Exhibit No.:
Issues: Plant, Depreciation Reserve, Depreciation Expense, Materials and Supplies, Prepayments, Customer Deposits, Customer Advances, Property Taxes, Sale of Accounts Receivable and Amortization of Accounting Authority Orders
Witness: Phillip K. Williams
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case Nos.: EO-97-144 and EC-97-362

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PHILLIP K. WILLIAMS

MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED, INC.

CASE NOS. EO-97-144 AND EC-97-362

Jefferson City, Missouri
March 1997

DIRECT TESTIMONY

OF

PHILLIP K. WILLIAMS

MISSOURI PUBLIC SERVICE

A DIVISION OF UTILICORP UNITED, INC.

CASE NOS. EO-97-144 AND EC-97-362

Q. Please state your name and business address.

A. Phillip K. Williams, Noland Plaza Office Building, Suite 110, 3675 Noland Road, Independence, Missouri 64055.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your education and other qualifications.

A. I graduated from Central Missouri State University (CMSU) at Warrensburg, Missouri, in August 1976, with a Bachelor of Science degree in Business Administration, with a Functional Major in Accounting. Upon completion of my undergraduate degree, I entered the Masters Program at CMSU. I graduated from CMSU in February 1978, with a Master of Business Administration degree with emphasis in Accounting. I began my employment with the Commission on September 2, 1980. In May 1989, I passed the Uniform Certified Public Accountant (CPA) examination. I am currently licensed as a CPA in the State of Missouri. In May 1994, I passed the Certified Internal Auditors (CIA) examination, and received my CIA designation.

Q. What have been your duties while employed by this Commission?

A. I have assisted with audits and examinations of books and records of utility companies operating within the State of Missouri.

Q. Have your previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, attached to my direct testimony, for a list of cases in which I have previously filed testimony.

Q. With reference to Case Nos. EO-97-144 and EC-97-362, have you examined the books and records of Missouri Public Service (MPS or Company)?

A. Yes. With the assistance of other members of the Commission Staff (Staff), an investigation was made of the Company's operations.

Q. Please describe your areas of responsibility in this case.

A. My principal areas of responsibility are plant, depreciation reserve, depreciation expense, materials and supplies, prepayments, customer deposit, customer advances, property taxes, accounts receivable sales, and accounting authority orders.

I am sponsoring the following Accounting Schedules:

Accounting Schedule: 2	Rate Base
Accounting Schedule: 3	Total Plant in Service
Accounting Schedule: 4	Adjustments to Total Plant
Accounting Schedule: 5	Depreciation Expense
Accounting Schedule: 6	Depreciation Reserve

I am sponsoring the following Income Statement Adjustments:

Interest on Customer Deposits:	S-9.3
Accounts Receivable Sales:	S-8.3
Property Taxes:	S-14.3

In addition, I am sponsoring the following Plant Adjustment:

<u>Greenwood Conversion:</u> P-1

RATE BASE

Q. Please explain Accounting Schedule 2.

A. Accounting Schedule 2 is the calculation of Rate Base. The Rate Base Schedule includes plant-in-service (Schedule 3), less depreciation reserve (Schedule 6), additions to plant and subtractions from plant to arrive at total rate base which the shareholder should be permitted to earn a return on.

Q. What line items are you sponsoring on the Rate Base Schedule?

A. I am sponsoring plant in service and depreciation reserve. Both balances are calculated on accounting schedules that will addressed later in my testimony. I am also sponsoring the materials and supplies, prepayments, customer deposits and customer advances balances.

Q. How did you calculate the materials and supplies balance included on the Rate Base Schedule?

A. I calculated materials and supplies using a 13-month average for electric plant and common plant allocated to electric plant.

Q. How did you calculate the prepayments balance included on the Rate Base Schedule?

A. I calculated prepayments using a 13-month average balance allocated to electric plant.

Q. How did you calculate the customer deposit balance included on the Rate Base Schedule?

A. I calculated customer deposits using a 13-month average balance allocated to electric operations based on the number of electric customers as a percentage of total customers. I chose to use a 13-month average because the balance of customer deposits fluctuates and does not show a trend.

Q. Did you include interest on customer deposits in expense?

A. Yes. Adjustment No. S-9.3, was made to adjust test year expense to reflect an annualized level of interest on customer deposits at the tariffed rate of 9% per annum.

Q. How did you calculate the customer advance balance you included in rate base?

A. I calculated customer advances using a 13-month average balance allocated to electric operations based on the number of electric customers as a percentage of total customers. I chose to use a 13-month average because the balance of customer deposits fluctuates and does not show a trend.

<u>PLANT IN SERVICE</u>

Q. Please describe Accounting Schedule 3, Plant in Service.

A. Accounting Schedule 3, Plant in Service, lists the plant accounts in column A. Column B shows the Missouri jurisdictional balance of each plant account at June 30, 1996. Column C shows the amount of staff adjustments made to each account. Column D shows the adjusted jurisdictional balance for each account.

ADJUSTMENTS TO TOTAL PLANT

Q. Please describe Accounting Schedule 4.

A. Accounting Schedule 4, is a list of adjustments that Staff made to plant in service.

Q. Please describe Staff Adjustment P-1 to plant in service.

A. Staff Adjustment P-1 adjusts plant in service to include the cost of converting the Greenwood generating station from oil to natural gas.

DEPRECIATION EXPENSE

Q. Please describe Accounting Schedule 5.

A. Accounting Schedule 5, Depreciation Expense lists the plant accounts in column A. Column B shows the Missouri jurisdictional plant balance of each account as found on Schedule 3. Column C shows the Staff recommended depreciation rates applicable to each account. Column D is the annualized depreciation expense associated with jurisdictional plant.

Q. What depreciation rates is Staff using for purposes of this filing?

A. I am using proposed depreciation rates provided by Staff Witness Guy Gilbert.

DEPRECIATION RESERVE

Q. Please describe Accounting Schedule 6, Depreciation Reserve.

A. Accounting Schedule 6, Depreciation Reserve, lists the reserve accounts in column A. Column B shows the Missouri jurisdictional balance of each reserve account at

June 30, 1996. Column C shows the amount of staff adjustments made to each account. Column D shows the adjusted jurisdictional balance for each account.

ADJUSTMENTS TO DEPRECIATION RESERVE

Q. Please describe Accounting Schedule 7.

A. Accounting Schedule 7 is a list of adjustments that Staff made to depreciation reserve.

Q. Were any adjustments made to depreciation reserve?

A. No.

PROPERTY TAXES

Q. Please explain Adjustment No. S-14.3.

A. Adjustment S-14.3 was made to adjust test year expense to reflect Staff's annualization of property tax based on actual property taxes paid in 1996.

ACCOUNTS RECEIVABLE SALES

Q. Please explain Adjustment No. S-9.4.

A. Adjustment No. S-9.4 was made to include in test year expense costs associated with the sale of accounts receivables. UtiliCorp United, Inc. (UCU) has implemented a program whereby it sells Missouri Public Service division's accounts receivable. The sale of accounts receivables reduces the revenue lag associated with the cash working capital in rate base. Staff therefore has included the interest on financing costs that is incurred with the selling of these accounts receivables.

Q. What is an accounts receivable sales program?

A. An accounts receivable sales program is a way to enhance cash flow. It produces a one time influx of cash based on the amount of accounts receivables that is sold. The Accounts Receivable Sales program was implemented by UCU a number of years ago to increase immediate cash flow. UCU sold its accounts receivable balance on a certain date, less uncollectables. Basically, it is a loan backed by the company's accounts receivables.

ACCOUNTING AUTHORITY ORDERS

Q. Which accounting authority orders previously allowed by the Commission were included in the Staff's rate base?

A. The Commission granted accounting authority treatment (deferred accounting treatment) for the costs incurred in rebuilding the Sibley 3 generator and turbine and converting the Sibley units to burn Western coal in Case Nos. ER-90-101 and ER-93-37. The unamortized balances related to the accounting authority orders as of June 30, 1996, were included in the Staff's rate base.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the Earnings Review of UtiliCorp United Inc., d/b/a Missouri Public Service.	)))	Case No. EO-97-144
and		
The Staff of the Missouri Public Service Commission, Complainant, v. UtiliCorp United, Inc., d/b/a Missouri Public Service Respondent.	)))))))))	Case No. EC-97-362

AFFIDAVIT OF PHILLIP K. WILLIAMS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phillip K. Williams, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Direct 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.

Phillip K. Williams
PHILLIP K. WILLIAMS

Subscribed and sworn to before me this 27th day of March, 1997.

Roberta A. McKiddy
Notary Public

My Commission Expires: ROBERTA A. McKIDDY
Notary Public, State of Missouri
County of Cole
My Commission Expires 09/11/99

RATE CASE PROCEEDINGS PARTICIPATION

PHILLIP K. WILLIAMS

Kansas City Power & Light Company	ER-81-42
The Gas Service Company	GR-81-155
United Telephone Company	TR-81-302
Rich Hill-Hume Gas Company	GR-81-332
Missouri Public Service Company	ER-82-39
Missouri Public Service Company	WR-82-50
The Gas Service Company	GR-82-151
Missouri Public Service Company	GR-82-194
Missouri Water - Lexington Division	WR-82-279
Missouri Public Service Company	ER-83-40
The Gas Service Company	GR-83-225
Missouri Water Company - Independence Division	WR-83-352
Rich Hill-Hume Gas Company	GR-84-24
Kansas City Power & Light Company	ER-85-128
Kansas City Power & Light Company	EO-85-185
KPL Gas Service Company	GR-86-76
General Telephone Company of the Midwest	TC-87-57
Missouri Public Service	GR-88-194
U.S. Water/Lexington, Mo., Inc.	WR-88-255
KPL Gas Service	GR-90-50

UtiliCorp United Inc., Missouri Public Service	ER-90-101
KPL Gas Service	GR-91-291
Raytown Water Company, Inc.	WR-92-85
UtiliCorp United Inc., Missouri Public Service	ER-93-37
UtiliCorp United Inc., Missouri Public Service	GR-93-172
Western Resources, Inc.	GR-93-240
Raytown Water Company	WR-94-211