

Public Hearing



My name is Terry McClatchey. I'm here to represent Ag Processing Inc a cooperative, as the Marketing Manager of the St. Joseph facility.

I would like to thank the Missouri Public Service Commission for allowing AGP to express our concerns relating to the recently filed St. Joseph Light & Power steam and electric rate increase [Docket HR-2005-0450 - Steam Rate Increase and Docket ER-2005-0436 - Electric Rate Increase] plus the cost of service study known as:

Docket EO-2002-384 Cost of Service Study

AGP has soybean processing and soybean oil refineries located Minnesota, Iowa, Nebraska, and in St. Joseph, Missouri. AGP is cooperative owned by various local and regional coops that are, in turn, owned by farmers, including farmers in Missouri. We operate in a very competitive industry within local, national, and international markets. Trade prices for feed stock (soybeans) and finished products (soybean meal and soybean crude oil) are set by the Chicago Board of Trade.

Because we are in the commodity business, we do not have the opportunity to pass on higher steam and electric costs to our customers. We have three options: reduce the patronage or dividend paid to farmer members; find alternate means to further reduce already minimized operating costs; or shift production to other AGP owned facilities.

AGP employs 162 at the St. Joseph facility with an annual payroll of over \$9.8 million including wages and benefits. We pay property taxes to the City, County, and State of Missouri totaling \$600,000 in addition to several thousand dollars in transit fees, use tax and sales taxes. AGP, being located in St. Joseph, hires local contractors and uses local merchants for supplies and services. We also provide other St. Joseph industries with finished products. AGP is considered a good corporate citizen and is involved in the community.

I would like to address four areas of concern:

First Concern - Utility Accountability - Everyone in this room is accountable for their actions and decisions. On a personal level accountability is required when using credit cards, paying home mortgage loans, supporting a family, and being productive at our job. Companies are

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accountable to their owners to have sound business ethics and be profitable. Politicians are accountable to the voters. Utilities must also be held accountable for their business decisions.

If a utility company buys high cost electric or steam generation fuel, the utility can ask rate payers to pay the higher cost in rates. If a utility signs a contract and the contracting party does not deliver, the utility can ask the rate payer to pay for the undelivered service. If the utility gives their management large salary bonuses, the utility can ask rate payers to pay. These sorts of requests must be denied! The only way utilities are going to be held accountable is to stop every request to pass unreasonable costs onto rate payers, and to ensure accountability for managers' actions accrue instead to the owners of the utility. As a result, the owners would be encouraged to demand sound management practices which in turn will benefit the rate payers and the state of Missouri.

Earlier, I mentioned fuel for electric generation. AGP buys coal and natural gas for our plants, and we work hard to manage these costs because it impacts our profits. Utilities do not have that same incentive because they are allowed to pass on the results of poor buying decisions and mistakes to the rate payers. We do not have a specific recommendation to address this concern, but ask that the Commission do everything within its powers to protect rate payers.

Example: Aquila signs a coal contract with C.W. Mining. C.W. Mining did not deliver as agreed, and Aquila later went to the open market to replace the undelivered coal at a higher price. Aquila now wants the rate payers to pay the higher coal cost associated with the cancelled contract. We're told that it may be as much as \$373,000, even though it has sued C.W. Mining to recover the extra cost. We can see no reason for ratepayers to pay. Aquila and C.W. Mining are engaged in a lawsuit to determine who is at fault. This is a utility/supplier management issue and the mistake should be dealt with by Aquila or C.W. Mining stock holders who chose their managers and not paid by rate payers.

Another example: Aquila should utilize a sound hedging program when buying fuel to avoid price spikes to prevent rate payers from paying high fuel costs in some unusually high priced months. They tell us they are doing that now, but they should have been doing it a

long time ago. Many experts are projecting lower coal and natural gas prices in the future. We ask the Commission not to approve a high fuel cost base that will almost inevitably allow Aquila excessive profits in the future. Instead, there must be a mechanism that will avoid the possibility of unwarranted windfall profits for Aquila and that will provide an appropriate incentive to keep costs down.

Second Concern - Rate of Return; SJLP believes that earning an 11.5% rate of return is fair. On a personal level, a 4% rate of return is all that is available at my local bank and that is based on a 12 month investment. The stock market may yield 6% if you have a real good diversified investment portfolio. I do not believe that 4% is appropriate, but I know 11.5% is excessive. We ask that the Commission consider an 8.79% rate of return as proposed by AGP's witness Michael Gorman based on the limited risk of the utility as compared to other competitive business.

Third Concern - Cost of Service – There are several theories to calculate cost of service for each rate class. We take the position that all customers should pay the costs that their service actually costs the utility. Said another way, we don't want others to pay our bill and we don't think we should be asked to pay others' bills. We believe there are some individuals supporting the theory that industrial and commercial customers should subsidize residential rates, paying no attention to which class causes demand or electric generation capacity. We ask that the Commission use historical proven methods in applying cost of service principles and to stop subsidizing other customers in different rate classifications. We believe that subsidized classes do not realize the true cost of energy, which does not promote efficient energy practices, wastes energy and is not in Missouri's best interest.

Forth Concern – Service Reliability – The price of utility services is of great concern. However, if customers experience abnormal amount of service interruptions, price becomes secondary. AGP's customers demand reliable service, and high quality products at reasonable prices. Similarly, we believe that utilities should be held to similar high standards.

Since AGP is multi plant continuous operation, many times it is difficult to start back up after a utility outage. Starting the plant under full load puts stress on equipment and the weak areas are exposed plus unloading filled systems become an issue itself, as safety is always a concern. AGP normally

experiences up to nineteen electrical and steam outages per year. The problems ought to be identified and addressed promptly.

In conclusion, it is well known that Aquila, St. Joseph Light & Power, is experiencing financial difficulties. Rate payers are not the cause of Aquila's financial problems and rate payers should not be required to pay higher rates due to Aquila problems. There are several other issues that will be addressed in the rate case proceeding, and we trust that the Commission will protect the rate payers. Please help industrial customers located in St. Joseph to compete with other states and in the world economy and allow us to continue operation. We need fairly determined rates that exclude all unreasonable costs and encourage the Commission to do all in its power to ensure the results.