 %	5.260 %	100.000 %
922000	Admin Exp Trans Credit	90.975 %	3.761 %	5.264 %	100.000 %
922001	FDC Loading	124.245 %	(31.434)%	7.189 %	100.000 %
923000	Outside Services Employed	91.178 %	3.546 %	5.276 %	100.000 %
924000	Property Insurance	94.457 %	0.077 %	5.466 %	100.000 %
925000	Injuries And Damages	91.694 %	3.000 %	5.306 %	100.000 %
926000	Employee Pensions & Benefits	82.399 %	10.546 %	7.055 %	100.000 %
928000	Regulatory Commission Exp	81.445 %	7.922 %	10.633 %	100.000 %
929000	Duplicate Charges - Credit	94.530 %	0.000 %	5.470 %	100.000 %
930100	General Advertising Expenses	90.392 %	4.377 %	5.231 %	100.000 %
930200	Miscellaneous General Exp	92.410 %	2.243 %	5.347 %	100.000 %
930201	Environ Remed-MO Electric	94.530 %	0.000 %	5.470 %	100.000 %
931000	A & G Rents	87.314 %	7.634 %	5.052 %	100.000 %
935000	Maintenance General Plant	89.677 %	5.134 %	5.189 %	100.000 %
<b><u>Electric/Steam Allocation Factors</u></b>					
1	Electric - 100%	100.000 %	0.000 %	0.000 %	100.000 %
2	Steam - 100%	0.000 %	0.000 %	100.000 %	100.000 %
3	Land Factor	90.070 %	0.000 %	9.930 %	100.000 %
4	Structures Factor	90.070 %	0.000 %	9.930 %	100.000 %
5	Boiler Plant Factor	83.415 %	0.000 %	16.585 %	100.000 %
6	Turbogenerators Factor	99.971 %	0.000 %	0.029 %	100.000 %
7	Access Elec Eqpt Factor	90.070 %	0.000 %	9.930 %	100.000 %
8	Misc Steam Gen Eqpt Factor	73.300 %	0.000 %	26.700 %	100.000 %
9	Electric/Steam Plant Factor	90.070 %	0.000 %	9.930 %	100.000 %
10	900 lb Steam Demand Factor	73.300 %	0.000 %	26.700 %	100.000 %
11	Total Coal Burned Factor	81.600 %	0.000 %	18.400 %	100.000 %
<b><u>Income Statement Allocation Factors (Elec/Steam)</u></b>					
13	Electric After Steam Alloc (O&M)	86.691%			
14	Electric After Steam Alloc (A&G)	94.530%			

**Rate Case Jurisdictional Allocation Factors  
Aquila Networks - MPS**

12/31/04		
Electric	Gas	Total

**Jurisdiction Factors**

		Retail	Wholesale	Total
1	Jurisdictional-100%	100.000 %	0.000 %	100.000 %
2	Non-jurisdictional-100%	0.000 %	100.000 %	100.000 %
3	Demand Factor	99.483%	0.517%	100.000 %
4	Energy Factor	99.505%	0.495%	100.000 %
5	Distribution Factor	99.432%	0.568%	100.000 %
6	Payroll Factor	99.465%	0.535%	100.000 %
7	Plant Factor	99.458%	0.542%	100.000 %
8	Transmission Factor	99.483%	0.517%	100.000 %

**Aquila Networks - MPS (Electric)**  
**Cash Working Capital Calculation**

Line #	Account Description (A)	(Elec-Juris) Test Year Expenses (B)	Revenue Lag (C)	Expense Lead (D)	Net (Lead)/Lag (C) - (D) (E)	Factor (Col E/365) (F)	CWC Req (B) X (F) (G)
<b><u>Operations &amp; Maintenance Expense</u></b>							
1	Cash Vouchers	77,208,031	38.7136	45.6250	(6.9114)	(0.01894)	(1,461,961)
2	Federal Income Tax Withheld	3,060,838	38.7136	12.4259	26.2877	0.07202	220,445
3	State Income Tax Withheld	922,327	38.7136	12.4259	26.2877	0.07202	66,427
4	FICA Taxes Withheld - Employee	1,702,035	38.7136	12.4259	26.2877	0.07202	122,582
5	Net Payroll	22,767,358	38.7136	13.9259	24.7877	0.06791	1,546,166
6	Accrued Vacation	994,519	38.7136	365.0000	(326.2864)	(0.89394)	(889,036)
7	Purchased Gas & Oil	6,496,880	38.7136	39.5900	(0.8764)	(0.00240)	(15,600)
8	Injuries & Damages	996,738	38.7136	113.8092	(75.0956)	(0.20574)	(205,070)
9	Purchased Power	115,975,945	38.7136	33.9758	4.7378	0.01298	1,505,400
10	Sibley - Coal & Freight	40,847,768	38.7136	35.1496	3.5640	0.00976	398,853
11	Jeffrey - Coal	12,476,932	38.7136	29.8000	8.9136	0.02442	304,697
12	Jeffrey - Operations	4,583,206	38.7136	29.8000	8.9136	0.02442	111,926
<b>Total Operation &amp; Maintenance Expense</b>		288,032,576					1,704,829
13	Interest Expense	29,315,018	38.7136	92.0000	(53.2864)	(0.14599)	(4,279,704)
<b><u>Taxes other than Income Taxes</u></b>							
14	Ad Valorem/Property Taxes	11,898,042	38.7136	182.5000	(143.7864)	(0.39394)	(4,687,059)
15	FICA Taxes - Employer's	1,702,035	38.7136	12.4259	26.2877	0.07202	122,582
16	Unemployment Taxes (FUTA & SUTA)	140,065	38.7136	76.3750	(37.6614)	(0.10318)	(14,452)
17	Corporate Franchise Taxes	301,070	38.7136	(76.0000)	114.7136	0.31428	94,621
18	City Franchise Taxes	18,235,992	38.7136	77.8423	(39.1287)	(0.10720)	(1,954,933)
19	Sales Taxes	9,628,526	38.7136	35.2000	3.5136	0.00963	92,687
<b>Total Taxes other than Income Taxes</b>		41,905,730					(6,346,554)
20	Current Income Taxes-Federal	(3,227,552)	38.7136	38.5000	0.2136	0.00059	(1,889)
21	Current Income Taxes-State	(507,187)	38.7136	38.5000	0.2136	0.00059	(297)
<b>Total Cash Working Capital Requirement</b>		355,518,585					(8,923,614)

**Aquila Networks - L&P (Electric)**  
**Cash Working Capital Calculation**

Line #	Account Description (A)	(Elec-Juris) Test Year Expenses (B)	Revenue Lag (C)	Expense Lead (D)	Net (Lead)/Lag (C) - (D) (E)	Factor (Col E/365) (F)	CWC Req (B) X (F) (G)
<b><u>Operations &amp; Maintenance Expense</u></b>							
1	Cash Vouchers	19,505,429	38.7136	45.6250	(6.9114)	(0.01894)	(369,342)
2	Federal Income Tax Withheld	1,151,381	38.7136	12.4259	26.2877	0.07202	82,924
3	State Income Tax Withheld	335,858	38.7136	12.4259	26.2877	0.07202	24,189
4	FICA Taxes Withheld - Employee	626,422	38.7136	12.4259	26.2877	0.07202	45,116
5	Net Payroll	8,927,624	38.7136	13.9259	24.7877	0.06791	606,288
6	Accrued Vacation	337,061	38.7136	365.0000	(326.2864)	(0.89394)	(301,311)
7	Purchased Gas and Oil	489,790	38.7136	39.5900	(0.8764)	(0.00240)	(1,176)
8	Injuries and Damages	143,046	38.7136	237.7933	(199.0797)	(0.54542)	(78,021)
9	Purchased Power	28,015,759	38.7136	34.9130	3.8006	0.01041	291,717
10	Lake Road - Coal & Freight	9,488,734	38.7136	35.1496	3.5640	0.00976	92,652
11	Iatan - Coal	5,561,870	38.7136	31.6000	7.1136	0.01949	108,397
12	Iatan - Operations	6,522,338	38.7136	33.0000	5.7136	0.01565	102,099
<b>Total Operation &amp; Maintenance Expense</b>		81,105,312					603,531
<b>Interest Expense</b>		7,841,868	38.71	92.0000	(53.2864)	(0.14599)	(1,144,835)
<b><u>Taxes other than Income Taxes</u></b>							
13	Ad Valorem/Property Taxes	4,018,062	38.7136	182.5000	(143.7864)	(0.39394)	(1,582,857)
14	FICA Taxes - Employer's	626,422	38.7136	12.4259	26.2877	0.07202	45,116
15	Unemployment Taxes (FUTA & SUTA)	48,770	38.7136	76.3750	(37.6614)	(0.10318)	(5,032)
16	Corporate Franchise Taxes	125,341	38.7136	(76.0000)	114.7136	0.31428	39,393
17	City Franchise Taxes	2,987,532	38.7136	32.6815	6.0321	0.01653	49,373
18	Sales Taxes	2,780,746	38.7136	35.2000	3.5136	0.00963	26,768
<b>Total Taxes other than Income Taxes</b>		10,586,873					(1,427,239)
19	Current Income Taxes-Federal	2,459,301	38.7136	38.5000	0.2136	0.00059	1,439
20	Current Income Taxes-State	386,462	38.7136	38.5000	0.2136	0.00059	226
<b>Total Cash Working Capital Requirement</b>		102,379,816					(1,966,878)

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

County of Jackson           )  
  )           ss  
State of Missouri             )

Ronald A. Klote, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Ronald A. Klote;" 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.

Subscribed and sworn to before me this 24th day of May, 2005.

My Commission expires:

A circular notary seal for the State of Missouri. The outer ring contains the text "Notary Public" at the top and "State of Missouri" at the bottom, separated by two small stars. In the center, the word "Notary" is positioned above a horizontal line with a double-headed arrow, which is above the word "Seal".

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