

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Accounting Authority Order/

SO₂ Inventory

Robertson/Direct

Public Counsel

ER-2007-0004

DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

**AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
AND AQUILA NETWORKS-L&P**

Case No. ER-2007-0004

January 18, 2007

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

In the Matter of the Tariff Filing of Aquila, Inc., to)
Implement a General Rate Increase for Retail)
Electric Service Provided to Customers in its)
Aquila Networks—MPS and Aquila Networks—)
L&P Missouri Service Areas.)

Case No. ER-2007-0004
Tariff No. YE-2007-0001

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 18th day of January 2007.



JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036



Jerene A. Buckman
Notary Public

My commission expires August 10, 2009.

TABLE OF CONTENTS

Testimony	Page
Introduction	1
MPS Accounting Authority Orders	3
SO ₂ Emission Allowance Inventory	13

CASE NO. ER-2007-0004

A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November, 1988, I passed the Uniform Certified Public Accountant ("CPA") Examination, and obtained CPA certification from the state of Missouri in 1989. My Missouri CPA license number is 2004012798.

1 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE EMPLOY
2 OF THE PUBLIC COUNSEL?

3 A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W.
4 Trippensee, I am responsible for performing audits and examinations of the books and
5 records of public utilities operating within the state of Missouri.

6
7 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC
8 UTILITY ACCOUNTING?

9 A. Yes. In addition to being employed by the Office of the Public Counsel since 1990, I
10 have attended the NARUC Annual Regulatory Studies Program at Michigan State
11 University, and I have also participated in numerous training seminars relating to this
12 specific area of accounting study.

13
14 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
15 SERVICE COMMISSION?

16 A. Yes, I have. Please refer to Schedule No. TJR-1, attached to this direct testimony, for a
17 listing of cases in which I have previously submitted testimony before the Missouri
18 Public Service Commission ("MPSC" or "Commission").

19
20 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

21 A. The purpose of this testimony is to express the Public Counsel's recommendations
22 regarding the ratemaking treatment of various costs associated with the electric
23 operations of Aquila Networks - MPS ("MPS") and Aquila Networks - L&P ("L&P" or

"SJLP"), both of which are operating divisions of Aquila Inc. ("Aquila" or "Company").

The issues I intend to address include, 1) MPS accounting authority orders ("AAO"), and
2) MPS and L&P SO₂ emission allowance inventory.

II. MPS ACCOUNTING AUTHORITY ORDERS

Q. WHAT IS THE ISSUE?

A. The issue concerns the level of AAO costs that should be included in the determination of MPS's rates. Public Counsel does not oppose recovery of an annual expense amortization equal to the AAO expense Company has booked to its financial records during the test year (with the exception of the Ice Storm AAO expense amortization discussed later in this testimony); however, we do oppose allowing Company to earn a return on the remaining unamortized AAO deferred cost balances via their inclusion in rate base. Furthermore, Public Counsel recommends that the AAO-related deferred income taxes should be utilized as an offset to rate base because the amounts represent a cost-free source of the funds provided by ratepayers to the Company.

Q. PLEASE IDENTIFY THE ACCOUNTING AUTHORITY ORDERS AND COSTS THAT PERTAIN TO THIS ISSUE.

A. Pursuant to Commission order, Company has booked costs associated with several accounting authority orders during the test year. Company was authorized to defer depreciation expenses, property taxes, and carrying costs associated with the capacity life extension and western coal conversion projects at its Sibley generating station ("SCLE/WC"). Approval to defer and recover those costs was made pursuant to the

Commission's Accounting Authority Orders in Case Nos. EO-90-114 and ER-90-101, and subsequent reauthorization was provided in Case Nos. EO-91-358 and ER-93-37. Company was also granted authority to defer and amortize costs incurred due to an ice storm in its Missouri Public Service area in January 2002. Approval to defer and recover those costs was made pursuant to the Commission's Order Granting Accounting Authority Order in Case No. EU-2002-1053.

Q. WHAT DOES THE TERM DEFERRED REPRESENT?

A. For purposes of this issue when a cost (expense/expenditure) has been deferred it is not recognized on the income statement as an expense in the current period. The costs are instead booked to a balance sheet account and ratably amortized to an income statement expense account over some period of time. For example, in the case of the Ice Storm AAO, the Commission Order stated:

A. Aquila is authorized to defer actual incremental operation and maintenance expenses incurred as a direct result of the January 2002 ice storm to Uniform System of Accounts Account 182.3.

And,

C. Aquila shall ratably amortize the amount deferred to Account 182.3 over a five-year period beginning February 1, 2002.

Q. OVER WHAT PERIOD OF TIME IS COMPANY AUTHORIZED TO AMORTIZE THE DEFERRED COSTS ASSOCIATED WITH THE SIBLEY GENERATING STATION CAPACITY LIFE EXTENSION AND WESTERN COAL CONVERSION PROJECTS?

1 A. It is my understanding that the Company is, pursuant to Commission authorization,
2 amortizing the Sibley and Western Coal Conversion deferred costs over twenty years.

3
4 Q. IS THE PUBLIC COUNSEL RECOMMENDING ANY ADJUSTMENT TO THE
5 COMPANY'S PROPOSED ANNUAL EXPENSE AMORTIZATION?

6 A. Not at this time; however, the expense amortization associated with the Ice Storm AAO
7 is due to be completely recovered on or about the 1st of February 2007 so any update for
8 known and measurable costs, or true-up, associated with this issue should recognize the
9 fact that the new rates determined in the current case should not include any cost
10 associated with that expense amortization.

11
12 Q. PLEASE IDENTIFY THE REMAINING BALANCES OF THE UNAMORTIZED
13 DEFERRED COSTS OF CASE NOS. EO-90-114 AND EO-91-358.

14 A. My calculations show that at the end of the Commission authorized test year, December 31,
15 2005, the remaining unamortized deferred cost balances for the 1990 and 1992 Sibley and
16 Western Coal AAOs (Missouri retail jurisdiction) were \$955,561 and \$1,093,486,
17 respectively. Updated for known and measurable changes through December 31, 2006, the
18 deferred cost balances were approximately \$761,977 and \$947,688, respectively.

19
20 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE
21 RATE BASE RATEMAKING TREATMENT FOR THE UNAMORTIZED
22 DEFERRED COSTS OF CASE NOS. EO-90-114 AND EO-91-358?

1 A. It is the Public Counsel's recommendation that remaining unamortized deferred costs
2 should not be included as an addition in the determination of the MPS rate base.

3
4 Q. WHAT IS THE REMAINING UNAMORTIZED DEFERRED COST BALANCE FOR
5 THE ICE STORM ACCOUNTING AUTHORITY ORDER OF CASE NO. EU-2002-
6 1053?

7 A. My calculations show that at the end of the Commission authorized test year, December 31,
8 2005, the remaining unamortized deferred cost balance for the Ice Storm AAO (Missouri
9 retail jurisdiction) was approximately \$1,786,734. Updated for known and measurable
10 changes through December 31, 2006, the balance is close to being completely amortized.
11 All that remains to be amortized is approximately \$137,441 and this amount, like the AAO's
12 associated expense amortization, is expected to be fully recovered on or about February 1,
13 2007.

14
15 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE
16 RATE BASE RATEMAKING TREATMENT FOR THE UNAMORTIZED
17 DEFERRED COSTS OF CASE NO. EU-2002-1053?

18 A. The unamortized deferred costs of this AAO should also be denied rate base treatment.
19 In this case, the Commission's Order Granting Accounting Authority Order, page 5,
20 specifically denied the deferral of any costs of or related to expenditures relating to plant-
21 in-service (i.e., capital costs). Therefore, in addition to the reasons I will expand on in
22 the following testimony as to why the unamortized deferred cost balances for all the
23 AAOs should be denied rate base treatment, there were, indisputably, no capital costs

1 deferred pursuant to this AAO; thus it would be quite inappropriate to include the
2 unamortized deferred cost balance in the determination of the Company's investment
3 calculation (i.e., rate base).
4

5 Q. WHY DOES THE PUBLIC COUNSEL BELIEVE THAT THE UNAMORTIZED
6 ACCOUNTING AUTHORITY ORDER DEFERRED COST BALANCES SHOULD NOT
7 BE ALLOWED IN THE DETERMINATION OF THE MPS RATE BASE?

8 A. The Public Counsel's position on this issue is based on our belief that MPS is being given
9 what essentially amounts to a guaranteed "return of" the deferrals associated with the
10 SCLE/WC projects and ice storm; therefore, it should not be also provided with a "return
11 on" those same amounts.
12

13 Q. PLEASE EXPLAIN THE TERMS "RETURN OF" AND "RETURN ON."

14 A. If an expenditure is recorded on the income statement as an expense it is compared dollar
15 for dollar to revenues. This comparison is referred to as a "return of" because a dollar of
16 expense is matched by a dollar of revenue. A "return on" occurs when an expenditure is
17 capitalized with the balance sheet and then included in the calculation of rate base. This
18 calculation is a preliminary step in determining the earnings a company achieves on its
19 total regulatory investment.
20

21 Q. WHAT IS THE EFFECT OF THE COMPANY'S ACCOUNTING AUTHORITY
22 ORDERS?

1 A. The Commission's authorization of AAO treatment insulates MPS shareholders from the
2 risks associated with regulatory lag that occurred when the SCLE/WC construction projects
3 and ice storm cost were completed, and placed in service, before the operation of law date of
4 a general rate increase case.

5
6 Q. PLEASE EXPLAIN THE CONCEPT OF REGULATORY LAG.

7 A. This concept is based on a difference in the timing of a decision by management and the
8 Commission's recognition of that decision and its effect on the rate base rate of return
9 relationship in the determination of a utility's revenue requirement. Management decisions
10 that reduce or increase the cost of service without a matching change in revenues result in a
11 change in the rate base rate of return relationship. This change either increases or decreases
12 the profitability of the utility in the short-run until such time as the Commission
13 reestablishes rates to properly match revenues with the new level of service cost.
14 Companies are allowed to retain cost savings (i.e., excess profits during the lag period
15 between rate cases) and are required to absorb cost increases. When faced with escalating
16 costs regulatory lag places pressure on management to minimize the change in the
17 relationship because it cannot be recognized in a rate increase until the Commission
18 approves such in a general rate proceeding.

19
20 Q. HAS THIS COMMISSION RULED THAT IT IS NOT REASONABLE TO PROVIDE
21 SUCH PROTECTION TO SHAREHOLDERS?

22 A. Yes, it has. In Missouri Public Service Co., Case Nos. EO-91-358 & EO-91-360, the
23 Commission stated:

Lessening the effect of regulatory lag by deferring costs is beneficial to a company but not particularly beneficial to ratepayers. Companies do not propose to defer profits to subsequent rate cases to lessen the effects of regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part of the regulatory process and can be a benefit as well as a detriment. Lessening regulatory lag by deferring costs is not a reasonable goal unless the costs are associated with an extraordinary event.

Maintaining the financial integrity of a utility is also a reasonable goal. The deferral of costs to maintain current financial integrity, though, is of questionable benefit. If a utility's financial integrity is threatened by high costs so that its ability to provide service is threatened, then it should seek interim rate relief. If maintaining financial integrity means sustaining a specific return on equity, this is not the purpose of regulation. It is not reasonable to defer costs to insulate shareholders from any risks. 1 Mo. P.S.C. 3d 200, 207 (1991).

Q. DID THE COMMISSION MAKE A DETERMINATION THAT THE COMPANY'S ACCOUNTING AUTHORITY ORDERS WERE RELATED TO EXTRAORDINARY EVENTS?

A. Yes. The Commission, however, has more recently refined how an extraordinary event is identified when it stated on page thirteen of its Report and Order in St. Louis County Water Company, Case No. WR-96-263:

As both the OPC and the Staff point out, the Commission has to date, granted AAO accounting treatment exclusively for one-time outlays or capital caused by unpredictable events, acts of government, and other matters outside the control of the utility or the Commission. It is also pointed out that the terms "infrequent, unusual and extraordinary" connote occurrences which are unpredictable in nature.

(Emphasis added by OPC)

1 Q. HAS THE COMMISSION DENIED THE INCLUSION IN RATE BASE OF
2 UNAMORTIZED DEFERRED BALANCES ASSOCIATED WITH AN ACCOUNTING
3 AUTHORITY ORDER?

4 A. Yes, it has. In Missouri Gas Energy, Case No. GR-98-140, the Commission ordered that the
5 unamortized deferred balances associated with the Company's gas safety line replacement
6 program would not be included in the determination of the Company's rate base. On page
7 nineteen of the Order in Case No. GR-98-140, it states:

8
9 The Commission finds that the unamortized balance of SLRP deferrals
10 should not be included in the rate base for MGE. The AAOs issued by the
11 Commission authorize the Company to book and defer the amount requested
12 but do not approve any ratemaking treatment of amounts from the deferred
13 and booked balances. AAOs are not intended to eliminate regulatory lag but
14 are intended to mitigate the cost incurred by the Company because of
15 regulatory lag.
16
17

18 Continuing on page twenty, it states:

19
20 All of the parties agree that it is the purpose of the AAO to lessen the effect
21 of the regulatory lag, not to eliminate it nor to protect the Company
22 completely from risk. Without the inclusion of the unamortized balance of
23 the AAO account included in the rate base, MGE will still recover the
24 amounts booked and deferred, including the cost of carrying these SLRP
25 deferral costs, property taxes and depreciation expenses through the true-up
26 period ending May 31, 1998. The Commission finds that OPC's position on
27 this issue is just and reasonable and is supported by competent and
28 substantial evidence in the record.
29
30

1 Q. SUBSEQUENT TO THE COMMISSION'S DECISION IN CASE NO. GR-98-140 HAS
2 THE COMMISSION TREATED THIS ACCOUNTING AUTHORITY ORDER RATE
3 BASE ISSUE CONSISTENTLY?

4 A. Yes, it is my understanding that it has.
5

6 Q. PLEASE CONTINUE.

7 A. The purpose of the accounting variance is to protect MPS from adverse financial impact,
8 caused by regulatory lag, by providing it with a vehicle that allows it the opportunity to
9 capture and recover costs it normally would not have had the opportunity to recover. The
10 accounting variance should not be used to place the Company in a better position than it
11 would have been in had plant investment and rate synchronization been achieved. Just as it
12 would be unfair to deny MPS recovery of its reasonable and prudent investment due to
13 regulatory delays which the Company could not control, it would be unfair if MPS were
14 allowed to reap a windfall, at ratepayer expense, due to a regulatory delay that ratepayers
15 could not control. Public Counsel's position is that issues caused by regulatory lag must be
16 treated in a fair manner for both ratepayers and MPS.
17

18 Q. DOES PUBLIC COUNSEL RECOMMEND NO RATE BASE TREATMENT FOR ALL
19 COSTS ASSOCIATED WITH THE ACCOUNTING AUTHORITY ORDERS?

20 A. No. Public Counsel's recommendation is that the unamortized AAO deferred cost balances
21 should not be included as an addition to Company's rate base; however, the deferred income
22 tax balances associated with the AAOs should be included as a reduction to rate base
23 because they are a cost-free source of capital to the Company created by the interaction of

1 the actual expensing of the deferred costs on the income statement for income tax versus
2 regulatory purposes.

3
4 Q. HAS THE PUBLIC COUNSEL DETERMINED AN APPROPRIATE AMOUNT OF
5 DEFERRED INCOME TAXES TO INCLUDE IN RATE BASE?

6 A. Yes. I calculated the OPC recommended deferred income tax to include in rate base by first
7 multiplying the total electric unamortized AAO deferred cost balances by a combined
8 federal and state tax rate. The result of that calculation was then adjusted to Missouri retail
9 jurisdictional amounts by applying factors provided by Company in its rate case filing
10 workpaper RB-40. According to my calculations, the Missouri retail jurisdictional income
11 tax balance as of December 31, 2005 totals approximately \$1,472,555 (i.e., \$366,840,
12 \$419,789 and \$685,927 for the 1990, 1992 and Ice Storm AAOs, respectively). Updated for
13 known and measurable changes through December 31, 2006, the balance approximates
14 \$709,104 (i.e., \$292,523, \$363,817 and \$52,764 for the 1990, 1992 and Ice Storm AAOs,
15 respectively).

16
17 Q. IS IT THE PUBLIC COUNSEL'S RECOMMENDATION THAT THE AAO DEFERRED
18 INCOME TAXES BE INCLUDED AS AN OFFSET TO THE MPS RATE BASE?

19 A. Yes. The AAO deferred income tax that has not been fully recovered (the Ice Storm
20 AAO is expected to be fully amortized on or about February 1, 2007) should be included
21 as an offset to the MPS rate base since the amounts represent a ratepayer provided cost-
22 free source of capital to the Company.

1 **III. SO₂ EMISSION ALLOWANCE INVENTORY**

2 Q. WHAT IS THE ISSUE?

3 A. The issue concerns the determination of a reasonable and appropriate amount of SO₂
4 emission allowance investment (i.e., inventory) to include in the MPS and L&P rate
5 bases.

6
7 Q. HAS THE PUBLIC COUNSEL DETERMINED WHAT IT BELIEVES ARE
8 REASONABLE AND APPROPRIATE SO₂ EMISSION ALLOWANCE INVENTORY
9 COSTS TO INCLUDE IN RATE BASE FOR BOTH MPS AND L&P?

10 A. Yes.

11
12 Q. ARE THE INVENTORY COSTS PROPOSED BY OPC BASED ON AN ACTUAL
13 ANNUAL LEVEL OF SO₂ EMISSION ALLOWANCES REQUIRED RATHER THAN
14 THE RECORDED BOOK COSTS?

15 A. Yes.

16
17 Q. PLEASE EXPLAIN THE PUBLIC COUNSEL'S PROPOSED SO₂ EMISSION
18 ALLOWANCE INVENTORY.

19 A. The Company has recently instituted a policy where it will maintain, and book costs, for
20 an inventory of SO₂ emission allowances that approximate one to three years of actual
21 need, and it is my understanding that current booked costs exceed one year of actual
22 need. Whereas, Public Counsel believes that the costs associated with the carrying of
23 SO₂ emission allowance inventory that exceeds one year of actual need overburdens

1 ratepayers unnecessarily. Therefore, I have developed (and recommend that the amounts
2 I have calculated be included in the respective rate bases of MPS and L&P) what I
3 believe represents the approximate level, and associated costs, of SO₂ emission allowance
4 investment that Company has already purchased, and booked, in order to meet is actual
5 level of annual SO₂ emission allowance need going forward for one year.

6
7 Q. PLEASE IDENTIFY THE COST OF THE MPS AND L&P SO₂ EMISSION
8 ALLOWANCE INVENTORY PUBLIC COUNSEL RECOMMENDS BE INCLUDED
9 IN THE DETERMINATION OF THEIR RESPECTIVE RATE BASES.

10 A. The OPC recommended jurisdictional cost of SO₂ emission allowance inventory to
11 include in the MPS and L&P rate base is \$4,061,012 and \$1,863,204, respectively. As I
12 stated in the prior Q&A, Public Counsel believes that the inventory costs it recommends
13 represent approximately one year of SO₂ emissions allowances which Company has
14 purchased in order to meet its actual SO₂ emission allowance needs on a going forward
15 basis.

16
17 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

18 A. Yes, it does.

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004