

Exhibit No.:
Issue: Accounting Authority Order
Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
Case Nos.: EO-91-358 and EO-91-360

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

UTILICORP UNITED INC.
MISSOURI PUBLIC SERVICE DIVISION
CASE NOS. EO-91-358 AND EO-91-360

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

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1 REBUTTAL TESTIMONY

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4 UTILICORP UNITED INC.

5 MISSOURI PUBLIC SERVICE DIVISION

6 CASE NOS. EO-91-358 AND EO-91-360

7 Q. Please state your name and business address.

8 A. Cary G. Featherstone, Missouri State Office Building,
9 Suite 510, 615 East Thirteenth Street, Kansas City, Missouri.

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

11 A. I am a Regulatory Auditor assigned to the Kansas City
12 office of the Missouri Public Service Commission (Commission).

13 Q. Would you please describe your educational background?

14 A. I graduated from the University of Missouri at Kansas
15 City in December, 1978, with a Bachelor of Arts Degree in Economics,
16 with an emphasis in Accounting.

17 Q. What has been the nature of your duties while in the
18 employ of this Commission?

19 A. Under the direction of the Manager of the Accounting
20 Department, I have assisted, conducted and supervised audits and
21 examinations of the books and records of public utility companies
22 operating within the State of Missouri with regard to proposed rate
23 increases as well as rate investigations. I have participated in
24 examinations of electric, industrial steam, natural gas and telephone
25 companies.

1 Q. Have you previously filed testimony before this
2 Commission?

3 A. Yes, I have.

4 Q. Have you prepared a schedule to this rebuttal
5 testimony detailing your prior involvement in Missouri rate cases?

6 A. Yes. Schedule 1 to this rebuttal testimony is a
7 summary of rate cases in which I have submitted testimony to date.

8 Q. Have you supervised and assisted in the audit of any
9 other Missouri rate cases?

10 A. Yes. I have also supervised and assisted in the audit
11 of public utilities in the following Missouri rate cases:

12 Case No. TR-86-14, ALLTEL Missouri, Inc.

13 Case No. TR-86-55, Continental Telephone Company of
14 Missouri

15 Case No. TR-86-63, Webster County Telephone Company

16 Case No. GR-86-76, Kansas Power and Light Company -
Gas Service Division

17 Case No. TR-86-117, United Telephone Company of
18 Missouri

19 Case No. TR-88-115, St. Joseph Light & Power Company

20 Case No. HR-88-116, St. Joseph Light & Power Company

21 Q. With reference to Case Nos. EO-91-358 and EO-91-360,
22 have you made an examination and study of the books and records of
23 Missouri Public Service (MoPub or MPS), a division of UtiliCorp
24 United Inc. (UtiliCorp or UCU)?

25 A. Yes.

26 Q. Does MoPub operate within the state of Missouri?

27 A. Yes. MoPub operates as a division of UtiliCorp. It
28 provides retail and wholesale electricity in the state of Missouri.

1 MoPub also operates as a local natural gas distribution system in the
2 state of Missouri.

3 Q. What is the purpose of your rebuttal testimony?

4 A. The purpose of my rebuttal testimony is to respond to
5 the direct testimony of MoPub witness James S. Brook and the
6 applications of MPS regarding its proposed Accounting Authority
7 Orders (Accounting Orders or AAOs). These have been designated as
8 Case Nos. EO-91-358 and EO-91-360. This rebuttal testimony will
9 address why the Staff is opposed to MoPub's requested Accounting
10 Orders. Staff witness Mark L. Oligschlaeger will also be filing
11 rebuttal testimony in these cases.

12 CONCLUSIONS

13 Q. Is the Staff opposed to MoPub's applications for
14 accounting orders filed in these cases?

15 A. Yes. The Staff is opposed to the requested accounting
16 orders filed in the respective cases for the following reasons,
17 outlined in this rebuttal testimony as well as the rebuttal testimony
18 of Staff witness Oligschlaeger:

- 19 o None of the costs for which deferral has been
20 requested relate to extraordinary events.
- 21 o Most of the Sibley life extension program already
22 reflected in rates. The Sibley coal conversion
23 project and increase in purchased capacity costs are
24 events that will not happen until some time in the
25 future, making a deferral request at this point
26 inappropriate. The coal conversion project has been
27 delayed once, and is currently being considered for
28 further delay until April, 1994.
- o Capacity purchase costs are ongoing expenses and
should not be considered as part of deferred costs.
Further, there is uncertainty as to the overall level
of fuel costs in the future relating to the coal
conversion project.

- 1 o MoPub currently is earning at or in excess of its
2 authorized rate of return.
- 3 o MoPub has derived the benefit of regulatory lag on
4 excess earnings for a substantial period of time
5 dating back to 1984, making its current request for
6 guarantees against detrimental regulatory lag on these
7 items to be particularly inappropriate.

8 OVERVIEW OF THE ACCOUNTING AUTHORITY ORDERS

9 Q. What caused the Staff's investigation in this case?

10 A. On May 10, 1991, MoPub filed an application with this
11 Commission requesting authority to defer certain expenditures
12 relating to MoPub's Sibley generating station. More specifically,
13 these expenditures relate to a life extension program and a coal
14 conversion project at MoPub's Sibley generating station. This
15 request is identified as Case No. EO-91-358. In addition, on May 10,
16 1991, MoPub filed an application with this Commission requesting a
17 deferral of cost increases associated with capacity purchase
18 agreements that it has with Union Electric Company (UE) and
19 Associated Electric Cooperative, Inc. (AEC). This request is
20 identified as Case No. EO-91-360.

21 Q. What is MoPub requesting in these cases?

22 A. In its application in Case No. EO-91-358, MoPub states
23 that it:

24 ...seeks permission from the Commission to defer and record
25 depreciation expenses and carrying costs incurred in
26 connection with its Sibley rebuild program and Western coal
27 conversion project in the same manner as approved by the
28 Commission in Case No. EO-90-114, from January 1, 1991
 through the effective date of rates established in MPS's
 next general electric rate case; that MPS proposes that
 such depreciation expenses and carrying costs be recorded
 in the Uniform System of Accounts Account No. 186 and
 considered for recovery and reflection in rates, subject to
 Commission approval, in the context of MPS's next general
 electric rate case.

12. That because the depreciation expenses and carrying costs resulting from these programs, as referred to in paragraph 11 are significant and unusual in terms of MPS's overall electric operations, the requested accounting procedures are important to enable MPS to maintain its financial integrity; that absent such authority, MPS will be deprived of an opportunity to fully recover these costs through its rates.

In Case No. EO-91-360, MoPub states in its application regarding its request to defer increases to its purchase power capacity costs:

7. That due to the special structure of the two capacity purchase contracts, MPS will incur significant increases in the annual price of this purchase power capacity in that the price increase alone will be \$2.1 million by 1992; that this increase in price is the incremental price increase based on the purchased quantities of capacity allowed in Case No. ER-90-101, but excludes the 1991 and 1992 additional quantity of purchased capacity, representing a \$0.8 million increase in costs which amount is not included in this request for deferral.

8. That by this application, MPS is seeking permission from the Commission to defer and record those expenses relating to the increased price per KW of capacity above that included in electric rates in Case No. ER-90-101 applied to the quantity of capacity purchases allowed in that proceeding; that this deferral will begin June 1, 1992 and continue through the effective date of rates established in MPS's next general electric rate case; that MPS proposes that the expenses and related carrying costs, which would normally be expensed on an on-going basis be recorded in Uniform System of Accounts Account No. 186 and be considered for recovery and reflection in rates, subject to Commission approval, in the context of MPS's next electric rate case.

9. That because the expenses referred to in paragraph 8 are significant and unusual in terms of MPS's overall electric operations, the requested accounting procedures are important to enable MPS to maintain its financial integrity.

Q. Has MoPub amended its position as filed in either of its applications?

A. Yes. In the direct testimony of Mr. Brook, he states at page 9 that "after further review MPS determined that the deferred

1 costs would be minimal in 1991 because the majority of 1991 activity
2 occurs late in the year. This reduces the impact of the AAO
3 deferrals in 1991. Therefore, MPS requests that the deferral period
4 for the AAO application, Case No. EO-91-358, begin January 1, 1992."

5 Q. Has MoPub requested an accounting order for these
6 expenditures in the past?

7 A. Yes, in part. MoPub requested an accounting order to
8 defer costs for the life extension program and coal conversion
9 project in Case No. EO-90-114 on December 5, 1989. However, Case No.
10 EO-91-360 is the first proposal to defer purchase power capacity cost
11 increases.

12 Q. What are accounting orders?

13 A. Accounting orders authorize utilities to use special
14 accounting treatment for certain circumstances. The Commission has
15 authorized accounting orders to permit utilities to defer costs
16 relating to extraordinary items such as major outages at power plants
17 caused by explosions and/or fires, and major storm damage to the
18 utility's transmission and distribution facilities. The Commission
19 generally permits utilities to defer the related costs to Account 186
20 of the Federal Energy Regulatory Commission (FERC) Uniform System of
21 Accounts (USOA). These orders are issued with "no ratemaking
22 treatment" clauses, in that the recovery of the deferred costs is to
23 be determined in the context of a general rate proceeding. This
24 clause is important in that authorization to defer costs in no way
25 implies the appropriate ratemaking treatment of these deferrals or
26 acquiesces to ratemaking recognition of these deferrals.

1 The purpose of an accounting order is generally to allow a
2 utility the ability to defer recognition of certain expenses on its
3 income statement. An accounting order usually allows a utility to
4 report higher levels of income than the utility would be able to
5 report if it did not have an accounting order. An accounting order
6 authorizes a deferral of costs outside of a ratemaking proceeding,
7 and then allows the utility an opportunity to seek specific
8 recognition of these deferred costs through the ratemaking process.
9 An accounting order is a vehicle that can reduce or eliminate the
10 impacts of regulatory lag on a utility. Accounting orders have
11 occasionally been used to offset regulatory lag that otherwise would
12 disadvantage the shareholders.

13 Q. What is meant by the term "deferral of costs"?

14 A. "Deferral of costs" relates to the treatment of
15 "booking" certain expenditures, either capital or expense, to Account
16 186. This removes the expenditures from the income statement or
17 balance sheet. Account 186 is used to "hold" these expenditures
18 until their disposition can be determined at some future date. The
19 expenditures are in essence suspended in Account 186 in the balance
20 sheet as a deferred debit or asset.

21 Q. What is Account 186 of the USOA?

22 A. Account 186 is entitled "Miscellaneous deferred
23 debits". The following is the text of Account 186 as contained in
24 the FERC USOA:

25 Account 186 Miscellaneous deferred debits.

26 A. For Major utilities, this account shall include all
27 debits not elsewhere provided for, such as miscellaneous
28 work in progress, and unusual or extraordinary expenses,
not included in other accounts, which are in process of

1 amortization and items the proper final disposition of
2 which is uncertain.

3 Q. What are "extraordinary items"?

4 A. The term "extraordinary items", as defined in the FERC
5 USOA General Instructions [Paragraph 15,017]], relates to:

6 7. Extraordinary items. It is the intent that net income
7 shall reflect all items of profit and loss during the
8 period with the exception of prior period adjustments as
9 described in paragraph 7.1 and long-term debt as described
10 in paragraph 17 below. Those items related to the effects
11 of events and transactions which have occurred during the
12 current period and which are of unusual and infrequent
13 occurrence shall be considered extraordinary items.
14 Accordingly, they will be events and transactions of
15 significant effect which are abnormal and significantly
16 different from the ordinary and typical activities of the
17 company, and which would not reasonably be expected to
18 recur in the foreseeable future. (In determining
19 significance, items should be considered individually and
20 not in the aggregate. However, the effects of a series of
21 related transactions arising from a single specific and
22 identifiable event or plan of action should be considered
23 in the aggregate). To be considered as extraordinary under
24 the above guidelines, an item should be more than
25 approximately 5 percent of income, computed before
26 extraordinary items. Commission approval must be obtained
27 to treat an item of less than 5 percent as extraordinary.

28 Q. What is the purpose of a test year?

 A. The purpose of a test year is to establish a twelve
month period of information representative of the immediate future
for which a utility's revenue requirement will be determined in order
to set rates. Utilizing the test year, the Staff develops
relationships between the various components of the ratemaking
process, i.e., revenues, expenses, and rate base. In order to
determine on a going forward basis the appropriate level of utility
rates, the Staff examines the various areas of utility operations
making up all relevant and material components of the revenue

1 requirement. These areas include rate base items, as well as
2 revenues and expense categories, along with rate of return. The
3 Staff makes adjustments to the test year levels as appropriate.

4 It is important to maintain a representative and consistent
5 relationship among rate base, revenues and expenses in order for the
6 utility to have an opportunity to earn a fair and reasonable rate of
7 return. An attempt is made in the regulatory process to set rates
8 that (1) properly reflect the ongoing levels of investment and
9 expenses which are necessary to serve the utility's customer base and
10 (2) provide adequate revenues to the utility. As stated in the
11 Commission's Report And Order in Kansas City Power & Light Company's
12 (KCPL's) 1983 general electric rate case, Case No. ER-83-49:

13 [t]he purpose of using a test year is to create or
14 construct a reasonable expected level of earnings, expenses
15 and investments during the future period in which the
16 rates, to be determined herein, will be in effect. All of
17 the aspects of the test year operations may be adjusted
18 upward or downward to exclude unusual or unreasonable
19 items, or include unusual items, by amortization or
otherwise, in order to arrive at a proper allowable level
of all of the elements of the Company's operations. The
Commission has generally attempted to establish those
levels at a time as close as possible to the period when
the rates in question will be in effect.

20 Re Kansas City Power & Light Co., Case No. ER-83-49, et al., Report
21 And Order, 26 Mo.P.S.C. (N.S.) 104, 109 (1983).

22 Q. What is "regulatory lag"?

23 A. "Regulatory lag" is the period of time that elapses
24 between the time an event and its related consequences occur and the
25 time the event and its related consequences are reflected in the
26 utility's rates.

27 In the late 1970's and early 1980's, utilities claimed that
28 the reason why many of them did not consistently earn their

1 authorized rates of return was in large part because of regulatory
2 lag. The utilities argued that Commission authorized rate increases
3 could not keep pace with rampant inflation and the economic problems
4 of that period because of the eleven month regulatory process that
5 they had to undergo in order to change rates. During this period,
6 utilities' earnings were detrimentally impacted because rate
7 increases lagged behind the upward pressures on costs. Simply
8 stated, growth and efficiencies could not fully absorb the rising
9 costs. In addition to inflation, the utility industry was in a
10 massive construction phase. This phenomenon resulted in earnings
11 erosion, and created or added to the need for annual rate increases.

12 Q. Does regulatory lag always result in deterioration and
13 erosion of earnings?

14 A. No. When the economy is performing well, or at least
15 significant price increases in the cost of goods and services are not
16 being experienced, then the deterioration of earnings abates. No
17 longer is there a need for annual rate increases to keep up with
18 inflation. Cost increases are offset by growth and increases in
19 productivity. In some cases, costs decline. In the mid- to late
20 1980s, many utilities earned their authorized rates of return, and in
21 some instances earned above the levels authorized by the Commission.
22 During this time period utilities benefitted from regulatory lag (the
23 period of time between the point overearnings begin and the point
24 when rates are reduced due to the overearnings). In fact, in the
25 mid- to late 1980s utilities typically benefitted from regulatory lag
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1 for longer periods of time than they previously had been harmed by
2 it.

3 Q. Please explain.

4 A. During the high inflationary period of the late 1970s
5 and early 1980s, utilities simply filed rate case after rate case.
6 Since generally it takes eleven months to increase rates, as soon as
7 one case was completed the utility would file another case.
8 Utilities generally timed their rate filings so that rates would
9 change during or prior to their seasonal peak sales period. For
10 Midwest electric utilities, this would be the summer cooling season.
11 The Commission was placed in a reactive mode of reviewing one rate
12 application after another.

13 Once the economic environment changed and major
14 construction projects were completed, the utilities no longer needed
15 rate relief on an annual basis. As utilities experienced excess
16 earnings, they became less inclined to seek an active regulatory
17 presence before the Commission. Over time, as excess earnings
18 continued, the regulators began to perform earnings investigations.
19 It took longer for rates to be reduced as measured from the point at
20 which overearnings began, than it did to increase rates measured from
21 the point at which rate deficiencies occurred. Indeed, the utilities
22 were in a far better position to increase rates and had a far better
23 mechanism to accomplish this. Simply put, it was easier for the
24 utilities to increase rates than it was for the regulators to reduce
25 them.

1 Q. Did MoPub experience the need for annual rate case
2 filings?

3 A. Yes. During the late 1970's and early 1980's, MoPub
4 as well as many other utilities filed for annual rate increases. The
5 following is a listing of MoPub's general rate filings:

6	<u>Case No.</u>	<u>Date of Order</u>	<u>Requested</u>	<u>Granted</u>
7	18,502	June 11, 1976	\$ 8.9 million	\$ 3.7 million
	ER-78-29	June 23, 1978	\$18.7	\$ 1.0
8	ER-79-59	December 1, 1978	\$ 8.5	\$ 4.3 interim
	ER-79-60	July 19, 1979	\$22.1 (A)	\$ 1.4
9	ER-80-118	August 25, 1980	\$28.4	\$ 9.2
	ER-81-85	May 27, 1981	\$29.3	\$19.7
10	ER-82-39	June 21, 1982	\$25.3	\$ 6.4
	ER-83-40	July 11, 1983	\$32.8	\$11.8
11	ER-84-23	-----	\$18.0 (B)	-0-

12 (A) Inclusive of interim
13 (B) Case withdrawn

14 Prior to Case No. ER-90-101, July, 1983 was the date of the last
15 electric general rate increase granted to MoPub.

16 Q. Did MoPub reduce its rates in the late 1980's?

17 A. Yes. MoPub experienced two electric rate reductions.
18 MoPub reduced electric rates by \$10 million effective September 15,
19 1986 in Case No. EO-87-9. MoPub also reduced its electric rates by
20 \$5.4 million on September 15, 1987 in Case Nos. AO-87-48 and
21 EO-88-36.

22 TRADITIONAL APPROACH TO THE RATEMAKING PROCESS
RESPECTING CAPITAL ADDITIONS AND COSTS

23 Q. What is the traditional approach for treating capital
24 additions to rate base?

25 A. Utilities follow the requirements of the FERC USOA.
26 During the construction period, expenditures to construct the plant
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1 additions are charged to a construction work order and are held as
2 part of Account 107 - Construction Work In Progress (CWIP). In
3 Missouri CWIP is not included in rate base, thus the utility does not
4 earn a current return on that item. Instead, the utility is
5 permitted to compute an Allowance for Funds Used During Construction
6 (AFDC), which represents the carrying value or carrying costs of
7 these capital expenditures. The carrying value of the construction
8 gives effect to the principle that money has value over time.

9 By the AFDC calculation, the utility's investors are
10 allowed a deferred "return" on their investment in construction, be
11 it a "paper return", but a return nevertheless. The return is
12 calculated by applying an AFDC rate to the CWIP balance, and the
13 return is eventually added to rate base, thus increasing the "cost"
14 of the plant addition. AFDC is the financing cost of the capital
15 project and includes a debt component and an equity component; it is
16 a cost of construction just as material, labor and overheads are a
17 cost of construction. At the time the construction project is
18 completed and the plant begins commercial operation, CWIP including
19 AFDC is transferred to Account 101 - Plant in Service. FERC does not
20 allow AFDC to be calculated once the construction project is
21 completed and the plant begins commercial operation.

22 Once booked to the plant in service accounts, depreciation
23 of the plant addition starts and continues throughout the life of the
24 plant. Plant in service is a component of a utility's rate base.
25 Depreciation expense is a cost component in the determination of a
26 utility's income. Both the investment and depreciation costs are
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1 components in the determination of the earnings (return on rate
2 base).

3 Q. What is the impact on earnings when construction is
4 completed?

5 A. When a utility is no longer permitted to calculate
6 AFDC because the plant is now completed and commercially operable,
7 AFDC becomes part of rate base as a component of the capitalized
8 value of the plant asset, and the depreciation on the plant asset is
9 used to derive net operating income (NOI). Without additional
10 revenues or cost reductions which can be used to offset the increased
11 plant, the return on investment or earnings will decline, all other
12 things being equal. If earnings are sufficiently impacted by the
13 completion of the capital addition, then traditionally the utility
14 has filed for rate relief.

15 Q. Has MoPub used this approach before of accounting for
16 plant additions?

17 A. Yes, of course. For example, when MoPub's investment
18 in the third unit of the Jeffrey Energy Center (Jeffrey) was nearing
19 completion, it filed for rate relief, timing its rate increase filing
20 so as to match the operation-of-law date of said filing with the
21 in-service date of Jeffrey. This case was designated as Case No.
22 ER-83-40. Matching the operation-of-law date of its rate increase
23 filing with the in-service date of Jeffrey was more difficult for
24 MoPub than with the Sibley projects, because MoPub did not control
25 the Jeffrey project, since Kansas Power and Light Company (KPL) is
26 the operating partner of Jeffrey.

1 Q. Did this approach result in adequate recovery of rates
2 for MoPub?

3 A. Yes. MoPub has earned at or in excess of its
4 authorized rate of return since rates were set in Case No. ER-83-40.

5 Q. Is there a traditional ratemaking treatment for
6 increases in the cost of purchased power?

7 A. Yes. Traditionally, rates are set based on normal
8 levels of revenues and expenses, including the types of capacity
9 purchase expenses incurred by MoPub.

10 Q. Is MoPub's approach of seeking to defer costs in
11 conflict with the traditional ratemaking process?

12 A. Yes. Instead of examining all costs in the context of
13 a rate case, MoPub has chosen to examine only selected and isolated
14 cost increases in requesting the two accounting orders, giving no
15 consideration to other components to the ratemaking process.

16 Q. What is the practical effect of applying carrying
17 costs to the deferred amounts charged to Account 186?

18 A. The practical effect is that there will be a
19 "compounding" impact on the deferred amounts. This compounding
20 impact will cause rates to be higher than they would be absent the
21 carrying costs being computed. Authorizing MoPub's requests would be
22 the equivalent of approving rate relief the moment that capital
23 expenditures are completed, or at the moment that cost increases are
24 incurred. This request of MoPub, in essence, is intended to make
25 MoPub "whole" for each and every dollar deferred and to provide a
26 complete recovery of those costs from the moment they are incurred
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1 regardless of the adequacy of existing rates. The ratemaking process
2 was never intended to be, nor can it be, that precise.

3 Q. For costs of an ongoing nature, is deferral treatment
4 in conflict with traditional ratemaking theory?

5 A. Yes. The Staff traditionally develops its revenue
6 requirement based upon certain ratemaking principles and procedures,
7 among them being a principle and procedure known as "annualization".
8 The annualization process attempts to determine revenues and expenses
9 on an ongoing level. These ongoing levels are thought to be
10 representative of revenues that the utility will collect and costs
11 that the utility will incur in future periods.

12 The annualization process refers to items that have
13 occurred within the test year and will continue to occur subsequent
14 to the test year. The quantification of the dollars associated with
15 these items on the basis of the twelve months that comprise the test
16 year is different from a quantification of these items on the basis
17 of the twelve months after the test year. The annualization process
18 reflects the forward-looking dollar impact of recurring test year
19 items.

20 As an example, the purchase power capacity costs that are
21 proposed by MoPub to be deferred in Account 186 should be thought of
22 as nothing more than ongoing purchase power costs. The Staff in the
23 context of a rate case will annualize these costs (both the increases
24 and decreases of the level of capacity being purchased, as well as
25 the price of the capacity) as it will for various other components of
26 a utility's revenue requirement. If MoPub experiences cost increases
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1 overall with no offsetting benefits such as revenue growth, then it
2 is incumbent on the utility to make the determination whether to file
3 for rate relief. If the level of revenues, expenses and rate base
4 investment upon which rates have been set no longer represent normal,
5 ongoing levels, then new levels must be considered in a rate case or
6 complaint case filing to justify a requested change in rates. The
7 timing of the utility's filing should be designed to capture the
8 major items causing the revenue shortfall in the test year, i.e., in
9 this case, purchase power capacity cost increases in the test year or
10 the test year as adjusted. To defer ongoing costs of this nature for
11 later recovery in rates will lead to a mismatch of the
12 revenues/expense/rate base relationship, as other components of
13 revenue and rate base will not be given equivalent deferral
14 treatment.

15 Q. Is it appropriate to establish rates in any case by
16 going back and making the utility "whole" for every dollar it has
17 spent?

18 A. No. Generally, it is not the purpose of a rate case
19 proceeding to go back and "retroactively" provide a cost recovery
20 mechanism to the utility for expenditures not previously anticipated.
21 Under traditional ratemaking theory, it is improper to set rates on a
22 going-forward basis to recover dollars that have already been spent.
23 The ratemaking process uses past expense levels as a basis for
24 determining what rate is reasonable to be charged in the future. It
25 does not set rates to recover past losses due to the imperfect
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1 matching of revenues and expenses. To do so results in retroactive
2 ratemaking.

3 Q. Are there instances where a utility will incur
4 expenditures that it potentially may not fully recover in rates?

5 A. Yes. Any time a utility incurs additional costs over
6 and above the level for which the current rates were established, the
7 utility must either absorb those costs or file a rate case to reflect
8 the increased costs in rates if the costs are not otherwise offset.
9 Generally, traditional ratemaking does not provide the utility with a
10 mechanism to recover specific dollars for increased costs that the
11 utility incurred in the past. The then current rates are presumed to
12 have covered the costs of the utility providing service to its
13 ratepayers.

14 Q. Are there instances where a company incurs
15 expenditures that are not specifically reflected in existing rates,
16 but that it will nonetheless recover?

17 A. Yes. Any time a utility is earning at or in excess of
18 its authorized rate of return as in MoPub's case, these cost
19 increases will be fully recovered as long as the excess earnings are
20 great enough to cover the costs. This will be more fully discussed
21 later in this rebuttal testimony.

22 Q. Are there instances where utilities reap benefits from
23 decreases in costs that it will potentially over-recover in rates?

24 A. Yes. Whenever a utility experiences lower costs (or
25 increased revenues) than the levels reflected in rates, the utility
26 will benefit. This is simply inherent to the ratemaking process. An
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1 example of this situation relates to the period where utilities
2 experienced declining rate bases, declining fuel prices, or decreases
3 to their cost of money or financing costs. MoPub apparently has
4 benefited from this situation since it has experienced excess
5 earnings almost continuously since 1983. This will be discussed in
6 greater detail later in this rebuttal testimony.

7 Q. Does MoPub believe that the cost increases associated
8 with its deferral proposals could potentially be offset by other
9 components of the ratemaking process?

10 A. No. In response to Data Request No. 51, MoPub stated
11 that it did not believe either some or all of the impact of the
12 revenue requirements associated with the life extension program, coal
13 conversion project or the purchase power capacity agreements could be
14 eliminated or reduced by other components of the ratemaking process,
15 such as increased revenues or cost reductions.

16 ACCOUNTING ORDER EXAMPLE

17 Q. Can you provide an example of how an accounting order
18 works?

19 A. Yes. Assume a utility has \$1,000 in rate base, is
20 authorized to earn 10% on rate base, and has expenses, excluding
21 income taxes, of \$100. Further, assume present rate levels will
22 generate \$300 in revenues and the income tax rate is 50%. Below is
23 an illustration of these assumptions:
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ILLUSTRATION 1

Rate Base	\$1,000	Revenues	\$ 300
Rate of Return	x 10%	Expenses	- 100
Required Net		Earnings Before	
Operating Income	\$ 100	Income Taxes	\$ 200
		Income Taxes (\$200 x 50%)	- 100
		Net Operating Income	\$ 100

Now assume the utility adds \$500 to rate base which increases its expenses before taxes by \$50. The \$50 represents depreciation at a 10% depreciation rate. With these changes, the initial illustration would be changed as follows at the end of the first year that the \$500 had been added to rate base:

ILLUSTRATION 2

Rate Base	\$1,450	Revenues	\$300
Rate of Return	x 10%	Expenses	-150
Required Net		Earnings Before	
Operating Income	\$ 145	Income Taxes	\$150
		Income Taxes (\$150 x 50%)	- 75
		Net Operating Income	\$ 75

Rate base increased \$450, plant in service increased \$500, and depreciation reserve increased \$50 in recognition of increased depreciation expense.

This second illustration shows that the utility needs a rate increase given the above assumptions. The illustration reflects one year after the \$500 is added to rate base. At that point, the utility will need a \$140 rate increase in order to earn its 10% authorized return on rate base. The result of the rate increase is illustrated below:

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ILLUSTRATION 3

Rate Base	\$1,450	Revenues	\$440
Rate of Return	x 10%	Expenses	<u>-150</u>
Required Net		Earnings Before	
Operating Income	<u>\$ 145</u>	Income Taxes	\$290
		Income Taxes (\$290 x 50%)	<u>-145</u>
		Net Operating Income	<u>\$145</u>

As shown by the difference between Illustrations 2 and 3, the utility will experience earnings below its authorized rate of return for the time period between the date the \$500 is added to rate base and the date the utility receives from the Commission and collects from its customers the \$140 rate increase. During this regulatory lag time period, the utility will earn 5.1% on its rate base, i.e., \$75 NOI/\$1,475. The \$1,475 is the average rate base during the initial year the \$500 is added to plant, i.e., $(\$1,500 + \$1,450) / 2$. This earnings deficiency is an example of the impact of regulatory lag. Currently, periods of regulatory lag can be as great as eleven months, which represents the maximum time period between the date a case is filed and the date related rate relief may be implemented. However, an accounting order is a vehicle that allows the utility to shift the consequences of the regulatory lag in this example from its shareholders to its customers.

Q. How does an accounting order accomplish this shift in responsibility for the consequences of regulatory lag?

A. Assume the date the utility files its rate case is the date the \$500 is booked to the plant in service account. Also, assume that a \$140 rate increase is implemented 12 months later. It should be noted that in this example rate base will decline from

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\$1,500 at the date the case is filed to \$1,450 at the time of the rate increase because of the increase to the depreciation reserve at a rate of \$50 per year. During this twelve month period the utility will earn a 5.1% return on rate base (\$75 NOI/\$1,475 average rate base), which constitutes a \$72.50 net operating income shortfall. If the utility received an accounting order effective the date the \$500 is booked to plant in service, this would eliminate the twelve months' earnings shortfall. This is illustrated below:

ILLUSTRATION 4

Rate Base (Average)	\$1,475.00	Revenues	\$300.00
Rate of Return	x 10%	Expenses	<u>-150.00</u>
Required Net		Earnings Before	
Operating Income	<u>\$ 147.50</u>	Income Taxes	\$150.00
		Income Taxes (\$150 x 50%)	<u>- 75.00</u>
Deferred Charges	<u>\$ 72.50</u>	Net Operating Income	\$ 75.00
		Other Income	<u>+ 72.50</u>
		Net Income	<u>\$147.50</u>

The deferred charges in the above illustration consist of the following components:

Depreciation Expense	\$ 50.00
Tax Effect of Depreciation (\$50 x 50%)	<25.00>
Rate of Return Amount (Carrying Charges)	<u>+ 47.50</u>
	<u>\$ 72.50</u>

The rate of return amount is derived by multiplying 10% times the average balance of the \$500 plant addition that will be included in rate base over a 12 month period, i.e., $((\$500 + \$450) / 2) \times 10\%$.

The accounting order will allow the utility to otherwise avoid reflecting the financial impact of the \$500 plant addition and the related depreciation reserve on its income statement. Instead, these dollars will be considered a deferred charge, and will be

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booked as an asset rather than reflected as an expense reduction to net income. During the year, the utility will continue to earn 10% on rate base. This 10% return on rate base can be shown by dividing the \$147.50 of net income for the year by the average investment of \$1,475. Therefore, the utility is able to avoid a period of earnings shortfall by using the accounting order to book an additional \$72.50 of earnings. However, the necessary rate increase now will be greater than otherwise would have been required because the revenue requirement calculation now must reflect recovery of the additional \$72.50 of earnings from customers. The rate base of \$1,450 is increased by the deferred charge of \$72.50 to \$1,522.50 which reflects a higher rate base. This situation is illustrated below:

ILLUSTRATION 5

Rate Base	\$1,522.50	Revenues	\$461.75
Rate of Return	x 10%	Expenses	-157.25
Required Net		Earnings Before	
Operating Income	\$ 152.25	Income Taxes	\$304.50
		Income Taxes (\$304.50 x 50%)	-152.25
		Net Operating Income	\$152.25

By comparing Illustration 5 to Illustration 3, it can be shown that the rate increase necessary with the accounting order is \$21.75 (\$461.75 - 440.00) greater than without the accounting order. This example displays the results of using the accounting order to prevent the earnings shortfall that otherwise would occur due to regulatory lag. The utility's ratepayers prevent the earnings shortfall through payment of higher rates.

Q. Does regulatory lag always result in an earnings shortfall as shown in your example above?

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A. No. In fact, the aforementioned assumptions will result in an earnings excess in the second year following the \$500 plant addition. This situation is displayed below:

<u>ILLUSTRATION 6</u>		<u>WITHOUT AAO</u>	
Rate Base (Average)	\$1,425.00	Revenues	\$440.00
Rate of Return	x 10%	Expenses	<u>-150.00</u>
Required Net		Earnings Before	
Operating Income	<u>\$ 142.50</u>	Income Taxes	\$290.00
		Income Taxes (\$290 x 50%)	<u>-145.00</u>
		Net Operating Income	<u>\$145.00</u>

<u>ILLUSTRATION 7</u>		<u>WITH AAO</u>	
Rate Base (Average)	\$1,493.88	Revenues	\$461.75
Rate of Return	x 10%	Expenses	<u>-157.25</u>
Required Net		Earnings Before	
Operating Income	<u>\$ 149.39</u>	Income Taxes	\$304.50
		Income Taxes (\$304.50 x 50%)	<u>-152.25</u>
		Net Operating Income	<u>\$152.25</u>

The earnings excess is shown by the fact that actual NOI in both illustrations exceeds required NOI.

A further example would be if the utility experienced increased revenues above those established in rates as the result of customer growth, either in actual number of customers or usage, or increased sales because of "hotter than normal" weather. Illustration 8 can be used to show the effects of increased revenues, holding all other components of the revenue requirement calculation constant, except expenses. Expenses would increase with any increase in sales, primarily due to fuel costs.

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ILLUSTRATION 8

Rate Base	\$1,000	Revenues	\$350.00
Rate of Return	x 10%	Expenses	-125.00
Required Net		Earnings Before	
Operating Income	\$ 100	Income Taxes	\$225.00
		Income Taxes (\$225 x 50%)	-112.50
		Net Operating Income	\$112.50

The \$12.50 (NOI = \$112.50 less Required NOI = \$100) earnings excess results in a return of 11.25% on the utility's rate base, i.e., \$112.50/\$1,000. An earnings excess would also result if expenses were to decrease below the levels established in rates. An example of a reduction to expense would be an income tax rate decrease such as that which occurred in 1987. Another example would be a decrease in fuel or transportation costs to supply the utility's power plants. Many utilities experienced reductions to their fuel expense in the mid- to late 1980's.

STAFF'S INVESTIGATION OF MOPUB'S PROPOSED ACCOUNTING ORDERS

Q. Why did the Staff require more time to review MPS's request in these dockets than it did in December, 1989, for Case No. EO-90-114?

A. As stated in Mr. Brook's direct testimony for these cases, the Staff processed MoPub's request for an accounting order in that case in 15 days (initial filing of MoPub on December 5, 1990 and the Staff recommendation dated December 20, 1989). In that case, the Staff relied very heavily on the Commission's traditional position regarding issuance of accounting orders that no ratemaking treatment be granted until the next rate proceeding. Because of the pending electric rate increase application by MoPub in Case No. ER-90-101,

1 the Staff believed that it could adequately address in the Case No.
2 ER-90-101 proceedings any concerns it had respecting the application
3 for the accounting order. The current accounting order applications
4 have taken on more significance that the application in Case No.
5 EO-90-114 because of the experience that the Staff ultimately
6 encountered in Case No. ER-90-101.

7 Mr. Brook states at page 4, line 15, of his direct
8 testimony that MoPub requested the Commission grant approval of its
9 proposed treatment by June 14, 1991 because its request was based on
10 its experience with accounting orders in 1989. He stated that MPS
11 "felt that this afforded ample time for the Staff to process the
12 applications." This ample time, as Mr. Brook states, was 35 days.
13 MoPub filed its application for the accounting orders in Case Nos.
14 EO-91-358 and EO-91-360 on May 10, 1991. On that same date, MoPub
15 filed Motions To Expedite requesting the Commission to expedite the
16 processing of the applications and issue orders authorizing the
17 requested accounting orders no later than June 14, 1991. What Mr.
18 Brook did not state in his direct testimony was that in Case No.
19 EO-90-114, MoPub specifically requested that the Commission issue an
20 order by December 31, 1989, because, as MoPub stated at page 5,
21 paragraph 14 of its application, the order was necessary to close
22 MoPub's books in 1989. MoPub stated in its application in Case No.
23 EO-90-114:

24 14. That MPS respectfully requests the Commission to
25 issue its order authorizing the accounting procedures
26 requested herein, said order to be effective prior to
27 December 31, 1989, in order that the subject expenditures
28 and costs incurred be appropriately reflected on MPS's
books in 1989 and to the effective date of rates
established as a result of the Commission's decision issued
in Case No. ER-90-101.

1 It should be noted that the Staff in its recommendation stated it had
2 no objection to MPS's application receiving expedited treatment but
3 did not concur in MoPub's belief that an order had to be issued by
4 December 31, 1989.

5 Q. You previously mentioned that the Staff presently
6 places a higher degree of significance in reviewing MoPub's requests
7 for deferral of costs because of the experience in Case No.
8 ER-90-101. Please explain.

9 A. When the Staff was reviewing the merits of MoPub's
10 requested accounting order in Case No. EO-90-114, the Staff believed
11 that it could perform a complete review in the context of MoPub's
12 pending rate case, Case No. ER-90-101. This was the traditional
13 Staff treatment of accounting orders. The Staff believed that the
14 only authorization that utilities were being given in accounting
15 orders was permission by the Commission to defer certain costs to
16 Account 186 for future disposition. Clearly, that is the nature of
17 the language contained in all accounting orders as well as the
18 accounting order issued by the Commission in Case No. EO-90-114,
19 wherein it was stated:

20 ORDERED: 4. That nothing in this order shall be
21 considered as a finding by the Commission of the in-service
22 criteria regarding the expenditures herein involved, the
23 reasonableness of the expenditures herein involved, or the
24 value for ratemaking purposes of the properties herein
25 involved, nor as an acquiescence in the value placed upon
such properties by the applicant. Furthermore, the
Commission reserves the right to consider the ratemaking
treatment to be afforded these costs in any later
proceeding.

26 The Staff, in its recommendation to the Commission,
27 suggested that the Commission use the above language. The Staff
28 relied upon the literal meaning of the language in Case No. EO-90-114

1 and suggested that the issue would best be addressed in MoPub's
2 general rate request, thus enabling the Staff to process MoPub's
3 accounting order application in an expedited manner.

4 Q. Does the Staff believe that the "no ratemaking
5 treatment" language in Case No. EO-90-114 was followed by MoPub?

6 A. The Staff believes that MoPub utilized a novel
7 argument that in effect negated the "no ratemaking treatment"
8 language. One of the arguments advanced by MoPub in its attack on
9 the Staff's position relating to the deferral of costs in Case No.
10 ER-90-101 was that the Commission had granted the authority to defer
11 the costs and if MoPub was denied recovery, it would be required to
12 write-off the deferrals against 1990 earnings. MoPub argued that the
13 write-off would have a significant downward impact on its 1990 per
14 book earnings.

15 In Exhibit 45 in Case No. ER-90-101, the surrebuttal
16 testimony of MoPub witness Judith A. Samayoa, UtiliCorp Vice
17 President - Accounting, addressing the Case No. EO-91-114 accounting
18 order, page 6, lines 15-23, MoPub asserted that:

19 By denying a recovery of the deferrals, MPS would be
20 required to write-off the deferrals from the books, which
21 would represent an after tax write-off of \$2.7 million, or
22 ** ** of estimated MPS 1990 earnings from electric
23 operations. See Schedule JAS-3 for the calculation of
24 these amounts. This result is significant and should be
25 understood by the Commission. In effect, the Staff has
26 recommended a \$3.2 million pretax annual rate increase, and
27 an earnings write-off exceeding \$4 million before taxes.

28 Further, at page 21 lines 1-8 of the same surrebuttal testimony
(Exhibit 45), Ms. Samayoa stated:

...To be denied a recovery of these costs would require a
significant write-off impacting MPS estimated electric 1990
earnings by ** ** and jeopardizing credibility in
utilizing future AAOs. In the case of these projects, the

1 inability to recover these deferrals will penalize MPS for
2 managing its assets in a very creative, innovative, and
cost effective manner, which has benefitted customers.

3 In Exhibit 79, the rebuttal testimony of Ms. Samayoa in
4 Case No. ER-90-101 on overall revenue requirement, page 5, lines
5 12-21, MoPub more clearly asserted that the accounting order issued
6 by the Commission must be in essence unconditional because of the
7 impact on corporate profits of writing-off deferrals previously
8 authorized on a conditional basis:

9 . . . by ignoring the recovery of the deferrals authorized
10 by the Accounting Authority Order and by reclassifying
11 certain Sibley capital expenditures to prior period
maintenance, MPS will be required to write off a total of
\$5 million net of tax in 1990.

12 In sum, these adjustments will result in an unacceptable
13 financial performance in 1990, and the ongoing effect of an
14 inadequate rate increase in this proceeding, will preclude
MPS of an opportunity to earn a reasonable return in 1991
as well.

15 (Emphasis supplied).

16 The argument that the accounting order issued by the
17 Commission must be unconditional was bolstered by MoPub witness John
18 C. Dunn who, in his rebuttal testimony (Exhibit 72, page 47, lines
19 16-20), set out the purported impact on MoPub's return on equity if,
20 among other recommendations, the Staff's proposal for the deferred
21 costs were adopted by the Commission:

22 **

**

23 twelve months the rates are in effect if the Commission
24 adopts the Staff overall revenue requirement recommendation
in this proceeding.

25 The Commission even noted this approach of MoPub at page 29
26 of its Report And Order in Case No. ER-90-101;

1 . . . Finally, despite the Commission's disclaimer in the
2 AAO about reserving judgment on the ratemaking treatment of
3 the amounts deferred, Company contends that the integrity
of the AAO process will be brought into question if the
Commission does not reflect these deferrals in rates.

4 MoPub contended in Case No. ER-90-101 that the Commission, after
5 having granted the accounting order, must also permit recovery for
6 there to be "credibility in utilizing future AAOs." This of course
7 totally ignores the language in the Commission's Order in Case No.
8 EO-90-114 that the Commission "reserves the right to consider the
9 ratemaking treatment to be afforded these costs in any later
10 proceeding." MoPub would simply "tie" the Commission's hands once it
11 has approved the initial request for deferral of costs. The Staff is
12 unequivocally opposed to this approach, which was completely
13 unprecedented.

14 The approach used by MoPub in Case No. ER-90-101 requesting
15 the accounting order in Case No. EO-90-114 and the continued misuse
16 of accounting orders by MoPub has caused the Staff to address the
17 merits of MoPub's proposal in these dockets presently, instead of in
18 the context of MoPub's next electric rate case. However, the Staff
19 continues to believe that the "no ratemaking" clause should be used
20 for the granting of accounting orders. Nonetheless, the Commission
21 should put utilities on notice that simply obtaining authorization to
22 defer costs in no way should be construed as being given ratemaking
23 treatment. The utilities should be aware that they run the risk of
24 potential future write-offs should the deferred costs not be
25 permitted for recovery in rates.

1 Q. Is the Staff's present approach to requests for
2 accounting orders related solely to its experience in Case Nos.
3 EO-90-114 and ER-90-101?

4 A. No. On the day after it filed its application for an
5 accounting order which was docketed as Case No. EO-90-114, MoPub
6 filed a request for another accounting order that was docketed as
7 Case No. GO-90-115. MoPub's application sought the issuance of an
8 accounting order authorizing it to defer on its books for future
9 recovery in rates certain expenditures made in 1989 in connection
10 with a natural gas safety program.

11 In a memorandum recommendation, the Staff opposed the
12 granting of the requested accounting order. The Staff opposed
13 allowing MoPub to defer costs on its books relating to that portion
14 of the natural gas safety program not clearly related to the
15 Commission's emergency natural gas safety rules concerning bare steel
16 customer service lines. The Staff opposed deferral of MoPub's
17 expenditures for replacement of customer service lines because the
18 cost was immaterial. The Staff's January 12, 1990 recommendation
19 stated in part that:

20 [t]he minimal amount of dollars at question here does not
21 justify a deviation from the normal regulatory accounting
22 practice of immediate expensing of depreciation and
23 property taxes, as well as the cessation of AFUDC accruals,
at the in-service date of the service line replacement
projects.

24 The Staff was concerned that MoPub's filing in Case No.
25 GO-90-115 indicated the beginning of an indiscriminate application
26 for accounting orders. The Staff contends that the trend of
27 indiscriminate application for accounting orders has continued since
28 that time, including the filing of these applications. The Staff

1 therefore is taking the approach of investigating more fully the
2 merits of each application up-front. The Staff utilized Case No.
3 ER-90-101 to set out criteria for the reflection of accounting orders
4 in rates. The criteria being utilized for recommendations to issue
5 accounting orders is discussed in the rebuttal testimony of Staff
6 witness Oligschlaeger.

7 Q. Is MoPub asking for ratemaking treatment in its
8 proposed accounting orders?

9 A. No. MoPub stated in response to Data Request No. 51
10 that it "is not asking for ratemaking treatments but rather a
11 deferral of costs associated with projects which are extraordinary in
12 nature, have a major impact on earnings and whose projects will
13 benefit future ratepayers."

14 The above response would indicate that MoPub is only
15 seeking authorization to defer certain costs. However, in response
16 to Data Request No. 31, MoPub would not agree that if the accounting
17 order is granted with "no ratemaking treatment" would not argue that
18 the financial impact of the write-off on earnings would be a factor
19 as that argument was used in Case No. ER-90-101. MoPub stated the
20 following:

21 As stated in the MPS reply to Staff's Motion to Dismiss,
22 MPS feels that no one would dispute the fact that all
23 parties are free in a rate case to make whatever arguments
24 to the Commission they might desire with respect to an AAO
issue or any other issue. The Commission is then free to
accept or reject any such argument.

25 Clearly, MoPub is positioning itself to be able to present the
26 identical issue it did in the last case.

27 Q. If MoPub is granted the authority to defer costs as
28 requested, but subsequently in a rate case is not permitted recovery

1 of the deferred costs in rates, what would be the impact on MoPub's
2 and UtiliCorp's earnings?

3 A. In response to Data Request No. 76, MoPub indicated
4 that the write-off of the deferred costs "would cause return on
5 equity for 1993 to decrease 1.6%". The impact on earnings of an
6 estimated 1993 write-off of \$4.2 million on a total MoPub basis
7 including natural gas operations would be as follows:

	WITH AAO <u>WRITE-OFF</u>	WITHOUT AAO <u>WRITE-OFF</u>
10 Average Return on Rate Base	9.6%	10.3%
11 Return on Equity	10.3%	11.9%

12 Q. Did MoPub write-off any amounts of the deferrals
13 resulting from the last rate case, Case No. ER-90-101?

14 A. Yes. MoPub had to write-off almost \$500,000 relating
15 to amounts it deferred as part of Case No. EO-90-114 but was not
16 allowed in rates in Case No. ER-90-101. These amounts related to how
17 the deferrals were calculated. In the Report And Order in Case No.
18 ER-90-101, the Commission did not permit MoPub to recover (1)
19 deferred costs relating to property taxes, (2) carrying costs of
20 unpaid balances and (3) certain other carrying costs as they were
21 proposed to be computed by MoPub.

22 Q. What was the impact on 1990 earnings regarding this
23 write-off?

24 A. The Staff has requested this information, but as of
25 yet has not received the information.

26 ACCOUNTING ORDERS IMPACT ON EARNINGS

27 Q. Do the costs to be deferred by the accounting orders
28 have a significant impact on MoPub and UtiliCorp's financial results?

A. No. Below is a chart of the impact of the Case No. EO-90-114 accounting order deferral in 1989 on certain of MoPub's and UtiliCorp's financial results or indicators:

<u>MOPUB</u>		<u>WITH</u> <u>AAO</u>	<u>WITHOUT</u> <u>AAO</u>
Net Operating Income (Electric)	**		**
Net Income (MoPub - Total Division)	**		**
Average Return on Rate Base (MoPub)	**		**
Average Return on Equity (MoPub)	**		**

<u>UTILICORP</u>		<u>WITH</u> <u>AAO</u>	<u>WITHOUT</u> <u>AAO</u>
Net Operating Income	**		**
Net Income	**		**
Average Return on Equity	**		**

The 1990 MoPub and UtiliCorp financial results with and without the accounting order from Case No. EO-90-114 are shown below:

<u>MOPUB</u>		<u>WITH</u> <u>AAO</u>	<u>WITHOUT</u> <u>AAO</u>
Net Operating Income (Electric)	**		**
Net Income (MoPub - Total Division)	**		**
Average Return on Rate Base (MoPub)	**		**
Average Return on Equity (MoPub)	**		**

<u>UTILICORP</u>		<u>WITH</u> <u>AAO</u>	<u>WITHOUT</u> <u>AAO</u>
Net Operating Income	**		**
Net Income	**		**
Average Return on Equity	**		**

The estimated 1991 MoPub and UtiliCorp financial results with and without the accounting orders at issue in these cases are shown below:

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	<u>MOPUB</u>	<u>WITH</u> <u>AAO</u>	<u>WITHOUT</u> <u>AAO</u>
1			
2			
3	Net Operating Income (Electric)	**	**
4	Net Income (MoPub - Total Division)	**	**
5	Average Return on Rate Base (MoPub)	**	**
6	Average Return on Equity (MoPub)	**	**

	<u>UTILICORP</u>	<u>WITH</u> <u>AAO</u>	<u>WITHOUT</u> <u>AAO</u>
7			
8	Net Operating Income	**	**
9	Net Income	**	**
10	Average Return on Equity	**	**

Q. What is the estimated 1992 MoPub and UtiliCorp financial results with and without the accounting orders?

A. At the time of this rebuttal filing, the Staff did not have the necessary information to present the 1992 impacts of the accounting orders. The Staff will provide the impacts when this information is developed.

SIBLEY LIFE EXTENSION PROGRAM

Q. What is the Sibley life extension program?

A. The life extension program relates to the rehabilitation of MoPub's Sibley generating station. These capital additions will extend the useful life of Sibley twenty years.

Q. When is the life extension program expected to be completed?

A. MoPub expects the life extension program to be completed in April, 1992.

Q. What expenditures has MoPub incurred for the Sibley life extension program?

A. MoPub has incurred the following actual amounts for the life extension program:

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Prior to 1987	\$ 2,260,797
1987	5,693,388
1988	10,890,221
1989	18,699,026
1990	19,297,455
1991 through May	96,090

The total amount MoPub has actually expended for the life extension program through May, 1991 is \$56,936,977. (Response to Data Request No. 5)

Q. What further amounts are expected to be incurred for the life extension program?

A. MoPub expects to incur an additional \$8,991,553 from June through December, 1991, and \$4,329,024 from January through March, 1992. These budgeted expenditures total \$13,320,577, which represents approximately 19 percent of the total program of over \$70 million. Eighty-one percent of the program was completed as of May, 1991.

Q. How much of the life extension program is reflected in current rates?

A. To the extent that all the expenditures through April, 1990, were included in rates in Case No. ER-90-101, \$54.7 million or 78 percent of the total \$70 million program costs are included in present rates. An additional \$2.2 million was expended by MoPub from May, 1990 to May, 1991.

Q. Are the \$2.2 million expended subsequent to April, 1990 included in existing rates?

A. Yes. To the extent that MoPub is earning at or in excess of its authorized rate of return, then rates are adequate to recover all cost of service items including the additional \$2.2

1 million in expenditures, even though they were incurred subsequent to
2 Case No. ER-90-101.

3 Q. Has MoPub made plant additions to its rate base for
4 the life extension program prior to the amounts specifically included
5 in Case No. ER-90-101?

6 A. Yes. MoPub incurred \$18.8 million of actual
7 expenditures prior to January 1, 1989, which was the date that the
8 deferrals started to accumulate in Case No. EO-90-114. This \$18.8
9 million represents actual expenditures made for the life extension
10 program that were not part of the deferral process. However, in
11 examining the reported earnings level of MoPub for the period prior
12 to 1987 through 1988, MoPub earned well in excess of its authorized
13 rate of return on average rate base. Despite not having a rate case
14 during this period to reflect these expenditures in the revenue
15 requirement formula, rates were more than adequate to provide MoPub a
16 reasonable return. The Staff would argue that since MoPub had excess
17 earnings, it was fully recovering the revenue requirements associated
18 with the capital additions for not only the life extension program
19 but also any other construction expenditures.

20 SIBLEY COAL CONVERSION PROJECT

21 Q. What is the Sibley coal conversion project?

22 A. The coal conversion project relates to work being
23 performed at the Sibley generating station to permit the burning of
24 low-sulfur western coal to reduce the sulfur emissions, so as to be
25 in compliance with acid rain legislation.

1 Q. When is the coal conversion project expected to be
2 completed?

3 A. The coal conversion project was originally scheduled
4 to be completed in April, 1992. MoPub currently expects the project
5 to be completed by April, 1993; however, MoPub is currently
6 considering delaying the completion a second time until April, 1994.

7 Q. What caused the delay in the completion of the coal
8 conversion project?

9 A. MoPub stated in response to Data Request No. 44 that
10 the delay of the completion of the coal conversion project from
11 April, 1992 to April, 1993 was primarily caused by the delay in the
12 issuance of the Clean Air Act amendments. MoPub cited the reason for
13 considering a further delay to April, 1994 relates to environmental
14 impacts, fuel competition and clean air act requirements. MoPub
15 indicated that a final decision on any delay will be made by December
16 31, 1991.

17 Q. What expenditures has MoPub incurred for the coal
18 conversion project?

19 A. MoPub has incurred the following actual expenditures
20 for the coal conversion project:

21	1989	\$ 51,080
22	1990	1,359,871
	1991 through May	253,251

23 The total amount MoPub has actually expended for the coal
24 conversion project through May, 1991 is \$1,664,202. (Response to
25 Data Request No. 6)

26
27
28

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1 Q. What amounts are expected to be incurred in the future
2 for the coal conversion project?

3 A. MoPub expects to incur the following additional
4 amounts:

5	1991 June-December	\$ 4,055,946
6	1992	13,903,358
6	1993	21,334,405

7 These budgeted expenditures total \$39,293,709 which represents
8 approximately 96 percent of the total project cost of \$41 million.

9 Q. What portion of the coal conversion project is
10 reflected in current rates?

11 A. A very small portion of the costs related to this
12 project is currently reflected in rates. To the extent all the
13 expenditures through April, 1990 were included in rates in Case No.
14 ER-90-101, only \$925,787 or two percent of the total \$41 million
15 project cost are reflected in current rates.

16 Q. Has MoPub experienced increases to its rate base in
17 the past?

18 A. Yes. Since 1983, MoPub has had a steady growth in its
19 rate base. The year end rate bases for the period 1984 to 1990 are
20 as follows:

21	1984	**	**
22	1985	**	**
22	1986	**	**
23	1987	**	**
23	1988	**	**
24	1989	**	**
24	1990	**	**

25 (Source: MoPub Surveillance Reports)

1 Until 1990, MoPub required neither rate cases or accounting
2 orders to maintain its earnings level, even with the steady and
3 significant increase in rate base over that time period.

4 Q. Is it expected that MoPub's rate base will continue to
5 grow?

6 A. Yes. MoPub's construction budget indicates a further
7 increase for construction related expenditures. These increases will
8 continue after the Sibley life extension program's scheduled
9 completion in 1992. The annual amounts of construction expenditures
10 contained in MoPub's 1991 five year budget is as follows:

11	1988 actual	**	**
12	1989 actual	**	**
13	1990 projected	**	**
14	1991 budget	**	**
15	1992	**	**
16	1993	**	**
17	1994	**	**
18	1995	**	**

19 (Source: Response to Data Request No. 9, Case No. GO-91-359)

20 Q. What are these expenditures for?

21 A. MoPub has budgeted significant increases in
22 construction for production and distribution facilities.

23 Q. Are capital expenditures which increase a utility's
24 rate base considered extraordinary?

25 A. No. Public utilities are considered to be an
26 extremely capital intensive industry. There is nothing unusual,
27 unique, or extraordinary about capital additions increasing a
28 utility's rate base.

 Q. Have other utilities experienced increases to their
rate bases?

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1 A. Yes. Other Missouri utilities have experienced
2 increasing rate bases. In fact, other utilities have specifically
3 made capital expenditures relating to (1) rehabilitation of
4 generating stations and (2) coal conversion projects. For example,
5 the Empire District Electric Company (Empire) filed tariffs in Case
6 No. ER-90-138 to reflect the costs of a "western coal conversion"
7 project at two of its generating stations in rates. Empire did not
8 file for an accounting order to insulate itself from any regulatory
9 lag associated with this project. KCPL has also invested in
10 converting several of its generating stations to western coal. In
11 fact, I am not aware of any utility, except MoPub, that has sought an
12 accounting order to defer these types of costs.

13 Q. Are depreciation and carrying costs considered
14 extraordinary items?

15 A. No. Neither depreciation nor carrying costs are:

16 ...related to the effects of events and transactions
17 which have occurred during the current period and which are
18 of unusual nature and infrequent occurrence...Accordingly,
19 they will be events and transactions of significant effect
20 which are abnormal and significantly different from the
21 ordinary and typical activities of the company, and which
22 would not reasonably be expected to recur in the
23 foreseeable future.

24 (FERC definition of extraordinary items in FERC USOA General
25 Instructions [Paragraph 15,017]). The calculation of accruals for
26 depreciation and carrying costs (AFDC) occur on an ongoing basis, and
27 are considered normal and typical costs of utility operations.
28 Depreciation recurs every month and carrying costs recur on every
construction project. Neither cost can be reasonably considered
"extraordinary" in nature. Except in exceedingly rare circumstances,
Account 186 should not be used to defer such costs.

PURCHASE POWER CAPACITY AGREEMENT

Q. What are the purchased power capacity agreements?

A. MoPub entered into the purchase of capacity from UE and AEC in 1987. The purchased power in both instances is designated as system participation power. The contracts provide for the amounts of capacity, in megawatts, and demand (fixed portion) and energy (usage portion) charges. Under the provisions of the contracts, MoPub commenced capacity purchases from UE in June, 1987, and from AEC in June, 1988. (Response to Data Request No. 3)

Q. What costs does MoPub incur relating to the UE and AEC capacity purchases?

A. MoPub has incurred or will incur the following costs relating to the purchase power capacity agreements:

	<u>UE</u>	<u>AEC</u>
1988 actual	**	**
1989	**	**
1990	**	**
1991 actual & budget	**	**
1992 budget	**	**

Schedule 2 to this rebuttal testimony outlines the cost increases for the demand charges MoPub is required to pay UE and AEC. The increases from one year to the next relate not only to increases in the price per megawatt, but also to increases in the amount of megawatts offered to MoPub. For example, in 1993 MoPub will purchase ** instead of the ** it will receive in 1992.

Q. Could the increased capacity purchase costs be partially offset by increased sales for MoPub?

A. Yes. The reason why MoPub needs the capacity in the first place is the greater demand MoPub expects its customers to

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1 place on the system. This greater demand should increase MoPub's KWH
2 sales, resulting in revenue growth, which constitutes an increase in
3 revenues. Of course, this could offset some, if not a substantial
4 amount, of the cost increases relating to the capacity purchases.

5 Q. When do the cost increases occur for the capacity
6 purchases?

7 A. Generally, the cost increases occur in June of each
8 year. In some of the later years of the contracts, there are no
9 price increases. The cost increases relate to the demand charge
10 component of the capacity agreements.

11 Q. What have been the cost increases respecting the
12 capacity purchases for demand charges?

13 A. The following represents the percentage increases for
14 demand charges from May to June of each year for 1988 through 1994:

	<u>UE</u>	<u>AEC</u>
15		
16 1988 Actual	**	**
17 1989	**	**
18 1990	**	**
19 1991 Budget	**	**
20 1992	**	**
21 1993	**	**
22 1994	**	**

23 (Source: Response to Data Request No. 3).

24 Q. Have there been rate increases to support these cost
25 increases?

26 A. No. The only year in which MoPub had an increase in
27 its rates was in October, 1990, for Case No. ER-90-101. According to
28 MoPub's concept of ratemaking, since these costs were not reflected
in rates until 1990, MoPub would maintain that it did not recover the

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1 costs associated with these capacity purchases until said costs were
2 reflected in the rates resulting from Case No. ER-90-101. The Staff,
3 of course, differs with this belief and asserts that MoPub more than
4 adequately recovered the costs associated with these capacity
5 purchases from UE and AEC, even though the contracts started
6 approximately three years prior to Case No. ER-90-101.

7 Q. If these costs were not included in rates until 1990,
8 how did MoPub recover them?

9 A. Since MoPub achieved or earned in excess of its
10 authorized rate of return through much of the time period between
11 1987 and 1990, the Staff therefore assumes that MoPub was fully
12 recovering all of its costs, including the capacity purchases. This
13 matter will be more fully discussed in the "Excess Earnings" section
14 of this rebuttal testimony.

15 Q. Is MoPub currently reviewing its fuel supply at Sibley
16 relating to the coal conversion project?

17 A. Yes. Sibley's present fuel supply contract expires in
18 1992. MoPub is currently looking at its options in relation to the
19 expiration of the current contract and the potential delay of the
20 coal conversion project to April, 1994. Presently there is
21 uncertainty as to what the overall fuel costs will be at Sibley once
22 the coal conversion project is completed. In response to Data
23 Request No. 69, MoPub stated "it is not clear that the actual cost of
24 fuel will increase significantly with a conversion at Sibley to low
25 sulfur western coal."

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1 In its analysis relating to MoPub's proposed acquisition of
2 the Pleasant Hill municipal system (Case No. EM-91-385), MoPub
3 utilized a constant production cost with no escalation for a 15 year
4 period in its financial model. The uncertainty relating to the price
5 of western coal was cited as the reason that an escalation in
6 production costs was not made in the financial analysis relating to
7 the proposed acquisition.

8 Q. How does this information relate to the price of
9 capacity purchases from UE and AEC?

10 A. This is one of the many cost components that must be
11 examined before ratemaking decisions can be made relating to the
12 overall cost increases of the capacity purchases. To examine the
13 capacity purchases in isolation will result in a one-sided and
14 potentially inappropriate ratemaking result. This is but one example
15 of the reason why all costs should be and are examined in the context
16 of a rate case.

17 Q. Does the Staff consider the capacity purchases from UE
18 and AEC to constitute an extraordinary item?

19 A. No. Utilities buy and sell power from and to each
20 other on a regular and frequent basis. There is certainly nothing
21 "extraordinary" about these capacity purchases. These capacity
22 purchases are ongoing costs and are treated as such on MoPub's books
23 and records. Capacity purchase cost increases do not relate to or
24 constitute an extraordinary items as defined by the FERC USOA as
25 "related to the effects of events and transactions which have
26 occurred during the current period and which are of unusual and
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1 infrequent occurrence". Clearly, these increases to purchase power
2 costs cannot be thought of as an "unusual and infrequent occurrence,"
3 nor are they "abnormal and significantly different from the ordinary
4 and typical activities of the company" which would "not reasonably be
5 expected to recur in the foreseeable future." (FERC USOA) Account
6 186 should not be used to defer such costs.

7 Q. Have other utilities entered into capacity purchase
8 agreements?

9 A. Yes. Other Missouri utilities have capacity purchase
10 arrangements, but they have not requested accounting orders for this
11 item as MoPub has.

12 EXCESS EARNINGS

13 Q. Are there specific examples related to MoPub that show
14 that regulatory lag has benefited UtiliCorp United Inc.'s
15 (UtiliCorp's) shareholders?

16 A. Yes. In fact, regulatory lag since MoPub's 1983
17 electric rate case, Case No. ER-83-40, has resulted in rate levels
18 being maintained continually at levels that are excessive. In other
19 words, from July 1, 1983 when the rates resulting from Case No.
20 ER-83-40 were implemented, MoPub has generally earned in excess of
21 the authorized rate of return established in that case. Below is a
22 chart of the actual reported returns on average rate base (RORB) from
23 1983 to September, 1990 for MoPub's jurisdictional electric
24 operations:
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26
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<u>YEAR</u>	<u>AUTHORIZED RORB</u>	<u>ACTUAL RORB</u>	<u>OVER/<UNDER> AUTHORIZED</u>
1983	11.24%	**	**
1984	11.24	**	**
1985	11.24	**	**
1986	11.24	**	**
1987	11.24	**	**
1988	11.24	**	**
1989	11.24	**	**
1990 - Sept.	11.24	**	**

(Source: MoPub Surveillance Reports; Authorized RORB set in Case No. ER-83-40).

As the above chart shows, the rates established in MoPub's 1983 electric general rate case have resulted in earnings in excess of the authorized rate of return.

Q. What is the effect of MoPub earning above its authorized rate of return?

A. Since MoPub's 1983 electric general rate case, Case No. ER-83-40, there have been two MoPub rate reductions. As previously noted, a \$10 million rate reduction was implemented on September 15, 1986 in Case No. EO-87-9, and a \$5.4 million rate reduction was implemented on September 15, 1987 in Case Nos. AO-87-48 and EO-88-36. Below is a chart of the revenue levels generated by the rates set in Case No. ER-83-40, with consideration of the two aforementioned rate reductions:

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<u>YEAR</u>	<u>OVER/<UNDER> AUTHORIZED</u>	<u>TAX FACTOR UP</u>	<u>AVERAGE RATE BASE</u>	<u>EXCESSIVE/ <DEFICIENT> (2 X 3 X 4) REVENUE LEVELS</u>
1983	**			**
1984	**			**
1985	**			**
1986	**			**
1987	**			**
1988	**			**
1989	**			**
1990 - Sept.	**			**

(A) Rate base from Report And Order in Case No. ER-83-40, since surveillance data was not available (response to Staff Data Request No. 40A in Case No. ER-90-101).

Q. Has MoPub continued to earn above its authorized rate of return since its last electric general rate case, Case No. ER-90-101?

A. Yes. MoPub's electric rates in Case No. ER-90-101 went into effect October 17, 1990. The Commission authorized MoPub to earn 11.0 percent on its rate base in that case. MoPub has continued to earn above its authorized rate of return since the effective date of the Commission's order in MoPub's 1990 electric general rate case. The following identifies MoPub's earnings since that date:

<u>YEAR</u>	<u>AUTHORIZED RORB</u>	<u>ACTUAL RORB</u>	<u>OVER/<UNDER> AUTHORIZED</u>
October, 1990	11.00%	**	**
November	11.00	**	**
December	11.00	**	**
January, 1991	11.00	**	**
February	11.00	**	**
March	11.00	**	**
April	11.00	**	**
May	11.00	**	**
June	11.00	**	**

Source: MoPub Surveillance Reports; Authorized RORB set in Case No. ER-90-101.

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1 (A) October, 1990 reflects the period from October 1 through 16 for
2 previous rates and the period October 17 through 31 for existing
3 rates.

4 Even though it takes a full twelve-month period following
5 the effective date of new rates to achieve on an annual basis the
6 authorized rate of return, all other things being equal, MoPub has
7 continued to earn above its authorized rate of return since the
8 effective date of rates in Case No. ER-90-101.

9 Q. Why does it take a full twelve-month period following
10 the rate increase to achieve the authorized rate of return?

11 A. Utilities do not collect the entire amount of a rate
12 increase immediately upon the issuance of a Commission Order. They
13 will collect from ratepayers the increase through the twelve-month
14 period following the rate increase. Nor do utilities incur all their
15 costs immediately following a rate case. It takes the full
16 twelve-month period to fully realize the impacts of higher rates and
17 to recognize the incurrence of costs, either higher or lower, than
18 the levels rates were set on.

19 Q. Are MoPub's levels of excess earnings understated for
20 the period immediately following the rate increase?

21 A. Yes. If a utility, as in MoPub's case, starts to earn
22 its authorized return immediately following a Commission Order
23 granting increased rates, the true amount of earnings excess is
24 understated or conservative. As noted above, since it takes an
25 entire twelve-month period to fully realize the impacts of the
26 increased rates, the return for months immediately following the
27 increase will be understated, all other things being equal. The
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1 collection of the increased rates is a gradual process over the
2 twelve-month period. As the utility collects the increased rates
3 throughout the twelve months, it will realize a greater and greater
4 portion of the rate increase. Theoretically, utilities should never
5 earn their authorized rates of return immediately following the
6 implementation of the rate increases. To do so indicates the
7 existence of excess earnings.

8 Q. Are the other reasons that the reported excess
9 earnings are understated?

10 A. Yes. In Case No. ER-91-101, the Commission authorized
11 the use of UtiliCorp's parent capital structure to determine the
12 revenue requirement. This capital structure contained more debt and
13 less equity than the capital structure advocated by MoPub in that
14 case. Even though MoPub's allocated divisional capital structure was
15 rejected by the Commission, MoPub continues to use this capital
16 structure to report its earnings in the surveillance reports that it
17 submits to the Commission. MoPub also uses the allocated divisional
18 capital structure to develop its budget. Using the allocated
19 divisional capital structure with a higher equity ratio understates
20 MoPub's rates of return. In response to Data Request No. 73, MoPub
21 stated that "using the Commission authorized return would increase
22 the reported achieved and budgeted returns."

23 Also, to the extent that the Commission adopted ratemaking
24 adjustments in Case No. ER-90-101, these adjustments are not made to
25 the numbers supplied in the surveillance reports, which causes the
26 reported rates of return to be understated. An example of this
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1 situation is that the surveillance reports do not reflect the
2 reduction in rate base for cash working capital and customer
3 deposits. To the extent that "book" returns do not reflect or
4 "mirror" the disallowances made by the Commission in Case No.
5 ER-90-101, such as for advertising costs, then the reported earnings
6 of MoPub will be conservative or understated. The reason this
7 happens is that MoPub was not allowed to recover in rates certain
8 costs that it incurred. Therefore, no revenues supported those
9 costs, resulting in a lower reported earnings amount.

10 Q. Does UtiliCorp expect MoPub to earn its authorized
11 rate of return?

12 A. No. MoPub's five year budget for Budget Year 1991
13 reflects returns on average rate base which are below the rate of
14 return of 11.0% authorized by the Commission in Case No. ER-90-101.
15 The following are the budgeted returns on average rate base as
16 provided in the response to Data Request No. 18:

17	1991	**	**
	1992	**	**
18	1993	**	**
	1994	**	**
19	1995	**	**

20 It should be noted that it is my understanding that the MoPub
21 divisional budget is prepared on a Total Division basis, which
22 includes both electric and natural gas operations. An "electric
23 only" rate of return on rate base is not available. Thus, to the
24 extent natural gas operations do not support the 11.0% authorized
25 electric rate of return, then the budgeted overall returns will be
26 "forced" downward. However, it should be understood that the
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1 electric operations are by far the most significant aspect of MoPub's
2 business.

3 Q. Are the returns on equity shown on page 5 of Mr.
4 Brook's direct testimony understated?

5 A. Yes. The returns on equity shown in Mr. Brook's
6 direct testimony which were taken from MoPub's Five Year Budget
7 (1991-1995) are understated because MoPub uses the allocated
8 divisional capital structure for budget purposes. Also no ratemaking
9 adjustments are reflected in the budget which also results in an
10 understatement of the returns on equity and average rate base.

11 Q. Are there other factors that demonstrate that MoPub
12 has benefited from regulatory lag?

13 A. Yes. The Tax Reform Act of 1986 (TRA) is another
14 specific example of favorable regulatory lag for MoPub. MoPub
15 experienced a reduction of the federal income tax rate from 46% to
16 34% effective July 1, 1987. Customer rates were not reduced for TRA
17 impacts until September 15, 1987. Although the period of July 1 to
18 September 15 does not seem at first to be a significant amount of
19 time, this lag is inconsistent with MoPub's request to be made
20 "whole" for every dollar expended for the life extension and coal
21 conversion projects and the increase in capacity purchase costs from
22 the exact moment of the increase. If MoPub had followed the
23 consistent position that it has advocated since the with regard to
24 certain costs increases, it would have sought to reduce rates for the
25 income tax rate change on July 1, 1987. To the extent that this was
26 not possible, then MoPub should have requested deferral treatment to
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1 capture those income tax savings and "flow" them back to its
2 customers, utilizing the same approach it is advocating in these
3 cases.

4 Q. Has MoPub acknowledged that it has been a beneficiary
5 of regulatory lag through most of the last decade?

6 A. Yes. Mr. Richard C. Green, Jr., UtiliCorp's Chairman
7 of the Board and Chief Executive Officer, has acknowledged the
8 favorable benefits of regulatory lag. Mr. Green made the following
9 comments at UtiliCorp's 1987 Officers Conference held in Chicago on
10 October 6, 1987:

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Managing the utility's earnings then can provide a "reserve" to carry the utility through periods of downturn in financial results.

Q. What is the significance of MoPub not wanting to show excess earnings as it relates to the accounting orders?

A. Clearly, UtiliCorp does not want to show to the outside world, marketplace, or specifically its regulators that it has excessive earnings. If MoPub, through UtiliCorp, is not interested in "returning" excessive earnings to its customers, then it should not expect its customers to provide an extraordinary mechanism to insulate MoPub from periods of when its earnings are not at its authorized return, such as when it makes additions to its rate base. An accounting order, as proposed by MoPub, in essence is a

1 mechanism to (1) insulate a utility from increased costs and (2)
2 protect the utility's earnings. However, to date the utility's
3 customers have no such mechanism. The accounting orders as proposed
4 by MoPub are clearly a "one sided" approach, which allows it to
5 retain all the upside benefits of regulatory lag, with no downside
6 risks to the utility from regulatory lag. However, unlike its
7 customers, MoPub can monitor its financial results, mask excessive
8 earnings, and if necessary to maintain its financial integrity, file
9 for rate relief.

10 Q. If a utility is overearning, is it possible to justify
11 an accounting order?

12 A. No. Clearly, if a utility has excess earnings, it
13 should not be requesting an accounting order and it most definitely
14 should not be authorized. This is particularly the case of a utility
15 which has experienced excess earnings since 1983.

16 ADEQUACY OF RATES AND RECOVERY OF REVENUE REQUIREMENT

17 Q. Is it possible for a utility to recover in rates cost
18 increases that were not specifically contemplated when rates were
19 being set?

20 A. Yes. When earnings are sufficiently in excess of the
21 authorized return, the utility will indeed recover cost increases not
22 specifically addressed in the prior ratemaking process.

23 In MoPub's last electric rate case, Case No. ER-90-101, the
24 test year was the twelve months ending December 31, 1989. The Staff
25 reflected changes to the test year up through April 30, 1990 for
26 known and measurable events associated with major cost of service

1 components of the revenue requirement. Other material items were
2 reflected through June 1, 1990.

3 Staff/Office of Public Counsel witness James R. Dittmer
4 addressed, at page 8 of his direct testimony, the cost of service
5 items reflected in Case No. ER-90-101:

6 More specifically, we have updated Plant in Service,
7 Accumulated Depreciation Reserve, Accumulated Deferred
8 Income Taxes, and Customer Deposits to actual known
9 balances as of April 30, 1990. With regard to the income
10 statement components, we have annualized (1) revenues for
11 the number of customers taking service during April 1990,
12 (2) payroll costs for number of employees and wage rates in
13 effect on or before May 1, 1990, (3) depreciation expense
associated with jurisdictional investment, and (4)
miscellaneous other O&M cost changes known to be effective
on or before May 1, 1990. Additionally, we have
incorporated the purchased power capacity cost increase
scheduled to become effective on June 1, 1990, as well as
certain fuel cost changes which will occur pursuant to
contract on or before July 1, 1990.

14 Subsequent to the June 1, 1990 date, MoPub incurred a
15 contractual wage increase for its union work force on October 1,
16 1990. This occurred before the operation-of-law date in Case No.
17 ER-90-101 of October 17, 1990. Even though the wage increase was not
18 specifically included as part of the overall revenue requirement,
19 i.e., the payroll annualization component of the revenue requirement
20 did not include the October 1, 1990 union wage increase, MoPub fully
21 recovered or is in the process of recovering the increased payroll
22 costs relating to the wage increase.

23 Q. How is MoPub fully recovering the October 1, 1990
24 union wage increase if it was not included in the rate determination
25 in Case No. ER-90-101?
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1 A. An examination of MoPub's earnings subsequent to the
2 effective date of the rate increase indicates that earnings are more
3 than adequate to cover not only the October 1, 1990 union wage
4 increase, but any other expenditure made subsequent to the June 1,
5 1990 revenue requirement determination.

6 A further example would be if MoPub increased its work
7 force beyond the levels included in Case No. ER-90-101. To the
8 extent that this resulted in increased costs, MoPub would be
9 recovering in rates today those increased costs. To say otherwise is
10 to ignore the mechanics of the ratemaking process.

11 MOPUB RATE CASE FILINGS

12 Q. If the Commission does not grant the authority for
13 MoPub to defer the costs as proposed in these cases, will there be
14 negative impacts on MoPub's and/or UtiliCorp's earnings?

15 A. No. MoPub will have every opportunity to file a rate
16 case to consider these costs. This would be the traditional approach
17 utilized by a utility faced with increasing revenue requirements.
18 When a utility anticipates increases to its cost of service with no
19 expected offsets such as increasing revenues or declining rate bases,
20 generally it will file for rate relief. At that time, all parties to
21 the rate case process are given an opportunity to fully examine the
22 merits of the utility's rate applications. This process enables all
23 parties to examine all aspects of the utility's operations to ensure
24 that the revenue requirements are valid. Through this process, the
25 components to the revenue requirement are evaluated so that all items
26 are considered, i.e., no single cost component is considered in
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1 isolation of the other components. This is in contrast to MoPub's
2 proposal of only considering items that are increases to its overall
3 revenue requirements. The Staff is not aware of MoPub, or any other
4 utility, having ever proposed deferred treatment for decreases to the
5 revenue requirement.

6 Q. Is MoPub planning to file rate cases in the future?

7 A. Yes. In the Executive Summary of its Regulatory Plan,
8 MoPub indicated that the current expectation is "that three electric,
9 two gas and one FERC rate increase applications are to be filed in
10 the next four years." (Source: Regulatory Plan - Executive Summary
11 - page iii).

12 Mr. Brook states at pages 3 and 4 of his direct testimony
13 that MoPub anticipated "three back to back electric rate cases
14 commencing in 1991."

15 MoPub's Regulatory Plan anticipates electric rate cases in
16 1992, 1993 and 1994. The following indicates the expected amounts to
17 be sought in these filings:

18	1992	\$11.6 million
	1993	\$13.2
19	1994	\$10.7

20 Q. Mr. Brook states at page 3 of his direct testimony
21 that "the granting of the authority requested by the applications in
22 the two cases which are now before the Commission will result in the
23 avoidance of a rate case." Is there any uncertainty surrounding when
24 MoPub plans on filing this rate case if necessary?

25 A. Yes. Initially in its original applications in these
26 cases, MoPub requested issuance of the accounting orders by June 14,
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1 1991. In paragraph 3 of its Motion to Expedite in Case Nos.
2 EO-91-358 and EO-91-360, MoPub stated:

3 ...if the accounting orders are not issued as
4 requested, MPS expects to prepare an electric rate case
5 filing in July, 1991 so that new rates will be in effect at
the time the new purchased power capacity costs are
incurred.

6 Obviously, MoPub did not file a rate case in July, 1991, and has not
7 filed a rate case to-date.

8 Mr. Brook stated at page 4, line 19, of his direct
9 testimony that MoPub has "some flexibility in deciding when to file a
10 case. MPS is presently willing to risk the potential financial
11 impact of delaying the rate filing in an effort to maintain our rates
12 at competitive levels."

13 In response to Data Request No. 43, MoPub stated that it
14 has started to develop a rate case filing but:

15 ...will wait until the pending AAO cases to make a decision
16 to file a case. It is our goal to have rates into effect
before the cooling season but with the pending AAO schedule
17 it may be unlikely unless an early settlement is reached.

18 In a revised response MoPub stated that:

19 Based on the procedural schedule, it is not expected that a
20 final order will be issued for 3 to 5 months. At the time
this order is issued, we will review our financial position
21 at that time and make a final evaluation. As stated in the
original AAO application, MPS prefers to defer a rate case
22 to permit MPS to maintain more competitive pricing of its
electric service during the current economic conditions
faced by its customers. However, if the accounting orders
23 are not granted by the Commission, we expect to need rate
relief in both 1992 and 1993 to earn our authorized return.

24 It appears at this time that based on the procedural
25 schedule in these cases that the earliest that MoPub could file a
26 rate case is late this year, depending on when the Commission issues
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1 its Report And Order. However, there continues to be much
2 uncertainty relating to the timing of these filings. Clearly, no
3 longer are we looking at a rate case filing by July, 1991 as
4 originally stated in the applications. MoPub appears to have much
5 more flexibility respecting when to file a rate case than it did on
6 May 10, 1991.

7 Q. Is MoPub currently experiencing any deterioration in
8 its earnings?

9 A. No. Although no revenue requirement determination has
10 been made in this case, the Staff does not believe that MoPub is
11 suffering from a shortfall of revenues. Based upon the surveillance
12 reports filed with the Commission, MoPub appears to be earning
13 reasonably well, and in fact is earning in excess of its authorized
14 rate of return.

15 ACCOUNTING ORDER IMPACTS ON RATES

16 Q. Will approval of MoPub's proposed accounting orders
17 result in an increase in its rates, if ratemaking treatment is
18 ultimately granted the deferred costs?

19 A. Yes. MoPub's proposals in this proceeding will result
20 in higher electric rates if the requests are granted and ratemaking
21 treatment is later granted, because of the deferred accounting
22 treatment. Since one of the components of MoPub's request is
23 recovery of the carrying costs associated with the deferral, electric
24 rates will be higher than they otherwise would be absent no deferral
25 accounting treatment.
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1 Q. What is the amount associated with the carrying costs
2 of MoPub's proposed deferred accounting treatment?

3 A. The amount of the related carrying costs is
4 approximately \$3.2 million (Schedule JSB 2 and 3, attached to direct
5 testimony of James S. Brook). If MoPub would treat the capital
6 additions and capacity purchase costs in the traditional manner,
7 these carrying costs would be avoided and not have to be recovered
8 from MoPub's customers as is presently being proposed by MoPub.

9 Q. Does MoPub believe that its existing electric rates
10 are high?

11 A. Yes. In Section (b) of its Regulatory Plan, MoPub
12 stated that its electric rates were high:

13 Schedule 6-2 compares the rates charged by MPS and other
14 regional utilities for three rate classes at assumed
15 consumption levels. The MPS residential rate is relatively
16 high, the small commercial rate very high and the
17 industrial rate somewhat middle of the road when compared
18 to these seven other utilities. When the current MPS
19 five-year regulatory plan is factored with the general
20 knowledge of the other utilities' rate moratoriums and
21 capacity situations, it can be seen that the MPS relative
22 position is getting worse without rate re-design.

23 The proposed accounting orders are inconsistent with a utility
24 concerned about its high rates and the future impacts of competition
25 within the utility industry. Many utilities no longer look to
26 increasing rates until the last resort. Instead they attempt to
27 address increasing costs by efficiencies within their operations or
28 increasing sales. As the utility industry changes to a more
competitive environment, utilities cannot afford to raise their
prices to consumers.

SINGLE ISSUE RATEMAKING

Q. Do MoPub's proposed accounting orders requested in Case Nos. EO-91-358 and EO-91-360 constitute "single issue" ratemaking?

A. Yes. MoPub's proposal in these cases address single items that only represent cost increases. MoPub has made no attempt to provide a balanced view by providing items of a decreasing cost nature that offset any cost increases or additions to rate base. MoPub has ignored the traditional approach of evaluating all items relating to its cost of service. The advantage of examining cost increases in the context of a rate proceeding is that all parties are afforded the opportunity to examine not only the increases to the revenue requirement, but any offsets that may exist. An example of items that would offset increases to revenue requirement would be increases to revenues resulting from an increase in the number of customers or an increase in customer usage. Also, utilities often experience cost efficiencies resulting in decreases to revenue requirement that could offset all or a part of any increase.

Q. Has MoPub experienced cost efficiencies and revenue growth in the past?

A. Yes. Since 1983, MoPub has experienced excessive earnings despite having made rate reductions in 1986 and 1987. In this time period MoPub incurred increases in payroll and other non-wage cost components. MoPub also experienced a steady increase to its rate base. It experienced fuel and purchase power increases. Despite the rate reductions and the cost increases, MoPub was still

1 able to maintain an adequate return on its investment, and indeed
2 experienced excessive earnings throughout this entire period. The
3 reason MoPub was able to maintain its earnings level was that it
4 experienced offsets to any factors which would increase revenue
5 requirements. MoPub was able to maintain revenue growth and
6 efficiencies at a rate greater than the cost increases. By
7 requesting accounting orders in these cases, MoPub not only fails to
8 consider its current excess earnings, but is also not giving any
9 consideration to the fact that it has had excessive earnings since
10 1983, with the lone exception of 1989 when it slightly missed
11 achieving its authorized return.

12 Q. Has MoPub recognized the importance of examining all
13 elements of cost of service?

14 A. Yes. On March 2, 1987, in Case No. AO-87-48, which
15 was the docket created by the Commission to address the Tax Reform
16 Act of 1986, MoPub filed "Comments In Response To A Missouri Public
17 Service Commission Order Addressing Comments, Granting Interventions
18 And Extending Filing Dates." MoPub stated as follows:

19 THEORETICAL CONSIDERATIONS

20 Isolation of Singular Cost Factor -

21 The Staff has indicated that voluntary tariff filings
22 should be made by each company affected by this Docket or
23 complaint proceedings will be filed by the Staff for each
24 affected company. Unfortunately, this indication leaves
25 the impression that existing rates of all companies are
26 considered either unlawful or unreasonable as a direct
27 result of one single issue, that being tax reform. Such a
28 presumption requires the conclusion that not only does the
Tax Reform Act significantly affect the returns of all
utilities, but those returns are so greatly affected as to
necessitate a rate adjustment, irrespective of the numerous
variations in other factors impacting the Company's return.
While this conclusion may be appropriate for some utilities
under the jurisdiction of the Missouri Public Service

Commission, examination of data indicates that it is not applicable for Missouri Public Service.

As was indicated in Missouri Public Service's December 1986 filing, the maximum estimated first year effect on divisional electric jurisdictional net operating income was an increase of only about 1.1 million dollars. Gas net operating income was actually decreased \$100,000 due to tax reform. These changes are relatively minor in comparison to a number of variances in other items, both increases and decreases, which have occurred since the last full rate proceeding. It is the culmination of all revenue and cost factors, not one in isolation, which must be considered in determining a level of reasonable and equitable rates. This fact has been well established through consistent past Commission use of an annualized test year where all items are normalized. Application of procedures which isolate only one factor would not be appropriate for setting rates or determining an amount subject to refund.

Offsetting Impacts -

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. . . Entering into an era where the achievements of perfect symmetry between costs and rates is attempted is impractical and should not begin with the segregation of tax reform effects.

Effective Current Monitoring -

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In the context of Missouri Public Service's rate reduction [referring to Case No. EO-87-9], no attempts were made to isolate any specific areas of cost causation and implement rate reductions for those specific items only. Rather all elements of cost of service were considered. Furthermore, prior to agreeing to the final stipulated level of rate reduction, Missouri Public Service considered carefully the likelihood of tax reform effects. Missouri Public Service would not have agreed, without a full hearing, to the stipulated reduction in rates had it not been cognizant of estimated short-term reform benefits. Therefore, to the extent it is possible to isolate one cost factor, and appropriate to do so, Missouri Public Service has certainly done so in its electric jurisdictional rates, as reflected by the rate decrease of September 15, 1986 ...

Q. Is there another example of MoPub's recognition of the concept of single issue ratemaking?

1 A. Yes. Before the Kansas Corporation Commission (KCC),
2 UtiliCorp has a joint application on file for authority to sell and
3 transfer the electrical utility operations and business of Centel
4 Corporation, Docket No. 175,456-U. UtiliCorp is proposing to acquire
5 Centel's electric generating, transmission, and distribution system
6 in the states of Kansas and Colorado. In that case, Dennis R.
7 Williams, UtiliCorp's Director of Regulatory Affairs, filed direct
8 testimony relating to various aspects of UtiliCorp's acquisition of
9 the Centel electric properties. Among those items addressed by Mr.
10 Williams' direct testimony is lease payments that UtiliCorp will make
11 to a third party for the generation of the Jeffrey Energy Center.
12 Mr. Williams states at pages 6 and 7 of his direct testimony the
13 following:

14 Q. Has UtiliCorp proposed any ratemaking treatment
15 associated with the acquisition of Centel electric
16 properties?

17 A. No. In fact, UtiliCorp proposes that rates
18 currently approved and on file with the applicable
19 regulatory commissions be adopted. UtiliCorp has not
20 requested current consideration or special treatment of any
21 specific ratemaking item associated with the proposed
22 acquisition which may be an issue in some future rate case.

23 Q. Has UtiliCorp proposed that lease payments for
24 the Jeffrey Energy Center be reflected in rates?

25 A. No. UtiliCorp has made no specific proposal for
26 rate treatment for any particular item, including Jeffrey
27 Energy Center lease payments. Instead we have proposed
28 adoption of currently approved tariffs. Centel's last
general rate hearing initially established rates in 1983
based on a 1982 pro forma test year. Many changes have
occurred since the establishment of those rates; however,
overall the tariffs remain just and reasonable. To focus
on a single isolated change that occurred some time during
the 1982 to 1991 timeframe and to attempt to recover that
isolated event in rates would have constituted improper
single issue ratemaking. Likewise, we have not proposed
single issue ratemaking pertaining to Jeffrey Energy Center
lease payments. Lease payments are a single element of

1 cost of service which should be considered with all other
2 cost of service items when a party proposes a change in
3 tariffs. UtiliCorp has never proposed a change in rates
4 within the first year of an acquisition. It takes a
5 minimum of that amount of time to ascertain the extent to
6 which synergistic savings may be brought to the acquired
7 utility. In the case of acquisition of Centel electric
8 properties, UtiliCorp hopes to be able, through market
9 development and general cultivation of synergies, to avoid
10 an application for increased rates for a number of years.
11 The proper time for consideration of all ratemaking issues,
12 not an isolated cost of service item, should be in the
13 context of that future request.

14 (Emphasis added).

15 Q. What is the amount of the lease payments that
16 UtiliCorp will be making for the Jeffrey Energy Center capacity?

17 A. The amount of lease payments that UtiliCorp expects to
18 make for the generation of Jeffrey will be \$10.1 million annually.

19 CONDITIONS FOR ACCOUNTING ORDERS SHOULD THE COMMISSION GRANT
20 MO PUB ITS PROPOSALS

21 Q. If the Commission grants MoPub its proposals in these
22 cases, how should MoPub maintain its books and records?

23 A. Should the Commission grant MoPub the authority as
24 requested, the Staff would request the Commission order MoPub to
25 again maintain its books and records in the same manner that the
26 Staff suggested and the Commission directed in Case No. EO-90-114 as
27 outlined in the Commission's Order in said case at pages 1 and 2:

28 In addition, Staff recommends that the Commission direct
MoPub to prefile as part of its direct testimony in its
rate case the proper in-service criteria for the life
extension and coal conversion projects, the proper
accounting entries prior to and after the expenditures and
costs in question are reflected in rates; the proper
treatment of items such as AFUDC, depreciation, property
taxes, test power, interchange, etc., related to these
projects and what expenditures, costs and cost savings
should be recognized as a result of the projects. Staff
further recommends that the Commission direct MoPub to
maintain detailed supporting workpapers relating to the
monthly accruals of each item booked to Account 186 and any

Rebuttal Testimony of
Cary G. Featherstone

capital costs booked to capital accounts including, but not limited to, a daily accounting of test power and interchange transactions associated with these projects.

The Commission's "ORDERED" 2 and "ORDERED" 3 in Case No. EO-90-114 stated:

ORDERED: 2. That Missouri Public Service, a division of UtiliCorp United Inc., is directed hereby to include in its direct testimony and schedules prefiled in Case No. ER-90-101 the items of information as recommended by the Commission's Staff and set forth in this order.

ORDERED: 3. That Missouri Public Service, a division of UtiliCorp United Inc., is directed hereby to maintain detailed supporting workpapers relating to the monthly accruals of each item booked to Account No. 186 and any capital costs booked to capital accounts in regard to the expenses in question herein including, but not limited to, a daily accounting of test power and interchange transactions associated with these projects.

Q. Was the calculation of the deferrals an issue in the last case, Case No. ER-90-101?

A. Yes.

Q. How does MPS propose to calculate the cost deferrals in this case?

A. At page 8, line 12, of Mr. Book's direct testimony, he states that MPS will calculate the deferrals "in the same manner ordered in Case No. ER-90-101. MPS computed the cost of the deferral in the present application in the following manner:

- o Exclude carrying costs on unpaid balances.
- o Calculate carrying costs on a semi-annual basis.
- o Calculate depreciation and carrying costs beginning January 1, 1992 until new rates are implemented."

For Case No. EO-91-358, the above needs to be amended to calculate depreciation and carrying costs beginning January 1, 1993. MoPub

1 proposes to calculate the deferrals for Case No. EO-91-360 starting
2 June 1, 1992.

3 Q. Does MoPub's proposed calculation of the deferred
4 costs appear to be consistent with how the Commission authorized
5 those costs to be calculated in Case No. ER-90-101?

6 A. Yes. However, without reviewing the actual deferred
7 costs calculations as would be done in a rate case, the Staff would
8 reserve taking a position in these proceedings relating to the
9 mechanics of how the deferred costs were computed. At the time of
10 MoPub's next rate case, the Staff would then review the development
11 of the deferred costs, should the Commission grant MoPub its
12 requested accounting orders.

13 Q. Does the Staff have a recommendation regarding
14 accounting orders if the Commission authorizes MoPub to defer costs
15 as it proposes?

16 A. Yes. If the Commission grants MoPub's proposals in
17 these cases, the Staff would recommend that in the alternative the
18 Staff be granted the authority to propose an accounting order to
19 capture any excess earnings of MoPub over and above the levels
20 authorized in Case No. ER-90-101 so that these additional earnings
21 can be "flowed" back to the ratepayers. These excess earnings could
22 be used to offset future rate increases or to reduce existing rates.

23 The Staff under normal circumstances does not recommend
24 this type of ratemaking treatment, but if special earnings
25 "guarantees" are to be sought by utilities through the accounting
26 order process, it would be fair and equitable to provide the same
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1 opportunity for "guarantees" against overearnings to be granted the
2 customers of the utilities.

3 JUDICIAL REVIEW OF ACCOUNTING ORDERS

4 Q. Have there been any judicial decisions in Missouri
5 respecting accounting orders?

6 A. No, but the Office of the Public Counsel (Public
7 Counsel) recently filed a Petition For Writ Of Review in Cole County
8 Circuit court respecting the Commission's decision in Case No.
9 EO-91-247, wherein the Commission issued an accounting order
10 authorizing St. Joseph Light & Power Company to defer and amortize
11 the labor costs associated with the implementation of an Automated
12 Mapping/Facilities Management (AM/FM) System.

13 Q. On what grounds did Public Counsel file its Petition
14 For Writ Of Review?

15 A. Among other things, Public Counsel has asserted that
16 the Commission's Order Granting Application For Accounting Order
17 constitutes single-issue ratemaking in violation of Section 393.270
18 RSMo 1986 and retroactive ratemaking in violation of Section
19 393.140(11) RSMo 1986 and Section 393.270 RSMo 1986.

20 OTHER MATTERS

21 Q. Has the Staff received responses to all of its data
22 requests issued for these cases?

23 A. No. At the time of this filing, the Staff has not
24 received responses to all of its data requests nor has the Staff
25 reviewed those responses which it recently received. The Staff would
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Rebuttal Testimony of
Cary G. Featherstone

1 reserve the right to file supplemental testimony as the need arises
2 regarding these matters.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the application of Missouri)
Public Service for the issuance of an accounting) Case No. EO-91-358
order relating to its electrical operations.)

In the matter of the application of Missouri)
Public Service for the issuance of an accounting) Case No. EO-91-360
order relating to its purchase power commitments.)

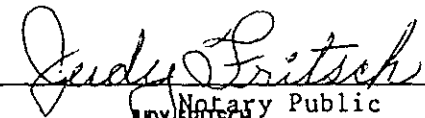
AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing rebuttal testimony in question and answer form, consisting of ___ pages to be presented in the above case; that the answers in the foregoing rebuttal testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 16th day of August, 1991.


JUDY FRITSCH
Notary Public
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP AUG. 15, 1993

My Commission expires _____.

SUMMARY OF RATE CASE INVOLVEMENT

Case No. ER-80-53	St. Joseph Light & Power Company (electric)
Case No. OR-80-54	St. Joseph Light & Power Company (transit)
Case No. HR-80-55	St. Joseph Light & Power Company (industrial steam)
Case No. GR-80-173	The Gas Service Company (natural gas)
Case No. GR-80-249	Rich Hill-Hume Gas Company (natural gas)
Case No. TR-80-235	United Telephone Company of Missouri (telephone)
Case No. ER-81-42	Kansas City Power & Light Company (electric)
Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)
Case No. TR-81-302	United Telephone Company of Missouri (telephone)
Case No. TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone)
Case Nos. ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric and district steam heating)
Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)
Case No. EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric)
Case No. ER-83-49	Kansas City Power & Light Company (electric)
Case No. TR-83-253	Southwestern Bell Telephone Company (telephone)
Case No. EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric)

SUMMARY OF RATE CASE INVOLVEMENT

Case Nos. ER-85-128 and EO-85-185	Kansas City Power & Light Company (electric)
Case No. HO-86-139	Kansas City Power & Light Company (district steam heating)
Case No. TC-89-14	Southwestern Bell Telephone Company (telephone)
Case No. TR-89-182	GTE North, Incorporated (telephone)
Case No. GR-90-50	Kansas Power and Light - Gas Service Division (natural gas)
Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)
Case No. GR-90-198	UtiliCorp United Inc., Missouri Public Service Division (natural gas)
Case No. GR-90-152	Associated Natural Gas Company (natural gas)
Case No. EM-91-213	Kansas Power and Light - Gas Service Division (natural gas)

** P R O P R I E T A R Y **

MOPUB PURCHASED CAPACITY CONTRACTS - DEMAND CHARGE

		Union Electric						Associated Electric											
		<u>Megawatts</u>			<u>Demand Charge</u>			<u>% Increase <Decrease></u>			<u>Megawatts Maximum</u>			<u>Demand Charge</u>			<u>% Increase <Decrease></u>		
1987	Actual Started June			**		**	**	**	**	**	**			**	**	**	**	**	**
1988				**		**	**	**	**	**	**			**	**	**	**	**	**
1989				**		**	**	**	**	**	**			**	**	**	**	**	**
1990				**		**	**	**	**	**	**			**	**	**	**	**	**
1991	Actual & Budget	**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1992	Budget	**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1993		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1994		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1995		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1996		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1997		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1998		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
1999		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
2000		**	**	**		**	**	**	**	**	**			**	**	**	**	**	**
2001	ends May	**	**	**		**	**	**											

(SOURCE: Response to Staff Data Request Nos. 3 and 70).

SCHEDULE 2