

Exhibit No.:  
Issues: Allocations  
Witness: Beverlee R. Agut  
Sponsoring Party: Aquila Networks-MPS  
Case No.: ER-

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Beverlee R. Agut

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF BEVERLEE R. AGUT  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS  
CASE NO. ER-\_\_\_\_\_**

- 1 Q. Please state your name and business address.
- 2 A. My name is Beverlee R. Agut and my business address is 10700 East 350 Highway,  
3 Kansas City, Missouri
- 4 Q. By whom are you employed and in what capacity?
- 5 A. I am employed by Aquila, Inc. (“Aquila” or “Company”) in the Networks Financial  
6 Management group as Sr. Manager-Regulatory Accounting acting as a liaison between  
7 the Financial Management and Regulatory Services groups and an advisor to the financial  
8 systems groups.
- 9 Q. Please state your educational background and experience.
- 10 A. In 1986, I received a Bachelor of Science Degree in Business Administration with a major  
11 in Accounting from Rockhurst University in Kansas City. I am a Certified Management  
12 Accountant and a member of the Institute of Management Accountants. In 1976, I began  
13 working for Missouri Public Service, now Aquila Networks-MPS (“MPS”), a division of  
14 Aquila, and held various positions in the accounting and regulatory departments. In 1988,  
15 I joined Kansas Public Service, previously a division of Aquila, as Manager of  
16 Accounting and Regulatory Affairs. Since 1995, I have held various positions in Aquila’s  
17 Accounting, Regulatory Services, and Financial Management groups. I transferred to my  
18 current position in June 2002.
- 19 Q. Have you previously testified before any regulatory bodies?

1 A. Yes. I have previously filed testimony before the Missouri Public Service Commission  
2 (“Commission”), Kansas Corporation Commission, West Virginia Public Service  
3 Commission, and Federal Energy Regulatory Commission.

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

5 A. The purpose of my testimony is to: 1) describe the process for allocating costs associated  
6 with various centralized support functions along with the impact of these allocations on  
7 the operations of MPS and to sponsor the associated  
8 centralized support function allocations relating to base test year Operations Adjustment  
9 CS-16 (MPS 2) describe the jurisdictional and utility allocation factors  
10 developed for MPS

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**CORPORATE COST ALLOCATIONS**

20 Q. Please explain the objective for allocating corporate costs to the Aquila operating  
21 divisions and subsidiaries.

- 1 A. The Aquila cost allocation objective provides management with useful information to  
2 control costs and provides a reasonable and consistent method for assigning costs to the  
3 operating divisions and subsidiaries.
- 4 Q. What is the theory behind the Aquila allocation method?
- 5 A. The method was developed to assign the cost of a service to the specific Business Unit(s)  
6 that drives that specific cost. A Business Unit is a strategic business unit, operational  
7 group, or legal entity that requires its own (balanced) set of books because of regulatory  
8 or legal requirements. Costs are either “directly assigned” to Business Units, allocated to  
9 Business Units based upon a specific “cost driver” or allocated to Business Units based  
10 upon the “Massachusetts Formula.” The Aquila preference is to directly assign costs  
11 wherever possible to facilitate the proper matching of costs to the appropriate Business  
12 Units that utilize the service.
- 13 Q. Please describe in more detail the “directly assigned” method of charging costs to  
14 Business Units.
- 15 A. From time to time, a department will provide a specific service to a specific Business  
16 Unit. For example, the Aquila department entitled HR-UED (“Human Resources”) may  
17 place a newspaper ad in order to recruit prospective applicants for an open position. The  
18 cost of this newspaper ad is then directly assigned to the Business Unit requesting this  
19 service.
- 20 Q. Please explain in more detail a specific “cost driver” and provide an example of assigning  
21 costs to Business Units based upon a “cost driver.”
- 22 A. A cost driver has a direct cause and effect relationship to the costs incurred to provide a  
23 specific service. The allocation of the corporate headquarters department entitled Payroll

1 is a good example of this concept. All payroll costs are allocated to the Business Units  
2 receiving the service based upon the number of paychecks issued to employees of each  
3 Business Unit. Allocating payroll costs to the Business Units based upon employee  
4 paychecks issued, "cost driver," results in each Business Unit absorbing an appropriate  
5 level of cost. Furthermore, by understanding what drives the costs, Aquila will be in a  
6 better position to control those costs.

7 Q. Please describe the Massachusetts Formula and its use in the allocation of centralized  
8 support function costs.

9 A. If common costs cannot be charged directly to a Business Unit or if a specific cost driver  
10 is not determinable, then the Massachusetts Formula is used as a general allocator to  
11 allocate common costs. The Massachusetts Formula consists of the arithmetic average of  
12 payroll charged to expense, gross margin and net plant. These statistics are gathered for  
13 each division and averaged together on a weighted basis.

14 Q. Please quantify the amount of common costs allocated to the business units using the  
15 Massachusetts Formula.

16 A. For the year ended December 31, 2002, approximately 73% of the total allocation pool  
17 dollars are allocated via a specific cost driver while the remaining 27% are allocated  
18 using the Massachusetts Formula.

19 Q. How does Aquila assign costs to its international operations?

20 A. Costs to the international operations are assigned directly. Each employee on his or her  
21 timesheet or business expense report direct charges any work performed for a foreign or  
22 international unit, such as Canada. The costs assigned through timesheet reporting  
23 include labor, fringe loadings, and an overhead loading factor designed to fully distribute

1 overhead costs associated with the individual's employment. The overhead loading  
2 factor includes such costs as corporate headquarter building costs (e.g., depreciation),  
3 information technology support costs, telecom costs, and human resource costs. There  
4 are specific Business Unit chart field designations in the financial accounting system  
5 structure that identify the foreign unit. These direct foreign unit costs are then  
6 accumulated and billed to the foreign partners by the corporate international reporting  
7 department.

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

9 A. Aquila continually reviews the allocation process in order to ensure that costs are  
10 properly assigned to the various Business Units so that their financial performance can be  
11 properly measured. The statistics associated with the allocations drivers, e.g., the number  
12 of paychecks issued, are updated annually based upon the actual historical experience of  
13 the prior year. This ensures that the most accurate cost causative driver is in place with  
14 the most recent statistical data. For most centralized corporate departments, there exists a  
15 specific cost driver that results in the most accurate causative relationship to the Business  
16 Unit being serviced. Operations Adjustment CS-16 included in Schedule LAS-4 for MPS  
17 reflects the most current cost drivers and statistics available  
18 at the time this case was prepared.

19 Q. Please describe how the allocation process works.

20 A. System allocations are performed and maintained in two groups: IBU ("Intra-Business  
21 Unit") allocations and ESF ("corporate headquarters") allocations. Each month, the costs  
22 incurred in designated centralized allocable departments that have not been directly  
23 charged out are systematically processed in the PeopleSoft Financial Accounting System

1 based on the allocation drivers and statistics associated with the drivers as more fully  
2 explained in the Aquila Corporate Cost Allocation Manual (“CAM”). The 2002 CAM  
3 was included with Aquila’s March 2003 Fully Distributed Costing Filing to the  
4 Commission.

5 Q. Please describe Operations Adjustment CS-16.

6 A. Operations Adjustment CS-16 represents the “residual” ESF and IBU allocation pool  
7 dollars allocated to MPS based on current allocation factors effective January 1,  
8 2003 for ESF and February 1, 2003 for IBU. The term residual refers to the net  
9 remaining pool dollars that have not been adjusted by other Aquila witnesses in this  
10 application. Following is a listing of items that are being addressed by other Aquila  
11 witnesses and which are not included in Operations Adjustment CS-16. Reference can be  
12 made to Schedule LAK-4 for MPS for a more complete  
13 adjustment description. Each Aquila witness performed adjustments on allocated dollars  
14 following the same methodology as outlined in my testimony and as utilized in  
15 Operations Adjustment CS-16.

16 1) Payroll (CS-5), Incentives (CS-6), Restructuring (CS-10), Miscellaneous Payroll  
17 Costs (CS-83), Payroll Taxes (CS-85), Interest Charges, Income Taxes – Aquila witness  
18 Ron Klote.

19 2) Employee Pensions and Benefits (CS-11), Property Taxes (CS-90), Depreciation  
20 Expense (CS-95) – Aquila witness Stephanie Murphy.

21 3) TransUCU residual elimination (CS-56) – Aquila witness Lisa Starkebaum.

22 4) Dues and Donations (CS-60) and Advertising (CS-65) – Aquila witness Randy  
23 Erickson.



1 Q. Besides adjusting the ESF and IBU allocated dollars to the current allocation factors, have  
2 you made other adjustments to the pool dollars that were allocated to MPS during  
3 the test year?

4 A. Yes. Contained in the test year ESF and IBU centralized support function groups are  
5 costs pertaining to events surrounding Aquila's negative financial results from our non-  
6 regulated businesses. It is Aquila's intention and desire to insulate the ratepayer from  
7 these events and not pass any of these costs through in the cost of service to Aquila's  
8 regulated utility customers. Aquila witness Keith Stamm further elaborates on this  
9 subject.

10 Q. How were these costs identified for elimination?

11 A. The majority of these costs were retained in departments that did not allocate to any of  
12 Aquila's regulated business units. However, I also performed a review of several ESF  
13 and IBU departments that did allocate costs to MPS during the test year and  
14 removed either entire departments' allocated residual amounts or other identified  
15 transactions which should not be passed along to the ratepayer.

16 Q. Which test year allocated departments were removed from the allocations adjustment?

17 A. The departments entitled "Strategic Initiatives," "Capital Structure and Analysis-  
18 Domestic," "Strategic Planning & Analysis," "Chief Executive Officer," "Chief Financial  
19 Officer," and "UED Headquarters President" were removed from the allocations  
20 adjustment. The first three departments were removed because their function during the  
21 test period mainly focused on selling off business units. It is anticipated this type of work  
22 will continue. With the resignation of Mr. Robert Green, Mr. Richard Green assumed  
23 dual roles of Chairman and Chief Executive Officer. Therefore, it was proper to

1 eliminate the residual expenses in the separate Chief Executive Officer department. In  
2 2002, the Chief Financial Officers, Messrs. Dan Streek and Rick Dobson, extensively  
3 focused on maintaining the solvency of Aquila. It is anticipated this focus will continue  
4 for at least a couple of years. With the restructure of Aquila's domestic utility operations  
5 to a state based organization, the department entitled "UED (UtiliCorp Energy Delivery)  
6 Headquarters President" was eliminated and it was therefore proper to eliminate the  
7 residual expenses in this department. With the elimination of allocations from these six  
8 departments and miscellaneous adjustments to other allocated departments,  
9 approximately \$17.4 million was removed from the allocation pool and incorporated in  
10 Operations Adjustment CS-16.

11 Q. What additional evidence on corporate cost allocations have you included?

12 A. As part of the settlement in MPS's last rate case, Case No. ER-2001-672, Aquila agreed  
13 to create additional reports in support of direct and allocated costs. On August 16, 2002,  
14 and again on May 15, 2003, I met with members of the Commission Staff and Office of  
15 the Public Counsel to review reports we created for MPS as part of this  
16 agreement. As part of this filing, I have included schedules in support of the allocated  
17 costs to MPS for the base test year ended December 31, 2002. The following  
18 information is included as part of my testimony, which also represents several of the  
19 reports created as part of the agreement.

20 Schedule BRA-1 (MPS) - Statement of Allocated Charges  
21 for Balance Sheet Accounts

22 Schedule BRA-3 (MPS) - Statement of Allocated Charges  
23 for Income Statement Accounts

1 Schedule BRA-5 (MPS) - Statement of ESF Allocated

2 Charges by Department by Resource

3 Schedule BRA-7 (MPS) - Statement of IBU Allocated

4 Charges by Department by Resource

5 In addition, I have included schedules summarizing the basis of the “ESF/IBU

6 Allocations Adjustment,” Operations Adjustment CS-16.

7 Schedule BRA-9 - ESF Cost Allocations – Actuals Effective January 1, 2003. This  
8 schedule lists the source departments (“pool”), the target business units, the allocation  
9 driver, and the allocation percentages effective January 1, 2003.

10 Schedule BRA-10 - IBU Cost Allocations – Actuals Effective February 1, 2003. This  
11 schedule lists the source IBU departments (“pool”), the target business units, the  
12 allocation driver, and the allocation percentages effective February 1, 2003.

13 **JURISDICTIONAL AND UTILITY ALLOCATIONS**

14 Q. Have additional allocation factors been developed?

15 A. Yes. Since MPS are combination electric and gas utilities and since MPS’s  
16 electric operations encompass both retail and wholesale jurisdictions, it is proper to  
17 develop allocation factors to segregate the electric retail operations for this case. A  
18 discussion of the development of these factors for MPS is included in Schedule  
19 BRA-11 attached to my testimony.

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7 Q. Does this conclude your direct testimony?

8 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

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

Case No. ER-\_\_\_\_\_

County of Jackson )  
State of Missouri )

ss

AFFIDAVIT OF BEVERLEE R. AGUT

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

*Beverlee R Agut*  
\_\_\_\_\_  
Beverlee R. Agut

Subscribed and sworn to before me this 26th day of June, 2003.

*Terry D. Lutes*  
\_\_\_\_\_  
Notary Public  
Terry D. Lutes

My Commission expires:  
8-20-2004

