

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Accounting Authority Order/

Deferred Balances

Robertson/Rebuttal

Public Counsel

ER-2001-672

## **REBUTTAL TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**UTILICORP UNITED, INC.**

**Case No. ER-2001-672**

January 8, 2002

**FILED<sup>3</sup>**

**JAN 08 2002**

**Missouri Public  
Service Commission**

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

In the Matter of the tariff filing of Missouri )  
Public Service ("MPS") a division of )  
UtiliCorp United Inc., ("UtiliCorp") to )  
implement a general rate increase for )  
retail electric service provided to customers )  
in the Missouri service area of MPS )

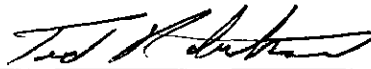
Case No. ER-2001-672

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI     )  
                                      )   ss  
COUNTY OF COLE     )

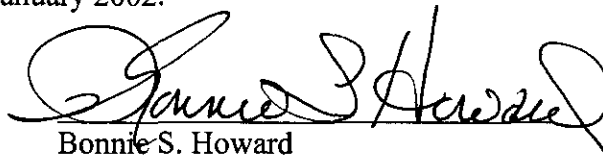
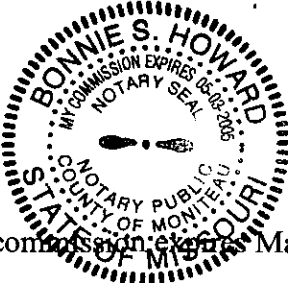
Ted Robertson, of lawful age and being first duly sworn, deposes and states:

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 consisting of pages 1 through 16.
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 8<sup>th</sup> day of January 2002.



Bonnie S. Howard  
Notary Public

My commission expires May 3, 2005.

1                                   **REBUTTAL TESTIMONY**

2   **OF**

3   **TED ROBERTSON**

4                                   **UTILICORP UNITED INC.**

5                                   **CASE NO. ER-2001-672**

6  
7   **INTRODUCTION**

8  
9       Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

10     A.     Ted Robertson, PO Box 7800, Jefferson City, Missouri 65102.

11  
12     Q.     ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY TESTIFIED  
13             IN THIS CASE?

14     A.     Yes, I am.

15  
16     Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

17     A.     The purpose of this testimony is to rebut the Direct Testimony positions of UtiliCorp  
18             United Inc. ("Company" or "MPS") and the Missouri Public Service Commission Staff  
19             ("MPSC Staff" or "Staff") with regard to their inclusion in rate base the unamortized  
20             deferred balances associated with the two MPS Accounting Authority Orders ("AAO").  
21  
22

AAO DEFERRED BALANCES

Q. HAS THE COMMISSION CHANGED ITS APPROACH REGARDING RATE BASE  
TREATMENT OF UNAMORTIZED AAO DEFERRED BALANCES SINCE  
UTILICORP UNITED INC'S LAST RATE CASE?

A. Yes. In its recent decisions on this issue, the Commission has not allowed rate base  
treatment of AAO deferred balances associated with regulatory lag. This modified  
approach to the treatment of accounting authority order deferrals has been adopted since the  
latest rate change for this Company.

Although the Company is certainly aware of the Commission's more recent decisions on  
this issue, it has every right to attempt to influence the Commission's position on any issue  
at any given time. Public Counsel does not dispute the Company's right to ask the  
Commission to reverse its position on this matter; however, for the reasons I discussed in  
my Direct Testimony, the most recent Commission approach is the most balanced.  
Recognition of costs that arise due to the implementation of an abnormal regulatory  
accounting process (the accounting authority order) dictate that fair and reasonable  
treatment of the public (ratepayers) must also be recognized and enforced.

1 If ratepayers are required to provide the Company reimbursement for regulatory lag costs  
2 (costs which under normal ratemaking circumstances they would not be expected to bear), it  
3 is important that shareholders also be held to the same standard of responsibility. In the  
4 normal process of regulatory ratemaking, shareholders do not share excess revenues earned  
5 with ratepayers. In fact, to my knowledge, except for few recent experimental regulatory  
6 ratemaking incentive plans, no sharing of excess earnings with ratepayers has ever occurred  
7 in the state of Missouri. The only fair method of allocating any AAO authorized regulatory  
8 lag costs is to provide the Company with a "return of" its actual (reasonable and prudent)  
9 deferred costs, but not to allow Company to earn an extra "return on" those same costs.  
10 This is particularly important since it is the management of the Company (the shareholder's  
11 representative) that in fact has the greatest control over all the operations of the enterprise.  
12 Operations which include construction projects and the timing of the lag period associated  
13 with the placement of the plant in-service.

14  
15 Q. HAS THIS COMMISSION DETERMINED THAT ACCOUNTING AUTHORITY  
16 ORDERS ARE NOT INTENDED TO COMPLETELY EMLIMINATE THE EFFECTS  
17 OF REGULATORY LAG ON A UTILITY?

18 A. Yes. As I discussed in my Direct Testimony, the Commission ordered (pages nineteen and  
19 twenty of the Order in Missouri Gas Energy Case No. GR-98-140) that AAOs are not

1 intended to eliminate regulatory lag, but are intended to mitigate the cost incurred by the  
2 Company because of regulatory lag. The purpose is to lessen the effect of the regulatory lag  
3 but not to protect the Company completely from all risk.  
4

5 Q. DID THE COMMISSION STAFF ALSO INCLUDE THE UNAMORTIZED AAO  
6 DEFERRED BALANCES IN THE DETERMINATION OF THE COMPANY'S RATE  
7 BASE?

8 A. Yes, it did. Staff's position, just like the Company's, would include the AAO deferred  
9 depreciation expenses, property taxes, and carrying costs associated with the capacity life  
10 extension and western coal conversion projects of the Sibley generating station as a rate  
11 base item upon which UtiliCorp United Inc., is allowed to earn an additional return. It  
12 would also allow the Company to receive reimbursement of the deferred costs via a cost of  
13 service amortization.  
14

15 Q. IS THE STAFF RECOMMENDATION ALLOWING RATE BASE TREATMENT FOR  
16 THE UNAMORTIZED AAO DEFERRED BALANCES INCONSISTENT WITH ITS  
17 POSITION IN OTHER RECENT CASES?

1 A. Yes. The MPSC Staff's inconsistency on this issue surprises me. Staff's position in this  
2 case is 180 degrees from the position it has filed in several recent cases before this  
3 Commission.

4  
5 Q. IS THE STAFF'S POSITION ON THIS ISSUE AT ODDS WITH THE COMMISSION'S  
6 ORDER IN THE MISSOUR GAS ENERGY CASE YOU MENTIONED EARLIER?

7 A. Yes. Staff, in this instance, has not followed the decision as ordered by the Commission in  
8 the MGE case. Apparently, Staff has based its position on the Orders which originally  
9 initiated the authorization of the MPS AAOs. The Commission's reasoning on the rate base  
10 treatment of AAO deferred balances has been superceded by more recent decisions of the  
11 Commission.

12  
13 Q. DID THE STAFF PROVIDE AN EXPLANATION FOR ITS INCONSISTENT  
14 POSITION ON THIS ISSUE?

15 A. Staff's position is stated in a way that is confusing at best. On page thirty-nine of the  
16 Direct Testimony of MPSC Staff witness, Mr. Phillip K. Williams, he states:

17  
18 Q. Please describe the unamortized AAO balance included in rate base.

19  
20 A. The unamortized AAO balance at June 30, 2001 was included in rate  
21 base. This was done to include in the cost of service **the**  
22 **amortization** of the unamortized amounts of the AAO deferrals  
23 authorized by the Commission in Case Nos. ER-90-101 and ER-93-

1 37. These AAO deferrals were associated with the Sibley rebuild  
2 project and conversion to generate power from western coal.  
3

4 (Emphasis added by OPC)  
5  
6

7 Mr. William's testimony is technically incorrect and thus would be considered confusing  
8 to the uninitiated. The unamortized AAO balances were not included in rate base (i.e.,  
9 return on) in order to include the **amortization** (i.e., return of) of the unamortized amount  
10 in the cost of service. The rate base treatment of the unamortized balances and the annual  
11 amortization of the unamortized deferred balances are two separate issues.  
12

13 Staff has included the unamortized AAO deferred balances in rate base in order to allow the  
14 Company to earn a return on the deferred balances in the development of its revenue  
15 requirement. However, the annual amortization of the unamortized balances is an actual  
16 accounting entry whereby the deferred balances are reduced each year by an amount  
17 assigned to expense (the income statement). The annual expense amortization is equal to  
18 the original amount of deferred costs divided by the amortization period ordered by the  
19 Commission (in this case twenty years).  
20



1 Q. PLEASE IDENTIFY AND BRIEFLY DESCRIBE THE RECENT CASES IN WHICH  
2 THE MPSC STAFF HAS RECOMMENDED THAT UNAMORTIZED AAO  
3 DEFERRED BALANCES BE EXCLUDED FROM RATE BASE.

4 A. In Laclede Gas Company, Case No. GR-99-315, the Company requested rate base  
5 treatment for unamortized deferred balances associated with an AAO on its gas pipeline  
6 safety program (just as MGE did in Case No. GR-98-140). The MPSC Staff, in its Direct  
7 Testimony, opposed the Company's request for rate base treatment of the deferred balances.  
8 On page nine of the Direct Testimony of Staff witness, Mr. Stephen M. Rackers, he stated:  
9

10 Q. How is the Staff proposing to treat the costs deferred according to  
11 the AAOs previously approved?  
12

13 A. The Staff is proposing the treatment recently prescribed by the  
14 Commission in its Order in Case No. GR-98-140 involving Missouri  
15 Gas Energy's safety deferrals.  
16  
17

18 Q. DID THE PUBLIC COUNSEL ALSO FILE TESTIMONY OPPOSING RATE BASE  
19 TREATMENT OF THE AAO DEFERRED BALANCES IN THE LACLEDE CASE?

20 A. Yes. On page twenty of my Direct Testimony in Laclede Gas Company, Case No. GR-99-  
21 315, I stated:  
22

1 Q. YOU STATED EARLIER THAT THE COMPANY HAS  
2 INCLUDED THE SRP DEFERRED BALANCE IN RATE BASE,  
3 IS THAT AN APPROPRIATE ADJUSTMENT?  
4

5 A. No, it is not. The Public Counsel recommends that the SRP deferred  
6 balance not be included in the Company's rate base. The rationale  
7 for this position is based on the view that the Company is being  
8 given a guaranteed "return of" the deferrals associated with the  
9 Safety Replacement Program; therefore, it should not be also  
10 provided with a guaranteed "return on" those same amounts.  
11  
12

13 Q. HOW DID THE COMMISSION DECIDE THE ISSUE?

14 A. The Commission's Order in Laclede Gas Company, Case No. GR-99-315, approved a  
15 Partial Stipulation And Agreement entered into by the parties that provided no rate base  
16 treatment of the Company's AAO deferred balances. On page five of the *First Amended*  
17 *Partial Stipulation and Agreement* it states:  
18

19 The parties agree that they will not propose, in any manner, exclusion of  
20 such amortized amounts in Laclede's cost of service for ratemaking  
21 purposes during the aforementioned periods required to amortize such  
22 balances. The parties further agree that they will not propose to include such  
23 balances in the Company's rate base.  
24

25 (Emphasis added by OPC)  
26  
27  
28  
29

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1 Q. PLEASE CONTINUE.

2 A. In St. Louis County Water Company, Case No. WR-2000-844, the Company requested rate  
3 base treatment for unamortized deferred balances associated with an AAO on infrastructure  
4 replacement deferrals. The Staff, in its Direct Testimony, opposed the Company's request  
5 for rate base treatment of the deferred balances. On page ten of the Direct Testimony of  
6 Staff witness, Mr. Stephen M. Rackers, he recommended the following:

7  
8 ...no inclusion of the unamortized balance in rate base.  
9  
10

11 Q. DID THE PUBLIC COUNSEL ALSO FILE TESTIMONY OPPOSING RATE BASE  
12 TREATMENT OF THE AAO DEFERRED BALANCES IN THE ST. LOUIS COUNTY  
13 WATER COMPANY CASE?

14 A. Yes. On page ten, lines thirteen and fourteen, of the Direct Testimony of Public Counsel  
15 witness, Mr. Russell W. Trippensee, he stated:

16  
17 Public Counsel believes the Commission should not include any deferred  
18 amounts in rate base...  
19  
20  
21  
22

1 Q. HOW DID THE COMMISSION DECIDE THE ISSUE?

2 A. On page twenty-four of the Commission's Report And Order in St. Louis County Water  
3 Company, Case No. WR-2000-844, it ordered that it:

4  
5 ...will not allow a return on the unamortized balance.  
6  
7

8 Q. PLEASE CONTINUE.

9 A. In Missouri Gas Energy, Case No. GR-2001-292, the Company requested rate base  
10 treatment for unamortized deferred balances associated with an AAO on its gas pipeline  
11 safety program and an AAO for Y2K costs. The Staff, in its Direct Testimony, opposed the  
12 Company's request for rate base treatment of the deferred balances. On page six of the  
13 Direct Testimony of Staff witness, Mr. Mark L. Oligschlaeger, he stated:

14  
15 Q. Has the Staff included the unamortized balances of the SLRP  
16 deferrals in rate base?  
17

18 A. No. Again, this treatment is consistent with the Commission's  
19 Report And Order in Case No. GR-98-140.  
20  
21

22 Also, on page nine of his Direct Testimony, he stated:  
23

1  
2 Q. Is the Staff proposing to include the unamortized balance of the Y2K  
3 deferral in rate base?  
4

5 A. No.  
6  
7

8 Q. DID THE PUBLIC COUNSEL ALSO FILE TESTIMONY OPPOSING RATE BASE  
9 TREATMENT OF THE AAO DEFERRED BALANCES IN THE MISSOURI GAS  
10 ENERGY COMPANY CASE?

11 A. Yes. Beginning on page three, line seventeen, of my Direct Testimony in Missouri Gas  
12 Energy, Case No. GR-2001-292, I stated:  
13

14 A. Public Counsel has calculated the unamortized SLRP deferral and  
15 annual amortization pursuant to the terms ordered by the  
16 Commission in the related cases. In MGE's last general rate  
17 increase case, Case No. GR-98-140, the Commission ordered that  
18 guaranteeing the Company a "return of" and "return on" the  
19 unamortized SLRP deferral is not a fair allocation of regulatory lag  
20 resulting from the on-going construction project. In order to comply  
21 with that Commission decision, the Public Counsel has not adjusted  
22 the Company's rate base so that it can earn a "return on " the current  
23 unamortized SLRP deferral.  
24

25 Public Counsel believes that the Commission's Order in Case No.  
26 GR-98-140 regarding this issue was a fair and equitable allocation of  
27 the risk and costs associated with the SLRP project. While we  
28 continue to believe that an amortization period of 20 years or longer  
29 is more appropriate, we are firmly committed to and in agreement  
30 with the Commission's decision to disallow any addition to rate base  
31 of the unamortized SLRP deferral. This view is based on the fact the

1 OPC believes management is responsible for planning and operation  
2 the activities of the Company. If management is unable to do or  
3 chooses not to implement processes and procedures which would  
4 limit the effect of regulatory lag on its finances, the Company should  
5 not be protected by the Commission with an effective guarantee of  
6 earnings. Therefore, in order that ratepayers and shareholders both  
7 share in the effect of regulatory lag, the Public Counsel is  
8 recommending that Company be allowed to earn a "return of" the  
9 SLRP deferred balance but not a "return on" the SLRP balance.  
10  
11

12 Q. HOW DID THE COMMISSION DECIDE THE ISSUE?

13 A. The Commission's Order in Missouri Gas Energy, Case No. GR-2001-292, approved a  
14 Stipulation And Agreement entered into by the parties that, except for a few items, was  
15 based on a total dollar amount settlement. Thus, the Commission did not have to rule on  
16 this issue individually.  
17

18 Q. PLEASE CONTINUE.

19 A. In Laclede Gas Company, Case No. GR-2001-629, the Company requested rate base  
20 treatment for unamortized deferred balances associated with an AAO on its safety main  
21 replacement program. The Staff, in its Direct Testimony, opposed the Company's request  
22 for rate base treatment of the deferred balances. On page eight of the Direct Testimony of  
23 Staff witness, Mr. Doyle L. Gibbs, his proposal stated:  
24

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1 ...no rate base inclusion of the unamortized balance and a rate base offset for  
2 the related deferred income taxes.  
3  
4

5 Q. DID THE PUBLIC COUNSEL ALSO FILE TESTIMONY OPPOSING RATE BASE  
6 TREATMENT OF THE AAO DEFERRED BALANCES IN THE LACLEDE CASE?

7 A. Yes. Beginning on page nine, line seventeen, of the Direct Testimony of Public Counsel  
8 witness, Ms. Kimberly K. Bolin, Laclede Gas Company, Case No. GR-2001-629, she  
9 stated:  
10

11 Q. YOU STATED EARLIER THAT THE COMPANY HAS  
12 INCLUDED THE SRP DEFERRED BALANCE IN RATE BASE,  
13 IS THAT AN APPROPRIATE ADJUSTMENT?  
14

15 A. No. The Public Counsel recommends that the SRP deferred balance  
16 not be included in the Company's rate base. The rationale for this  
17 position is that the Company is being given an effective guaranteed  
18 "return of" the deferrals associated with the Safety Replacement  
19 Program; therefore, it should not be also provided with a guaranteed  
20 return on those same amounts.  
21  
22

23 Q. HOW DID THE COMMISSION DECIDE THE ISSUE?

24 A. The Commission's Order in Laclede Gas Company, Case No. GR-2001-629, approved a  
25 Unanimous Stipulation And Agreement entered into by the parties that provided no rate  
26 base treatment of the Company's AAO deferred balances but did allow for a return of the

1 deferred balances. Beginning on page ten of the *Unanimous Stipulation And Agreement* it  
2 states:

3  
4 The parties also agree that a regulatory asset equal to the balances deferred  
5 pursuant to the Safety Replacement Program accounting authorization  
6 granted in Paragraph 5 of the Stipulation and Agreement in Case No. GR-  
7 99-315 through July 31, 2001 shall be established with a balance of  
8 \$2,755,688. One tenth of this balance has been included in the cost of  
9 service recognized in this proceeding and on tenth of such balance shall  
10 continue to be amortized annually in cost of service for ratemaking  
11 consideration for the next subsequent nine years.  
12  
13

14 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

15 A. Public Counsel recommends that the Commission not approve rate base treatment of the  
16 Company's unamortized AAO deferred balances. We continue to believe that the  
17 Commission is correct in its more recent assessment that AAOs should not be used to  
18 insulate utilities from all risk associated with regulatory lag.  
19

20 Public Counsel is also concerned that at least a portion of the MPSC Staff continues to  
21 reject the Commission's most recent position regarding the sharing of AAO regulatory  
22 lag costs between shareholders and ratepayers. This may be occurring because the Staff  
23 is relying on outdated Commission orders to reach positions regarding the ratemaking  
24 treatment of the AAO deferred costs; however, Mr. Williams does not explain his reasons



1 for taking a position that is inconsistent with the MPSC Staff's position in other recent  
2 cases.

3  
4 The MPSC Staff's position fails to consider that the AAO deferred balances arise from  
5 the adoption of an abnormal regulatory accounting process. Recent Missouri  
6 Commission decisions have recognized this fact and understood that the management of  
7 the utilities exercise a great deal of control over the construction projects that their  
8 companies undertake. Management has great control over the timing of the construction  
9 of plant in-service and complete discretion over the filing of general rate increase requests  
10 to recover the costs associated with new plant.

11  
12 Public Counsel agrees with the Commission that fairness dictates that ratepayers should  
13 not bear the entire burden of the costs occurring during the regulatory lag period prior to  
14 the cost of the new plant being built into rates. Public Counsel's position is consistent  
15 with recent Commission orders. In addition, when weighed against the fact that utilities  
16 are not required to return excess earnings incurred during a regulatory lag period to  
17 ratepayers it is clear that fairness dictates the result Public Counsel advocates in this case.

18 The ratemaking treatment proposed by the MPSC Staff and by the Company on this

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1 issue ignores those facts and seeks instead to toss the entire AAO regulatory lag burden  
2 onto the backs of ratepayers.

3  
4 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A. Yes, it does.