

Exhibit No.:

Issue(s): 20 West 9<sup>th</sup> Headquarters/Annex;  
Regional Transmission Organization;  
Accounting Authority Orders;  
St. Joseph Light & Power Merger;  
South Harper Plant Addition;  
Chapter 100 Fees;  
SO<sub>2</sub> Emission Allowances;  
SFAS 106 Postretirement  
Benefits Other Than Pensions

Witness: Ted Robertson

Type of Exhibit: Direct

Sponsoring Party: Public Counsel

Case Number: ER-2005-0436

Date Testimony Prepared: October 14, 2005

## **DIRECT TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**AQUILA, INC.**

**Case No. ER-2005-0436**

October 14, 2005

**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 )  
MPS and L&P Missouri Service Areas. )

Case No. ER-2005-0436

## AFFIDAVIT OF TED ROBERTSON


[illegible]

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 39 and Schedule TJR-1.


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 14<sup>th</sup> day of October 2005.



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

  
Jerene A. Buckman  
Notary Public

My commission expires August 10, 2009.

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**DIRECT TESTIMONY  
OF  
TED ROBERTSON**

**AQUILA INC.  
d/b/a  
AQUILA NETWORKS - MPS  
AND  
AQUILA NETWORKS – L&P**

**CASE NO. ER-2005-0436**

**I. INTRODUCTION**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Office of the Public Counsel of the State of Missouri (“OPC” or “Public Counsel”) as a Public Utility Accountant III.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER  
QUALIFICATIONS.

1 A. I graduated in May, 1988, from Southwest Missouri State University in Springfield,  
2 Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I  
3 passed the Uniform Certified Public Accountant ("CPA") Examination, and I obtained  
4 CPA certification from the State of Missouri in 1989. My CPA license number is  
5 2004012798.

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 for over fifteen  
10 years, I have attended the NARUC Annual Regulatory Studies Program at Michigan  
11 State University, and I have also participated in numerous training seminars relating to  
12 this specific area of accounting study.

13  
14 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
15 SERVICE COMMISSION ("COMMISSION" OR "MPSC")?

16 A. Yes. In the fifteen years that I've been employed with the Public Counsel I have testified  
17 on numerous issues before this Commission. Please refer to Schedule TJR-1, attached to  
18 this testimony, for a listing of cases in which I have previously submitted testimony.

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) Aquila headquarters and annex building/operation costs, 2) Regional Transmission Organization ("RTO") costs, 3) Accounting Authority Order ("AAO") costs, 4) St. Joseph Light & Power merger costs, 5) South Harper plant addition and related transmission site construction costs, 6) payments made by Aquila to facilitate the South Harper construction project ("Chapter 100 Fees"), and 7) SFAS 106 - Postretirement Benefits Other Than Pensions costs and contributions.

## **II. EXHIBIT ORGANIZATION**

Q. PLEASE DESCRIBE HOW YOUR DIRECT TESTIMONY AND EXHIBITS HAVE BEEN ORGANIZED.

A. OPC has developed its recommended cost of service utilizing a test year of twelve months ending December 31, 2004, updated for certain known and measurable changes in costs through June 30, 2005. I am proposing a number of rate base and income statement adjustments to the cost of service of both MPS and L&P. Thus, I have included a separate set of exhibits that support the OPC proposed cost of service for both MPS and L&P, respectively. When presenting the adjustments I have used as my starting point the Company's updated "as adjusted" 12/31/2004 rate base and operating income results.

Q PLEASE DESCRIBE YOUR EXHIBITS?

1 A. Schedules A of the exhibits is the OPC proposed revenue requirement for MPS and L&P.  
2 On column (b), one can observe the Company's proposed increase in Missouri retail  
3 rates. Columns (c) and (d) of Schedules A contain the revenue requirement adjustments  
4 and the summary of rate base, operating income and return requirements being proposed  
5 by OPC.

6  
7 Schedules B of the exhibits is the rate base summary schedule for MPS and L&P. It too  
8 begins with the Company's proposed Missouri retail jurisdictional rate base. Columns  
9 (c) and (d) of Schedules B contain the rate base adjustments and summary rate base being  
10 proposed by OPC. Each of the rate base adjustments posted on Schedules B are  
11 supported by calculations contained on the ensuing schedules labeled as Schedules B-1,  
12 Schedules B-2, etc.

13  
14 Schedules C of the exhibits is the operating income summary for MPS and L&P. Similar  
15 to the rate base summary schedule, column (b) is the Company's proposed Missouri retail  
16 jurisdictional operating income while columns (c) and (d) contain the OPC proposed  
17 adjustments and operating income summary. Each of the OPC operating income  
18 adjustments is supported by an individual schedule labeled as Schedules C-1, Schedules  
19 C-2, etc.

20  
21 The last schedules (i.e., Schedules D) reflect the Company and OPC proposed capital  
22 structure and cost rates for MPS and L&P. Schedules D include the cost rates for each  
23 capital component within the proposed capital structures. The OPC capital structure and

1 related cost rates are based upon the recommendations of Ben Johnson, consulting  
2 economist and president of Ben Johnson and Associates Inc. Mr. Johnson accepts the  
3 Company's long term debt costs rates and recommends that the cost of common equity be  
4 established at 9.95% for both MPS and L&P. His recommended overall cost of capital  
5 for MPS and L&P is 7.76% and 8.61%, respectively.  
6

7 Q. DID YOU OR BEN JOHNSON UNDERTAKE A REVIEW OF ALL ASPECTS OF  
8 THE MPS AND L&P PROPOSED JURISDICTIONAL COST OF SERVICE?

9 A. No. Obviously, due to the small number of OPC staff assigned to audit this case, along  
10 with other resource limitations, it was not possible for OPC to perform detailed discovery  
11 and analysis of each potential cost within the structure of Aquila or the MPS and L&P  
12 divisions. The OPC proposed rate increase shown on the Robertson MPS and L&P  
13 Exhibits, Schedules A, calculate an increase that was determined without consideration of  
14 many other issues that may be presented by the MPSC Staff and/or other intervenors in  
15 their respective testimonies. It is OPC's intention that we will review the other parties'  
16 testimony on the various issues and will consider adopting and/or supporting proposed  
17 adjustments we believe reasonable.  
18

### 19 **III. MPS AND L&P COST OF SERVICE**

20 A. **20 WEST 9<sup>TH</sup> HEADQUARTERS/ANNEX**

21 Q. WHAT IS THE ISSUE?

22 A. The issue pertains to investment and operating costs associated with Aquila's  
23 headquarters campus (i.e., 20 West 9th headquarters, 850 Main annex and 800 Main



1 parking garage) buildings. It is the Public Counsel's position that the costs associated  
2 with maintaining and operating the complex have been inappropriately allocated to  
3 Aquila's Missouri regulated utilities.  
4

5 Q. PLEASE CONTINUE.

6 A. As shown on the attached MPS Schedules B-1 and C-1, I am proposing to eliminate a  
7 portion of the cost of Aquila's corporate headquarters campus located in downtown  
8 Kansas City, Missouri. The discontinuation of Aquila's energy trading operations in  
9 conjunction with the sale of many of its unregulated and all of its international business  
10 operations has left the Company with significant excess office space at its corporate  
11 headquarters campus. The adjustments I am proposing will eliminate the cost of the  
12 excess office capacity that was allocated to the MPS and L&P electric operations.  
13

14 Q. WHAT IS THE LEVEL OF EXCESS CAPACITY AT THE HEADQUARTERS  
15 COMPLEX?

16 A. I have calculated that approximately 57.87% of the headquarters campus cost is  
17 excessive. Thus, I propose to eliminate 57.87% of net plant, plant operating costs and  
18 plant depreciation expense that was allocated to the MPS retail electric operations.

19 Q. HOW DID YOU ARRIVE AT THE EXCESS CAPACITY PERCENTAGE?

20 A. In OPC Data Request No. 1016 I asked Company for the employee capacity of the  
21 headquarters campus as well as the current employee occupancy. In its response  
22 Company stated that the buildings currently have 457 stations (i.e., employee

workstations), but that as August 2005 only 332 employees were working in the buildings.

Q. ARE THE 457 WORKSTATIONS THE PLANNED EMPLOYEE CAPACITY FOR THE HEADQUARTERS CAMPUS?

A. No. Company apparently intends to reduce the employee capacity of the headquarters campus even further than the current usage. In its response to OPC Data Request No. 1055 Company states that the planned capacity is now 448 employee spaces, a reduction of 9 workstations from that expressed in its response to OPC Data Request No. 1016.

Q. DOES PUBLIC COUNSEL BELIEVE THAT THE 457 OR 448 STATIONS IS A VALID NUMBER FOR THE EMPLOYEE CAPACITY OF THE BUILDINGS?

A. No. Public Counsel believes that the Company's response to OPC Data Request Nos. 1016 and 1055 has understated the actual "planned employee capacity" of the headquarters complex. In its response to OPC Data Request No. 865, in Aquila, Inc., Case No. ER-2004-0034, Company responded that the total planned employee capacity of the complex was actually 847 workstations. The current workstation number of 457 is 53.96% of the planned employee capacity of 847 while the current employee occupancy of 332 is only 39.20%. It is quite clear that the employee reductions that occurred due to Aquila's exit of its merchant trading business along with its international and other unregulated businesses has had a dramatic effect on the need for and utilization of the headquarters campus.

1 Q. PLEASE EXPLAIN HOW THE ADJUSTMENTS THAT YOU PROPOSE WERE  
2 DETERMINED.

3 A. As shown on the attached Robertson MPS and L&P Exhibits, Schedules B-1 and C-1, I  
4 calculated the unused capacity of the building by starting with the actual planned  
5 employee capacity of 847 for the buildings as indicated by the Company in its response  
6 to OPC Data Request No. 865. I then adjusted the planned capacity by a vacancy rate of  
7 7%. The resulting occupancy rate (i.e., 93%) I then multiplied by the 847 to arrive at an  
8 expected normal occupancy for the complex of 788. I then subtracted the August 2005  
9 actual occupancy of 332 people from the normal occupancy number to determine that  
10 there are currently 456 unused workstations when compared to the original design  
11 capacity of the buildings. Dividing the 456 unused workstation spaces into the expected  
12 788 occupied workstations yields an excess capacity factor of 57.87%. I then reduced  
13 associated rate base and operating costs allocated to the MPS regulated retail operations  
14 by the excess capacity factor of 57.87%. The 57.87% is conservative considering I did  
15 not reduce the actual planned employee capacity of 847 for an occupancy/vacancy rate  
16 adjustment.

17  
18 Q. WHAT IS THE SOURCE FOR THE VACANCY RATE YOU UTILIZED IN YOUR  
19 ANALYSIS?

20 A. Company's response to OPC Data Request No. 1039 provided me access to various  
21 headquarter cost benchmarking studies prepared by the International Facilities  
22 Management Association ("IFMA"). The IFMA Study #23 listed that the headquarters  
23 vacancy rate was 7%. Thus, for purposes of this calculation I have employed a 93%

1 occupancy rate to recognize that at any given time there will likely be some unused office  
2 space due to normal employee turnover and/or other reorganizations.

3  
4 Q. WHY DID YOU USE THE ORIGINAL PLANNED EMPLOYEE CAPACITY OF THE  
5 COMPLEX RATHER THAN THE CURRENT EMPLOYEE CAPACITY IN  
6 CALCULATING YOUR PROPOSED UNUSED CAPACITY FACTOR?

7 A. As the Commission is aware, Aquila has eliminated hundreds of employees in the last  
8 several years. The employee reductions occurred primarily as a result of its failed energy  
9 trading business as well as subsequent liquidations of other properties stemming from the  
10 financial crisis of its energy trading as well as other non-regulated business failures. The  
11 end result is that the Company's headquarters campus now houses less than 40% of the  
12 planned employee capacity for the buildings.

13  
14 Q. HAVE YOU RECENTLY TOURED THE HEADQUARTERS CAMPUS?

15 A. Yes. On August 11, 2005 I toured the campus with Company personnel in order to verify  
16 that the employee occupancy was as stated.

17  
18 Q. WHAT DID YOU OBSERVE WHILE ON THE TOUR OF THE HEADQUARTERS  
19 CAMPUS?

20 A. During the tour I noticed that on just about every floor of the headquarters building there  
21 were many empty cubicles and work spaces (as identified by the lack of an employee  
22 name tag attached to the cubicle entry, and employee activity or visible work product  
23 within the areas). In addition, on several floors, though furniture and fixtures were in

1 place, there were entire areas that were not staffed and utilized. For example, most of the  
2 west side of the 3rd floor was completely empty of employees. While on the 4th, 7th, 8th  
3 and 10th floors large sections of the building were also empty of employees and activity.  
4

5 Q. WHAT DID YOU OBSERVE WHILE TOURING THE ANNEX BUILDING OF THE  
6 HEADQUARTERS CAMPUS?

7 A. The Annex Building consists of 2 1/2 floors of office space. The bottom floor consists of  
8 the corporate records storage area and it appeared to be occupied. The 1st floor also  
9 appeared to be filled with approximately 1/2 of the floor space being occupied by the  
10 remaining non-regulated Merchant Services personnel. One-half of the 2nd floor  
11 consisted of a large computer training room and a NERC Transmission backup area while  
12 the other half of the floor was, except for a couple of cubicles, completely lacking of any  
13 employees and employee activity. It is my understanding that this area was a former  
14 Merchant Services area utilized in the downsizing after other downtown buildings were  
15 abandoned by the Merchant Services personnel and prior to further downsizing wherein  
16 the remaining Merchant Services personnel ended up on the 1st floor of the Annex  
17 Building.  
18

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

20 A. It's the Public Counsel's position that the headquarters campus costs allocated to the MPS  
21 and L&P Missouri-regulated operations is excessive due to the fact that the buildings are  
22 being underutilized and in fact were designed primarily to be utilized by Aquila in the  
23 development and operation of the non-regulated and international operations that have

1        been exited by the Company. The headquarters campus was built by Aquila in Kansas  
2        City, Missouri, outside of any of its Missouri-regulated service territories, to facilitate its  
3        growth and image as an expanding international energy company. Aquila saw itself as an  
4        international energy company with interests stretching from the Missouri heartland to  
5        Canada, England, New Zealand and Australia. However, Aquila is no longer rapidly  
6        expanding, it has and to continues to downsize and is repositioning itself back to its roots  
7        as a regulated energy provider. It has exited all of its international business operations  
8        and most of its domestic non-regulated operations. A high cost facility located outside of  
9        any of its service territories, while perhaps desirable for achieving the image it sought for  
10       the business plan in force at the time the building was acquired and renovated, has little  
11       appeal and is not economic for the core regulated mid-west utility business it now seeks  
12       to retain.

13  
14       The adjustments that I propose on the Robertson MPS and L&P Exhibits, Schedules B-1  
15       and C-1, are conservative in that Missouri ratepayers will more than likely still be  
16       excessively charged for one of the few remaining fixed cost obligations incurred by the  
17       Company in a different era that had a totally different business plan. My proposed  
18       adjustments attempt to remove from the Missouri regulated operations the excess office  
19       capacity costs that were incurred by Aquila to support the former vision it held of itself as  
20       a growing non-regulated international energy company.

21  
22       **B.       REGIONAL TRANSMISSION ORGANIZATION**

23       **Q.       WHAT IS THE ISSUE?**

1 A. The Company has made an adjustment to increase the annualized Regional Transmission  
2 Organization ("RTO") costs it expects to pay from full membership in the organization.  
3 However, in its response to OPC Data Request No. 1070, it indicates that the increase in  
4 costs did not occur as of June 30, 2005, the end of the known and measurable period for  
5 the instant case. The OPC proposed adjustment that I have included on the Robertson  
6 MPS and L&P Exhibits, Schedules C-2, lowers the Company proposed annualization  
7 adjustment to the level of costs it actually incurred for the twelve months-ended June 30,  
8 2005.

9  
10 **C. ACCOUNTING AUTHORITY ORDERS**

11 **Q. WHAT IS THE ISSUE?**

12 A. Pursuant to Commission order, Company has booked costs associated with several  
13 Accounting Authority Orders ("AAO") during the test year. The Company was authorized  
14 to defer depreciation expenses, property taxes, and carrying costs associated with the  
15 capacity life extension and western coal conversion projects at its Sibley generating station  
16 ("SCLE/WC"). Approval to defer and recover those costs was made pursuant to the  
17 Commission's Accounting Authority Orders in Case Nos. EO-90-114 and ER-90-101, and  
18 subsequent reauthorization was provided in Case Nos. EO-91-358 and ER-93-37. Company  
19 was also granted authority to defer and amortize costs incurred due to an ice storm in its  
20 former Missouri Public Service area in January 2002. Approval to defer and recover those  
21 costs was made pursuant to the Commission's Order Granting Accounting Authority Order  
22 in Case No. EU-2002-1053.

1 Q. WHAT DOES THE TERM DEFERRED REPRESENT?

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

7  
8 A. Aquila is authorized to defer actual incremental operation and  
9 maintenance expenses incurred as a direct result of the January 2002  
10 ice storm to Uniform System of Accounts Account 182.3.

11 And,  
12

13  
14 C. Aquila shall ratably amortize the amount deferred to Account 182.3  
15 over a five-year period beginning February 1, 2002.  
16  
17

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

21 A. It is my understanding that the Company is, pursuant to Commission authorization,  
22 amortizing the Sibley and Western Coal Conversion deferred balances over twenty years.  
23

24 Q. IS THE PUBLIC COUNSEL RECOMMENDING ANY ADJUSTMENT TO THE  
25 AAO's ANNUAL EXPENSE AMORTIZATION AMOUNTS?

26 A. No.  
27



1 Q. WHAT ARE THE BALANCES REMAINING FOR THE UNAMORTIZED AAO  
2 COSTS OF CASE NOS. EO-90-114 CASE NOS. EO-91-358?

3 A. The remaining unamortized balances at 12/31/2004 are \$1,149,863 and \$1,239,512,  
4 respectively.

5  
6 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE  
7 AAO UNAMORTIZED COST BALANCES?

8 A. It is the Public Counsel's recommendation that the remaining unamortized deferred  
9 balances not be included as an addition in the determination of the MPS rate base.

10  
11 Q. DOES PUBLIC COUNSEL RECOMMEND NO RATE BASE TREATMENT FOR ALL  
12 COSTS ASSOCIATED WITH THE ACCOUNTING AUTHORITY ORDERS?

13 A. No. Public Counsel's recommendation is that the AAO unamortized deferred balances not  
14 be included as an addition to Company's cost of service rate base; however, the deferred  
15 income tax balances associated with the AAO deferred costs should be included as a  
16 reduction to rate base because they are associated with the interaction of the actual  
17 expensing of the deferred costs on the income statement for income tax verses regulatory  
18 purposes.

19  
20 Q. DOES THE PUBLIC COUNSEL KNOW THE AMOUNT OF THE DEFERRED  
21 INCOME TAXES THAT SHOULD BE INCLUDED IN RATE BASE?

22 A. Company alleges not to have recorded any deferred taxes associated with these two AAOs.  
23 Its response to OPC DR Nos. 1023 and 1030 states that deferred taxes associated with EO-

1 90-114 and EO-91-358 AAOs has been flowed through for ratemaking purposes and as such  
2 no deferred income tax offset amount have been included for these items. However, it is  
3 Public Counsel's belief, base on my review of the filings, testimony and orders in those  
4 cases, that the Company did not obtain Commission approval to deviate from the usual tax  
5 normalization process thus, deferred taxes should have been developed and booked in  
6 conjunction with the book/tax expensing and amortization of the costs.

7  
8 Q. HAS THE PUBLIC COUNSEL CALCULATED AN APPROPRIATE AMOUNT OF  
9 DEFERRED INCOME TAXES ASSOCIATED WITH THE TWO AAOs?

10 A. Yes. Since the Company did not appropriately determine and record the costs, Public  
11 Counsel has developed estimates of the remaining deferred income taxes associated with the  
12 two AAOs. The deferred income tax balances are \$917,288 and \$475,833, respectively. I  
13 determined the balances by multiply the remaining unamortized AAO balances by a Federal  
14 tax rate of 33.18% and a State tax rate of 5.21% and then by the 2004 jurisdiction factors  
15 utilized to allocate the respective plant/expense balances.

16  
17 To be fair, it is likely that the tax and jurisdictional rates would have varied somewhat over  
18 the years that the AAO amortizations have actually occurred; possibly resulting in deferred  
19 income tax balances differing slightly from those I have calculated. However, I believe that  
20 had the Company maintained the appropriate records the balances they would show would  
21 not be materially different from those that I have calculated due to the fact that AAOs are  
22 well over halfway to being fully amortized and any associated deferred taxes would be  
23 expected to completely reverse by the time that they are fully amortized.

1 Q. IS IT THE PUBLIC COUNSEL'S RECOMMENDATION THAT THE BALANCES IT  
2 CALCULATED FOR THE AAO DEFERRED INCOME TAXES BE INCLUDED AS AN  
3 OFFSET TO THE UNAMORTIZED AAO BALANCES IN THE MPS RATE BASE?

4 A. Yes.

5  
6 Q. WHY DOES THE PUBLIC COUNSEL BELIEVE THAT THE AAO UNAMORTIZED  
7 DEFERRED BALANCES SHOULD NOT BE ALLOWED IN THE DETERMINATION  
8 OF RATE BASE?

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

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

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

21  
22 Q. WHAT IS THE EFFECT OF THE COMPANY'S ACCOUNTING AUTHORITY  
23 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 were completed, and placed in service, before the operation of law date of a general rate  
4 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:

1  
2 Lessening the effect of regulatory lag by deferring costs is beneficial to a  
3 company but not particularly beneficial to ratepayers. Companies do not  
4 propose to defer profits to subsequent rate cases to lessen the effects of  
5 regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part  
6 of the regulatory process and can be a benefit as well as a detriment.  
7 Lessening regulatory lag by deferring costs is not a reasonable goal unless  
8 the costs are associated with an extraordinary event.  
9

10 Maintaining the financial integrity of a utility is also a reasonable goal. The  
11 deferral of costs to maintain current financial integrity, though, is of  
12 questionable benefit. If a utility's financial integrity is threatened by high  
13 costs so that its ability to provide service is threatened, then it should seek  
14 interim rate relief. If maintaining financial integrity means sustaining a  
15 specific return on equity, this is not the purpose of regulation. It is not  
16 reasonable to defer costs to insulate shareholders from any risks. 1 Mo.  
17 P.S.C. 3d 200, 207 (1991).  
18  
19

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

23 A. Yes. The Commission, however, has more recently refined how an extraordinary event is  
24 identified when it stated on page thirteen of its Report and Order in St. Louis County Water  
25 Company, Case No. WR-96-263:  
26

27 As both the OPC and the Staff point out, the Commission has to date,  
28 granted AAO accounting treatment exclusively for one-time outlays or  
29 capital caused by unpredictable events, acts of government, and other  
30 matters outside the control of the utility or the Commission. It is also  
31 pointed out that the terms "infrequent, unusual and extraordinary" connote  
32 occurrences which are unpredictable in nature.  
33

34 (Emphasis added by OPC)  
35  
36

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

31 Q. SINCE THE COMMISSION DECISION IN CASE NO. GR-98-140 HAS THE  
32 COMMISSION TREATED THIS ISSUE CONSISTENTLY?

1 A. Yes, it is my understanding that it has.

2  
3 Q. PLEASE CONTINUE.

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

14  
15 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE ICE  
16 STORM ACCOUNTING AUTHORITY ORDER?

17 A. Public Counsel recommends no change in the annual expense amortization amount  
18 booked by the Company; however, for the same reasons as I explained above for the  
19 Sibley and Western Coal Conversion AAOs, the remaining Ice Storm AAO unamortized  
20 deferred balance of \$3,436,029 should not be included as an addition in the determination  
21 of the MPS rate base.

1 Q. SHOULD THERE ALSO BE INCLUDED IN THE RATE BASE A DEFERRED  
2 INCOME TAX OFFSET ASSOCIATED WITH THE ICE STORM AAO  
3 UNAMORTIZED BALANCE?

4 A. Yes. Company's response to OPC DR No. 1023 states:

5  
6 Company believes that to the extent AAO's are included in rate base and  
7 flow through treatment has not been provided, the associated deferred  
8 income taxes should be offset against that rate base item. Company has  
9 inadvertently not included the deferred income tax offset amount  
10 associated with the 2002 ice storm AAO.

11 (Emphasis added by OPC.)  
12  
13  
14

15 Though the Company does not believe that an deferred income tax offset should occur if the  
16 AAO's unamortized balance is not included in rate base, it does recognize that the associated  
17 deferred income taxes have been determined and booked. Company added that the deferred  
18 income taxes associated with the 2002 Ice Storm AAO are approximately \$1,319,091 and  
19 \$1,002,508 for the periods ending December 31, 2004 and June 30, 2005, respectively.  
20

21 **D. ST. JOSEPH LIGHT & POWER MERGER**

22 Q. WHAT IS THE ISSUE?

23 A. Company proposes to include in the determination of the MPS and L&P cost of service  
24 certain costs that it has characterized as transaction and transition costs related to Aquila's  
25 purchase of the St. Joseph Light & Power Company.  
26

27 Q. WHAT IS THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE?



1 A. Public Counsel's position is that no portion of the SJLP purchase premium or the  
2 purchase transaction costs associated with the merger should ever be recovered by the  
3 Company from rates paid by MPS or L&P customers. Any premium and transaction  
4 costs Company incurred should be treated below-the-line in the determination of rates for  
5 this and all future MPS and L&P rate cases, whereas costs associated with the actual  
6 transition (sometimes called "costs to achieve") should only be allowed if they can be  
7 proven to truly benefit ratepayers.

8  
9 Q. WHY HAS THE PUBLIC COUNSEL TAKEN THIS POSITION?

10 A. Public Counsel believes that the SJLP purchase premium, and purchase transaction costs,  
11 were incurred with the sole intention of enhancing the financial interests of shareholders of  
12 the two companies. From SJLP's perspective the sale was enacted to allow its shareholders  
13 to acquire an increase in the shareholder value of their stock above that which existed if  
14 SJLP remained a stand-alone utility company. However, it was Aquila's shareholders who  
15 were most likely to receive the benefits, if any, associated with the increasing size and  
16 economies of scale of a larger company. One example would be possible access to lower  
17 costs of investment capital which would benefit the entire Aquila organization. Another  
18 example is the possibility of achieving better purchase terms and prices from the various  
19 suppliers of Aquila due to the aggregation of requirements of a larger company. Also,  
20 Aquila has stated that it sought to acquire SJLP to strengthen its position going into what it  
21 viewed was a competitive (i.e., deregulated) market (see Robertson Rebuttal Testimony,  
22 Case No. EM-2000-292, page forty-four, lines one through eleven).

1 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY ON THE APPROPRIATE  
2 RATEMAKING TREATMENT OF THE SJLP PURCHASE PREMIUM AND  
3 PURCHASE TRANSACTION COSTS?

4 A. Yes, I have. In UtiliCorp United Inc.; St. Joseph Light & Power Company, Case No. EM-  
5 2000-292, I testified in my rebuttal testimony (page sixty-three, lines eight through ten) that  
6 it is never appropriate to allow a utility rate recovery of an acquisition adjustment. The  
7 acquisition adjustment is merely an accounting entry that consists of the purchase premium  
8 and the purchase transaction costs.

9  
10 Q. WHAT SUPPORT DID THE PUBLIC COUNSEL RELY ON TO REACH THE  
11 POSITION IT HAS TAKEN RELATING TO THESE COSTS?

12 A. There are a multitude of reasons why purchase premiums and purchase transaction costs  
13 should not be reimbursed by ratepayers. For example, as I discussed in my rebuttal  
14 testimony (in Case No. EM-2000-292), the reasons to place the purchase premium and  
15 purchase transaction costs below-the-line include the following:

- 16  
17 1. The acquisition premium and transaction costs consist of nothing  
18 more than costs associated with a financial transaction that valued the  
19 excess purchased cost over and above the net original book cost of  
20 the SJLP properties.  
21  
22 2. The Commission should not be required to make a determination that  
23 the acquisition premium and transaction costs associated with the  
24 merger are reasonable. That is, the Commission should not be put in  
25 the position of having to determine the appropriate price at which  
26 utilities should acquire other utilities.  
27  
28 3. The Commission has consistently endorsed the “original cost”  
29 concept for valuing utility property. Purchases at above book cost  
30 are recorded at historical costs for regulatory ratemaking. Utilities

benefit from the consistent treatment of acquisition adjustments.  
Positive acquisition adjustments are not allowed in rates, and  
historically neither are negative acquisition adjustments.

4. Shareholders own the properties purchased. Any gains on the sale of  
utility properties are retained entirely by shareholders. Ratepayers  
should not be required to fund the excess over book costs of utilities  
purchased.

5. Aquila purchased SJLP to enhance the competitive position of its  
shareholders going into what it viewed would be a deregulated  
market. Ratepayers' interests were secondary, if considered at all.

6. The generation assets of SJLP had an appraised market value that far  
exceeded its booked cost. Aquila knew this when it purchased SJLP.  
Any sale of the generation assets could possibly yield Aquila with a  
return that far exceeds the SJLP purchase premium and purchase  
transaction costs.

7. UCU proposed in Case No. EM-2000-292 to net merger savings with  
the merger costs but it has no way to effectively identify and track  
merger savings.

Q. YOU STATED EARLIER THAT TRANSITION COSTS SHOULD ONLY BE  
ALLOWED IN RATES TO THE EXTENT THEY PROVE A BENEFIT TO  
RATEPAYERS. HAS COMPANY PROVIDED ANY EVIDENCE OF SUCH  
BENEFITS TO SUPPORT ITS PROPOSAL?

A. Company has alleged some synergy savings. Public Counsel sent the Company OPC  
Data Request No. 1093 which sought information to substantiate any alleged benefits.  
Company's response to that data request states:

Cost/benefit estimates and information were provided in conjunction with  
Case No. EM-2000-292; Case No. ER-01-672; and Case No. ER-2004-  
0034, in particular the direct testimony of Vern Siemek. This information  
is still relevant and has not been updated for this case.

1  
2 The response also provided a spreadsheet wherein Company alleges a joint dispatch  
3 synergy savings relating from the ability to share MPS and SJLP capacity and production  
4 capability.

5  
6 Q. DOES THE COMPANY'S RESPONSE TO OPC DATA REQUEST NO. 1093  
7 SATISFY THE REQUIREMENTS NECESSARY TO IDENTIFY AND TRACK COST  
8 BENEFIT SAVINGS ON A GOING FORWARD BASIS?

9 A. No. Company has not sufficiently identified in the instant case whether or not the  
10 benefits, if any, associated with its purchase of the SJLP operations outweigh the costs it  
11 seeks to recover. It is my belief, that the Company cannot identify those costs because it  
12 has not developed or implemented a methodology or system whereby the costs and  
13 alleged benefits can be identified, tracked and compared on a going-forward basis.  
14 Interestingly, the Company admits in the response to OPC Data Request No. 1093 that,  
15 though it has filed cost/benefit testimony relating to the SJLP merger in prior cases, it has  
16 not updated the information in the instant case.

17  
18 Public Counsel asserts that updated cost/benefit information is extremely relevant to  
19 developing any decision in the instant case due to the dynamic nature of a large utility  
20 such as Aquila. It's operations and cost structure changes on a year-to-year basis, and the  
21 changes that occur would most certainly impact any costs and/or benefits that may have  
22 been incurred due to the merger. For example, if employee and/or other costs were  
23 reduced in the interim period between rate cases since the merger was consummated, the

benefits Company received from those cost reductions may have already allowed it to recover the merger transition costs it incurred.

Q. DID COMPANY ATTEMPT TO RECOVER THESE SAME MERGER COSTS IN ITS LAST GENERAL RATE INCREASE CASE?

A. No. Company's response to OPC Data Request No. 1014 states:

No amortization of the costs to achieve the synergies was included in the calculation of the revenue requirements for the case.

However, in its response to OPC Data Request No. 1093, Company adds that although it did not seek to recover the costs in the filed cost of service of the last general rate increase case, it did seek a synergies sharing arrangement that it did not achieve.

Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION AND PROPOSED ADJUSTMENTS ON THIS ISSUE.

A. Public Counsel has not changed its position from that first filed in UtiliCorp United Inc.; St. Joseph Light & Power Company, Case No. EM-2000-292, with regard to the SJLP merger purchase premium and purchase transaction costs. OPC believes that the costs were incurred to benefit the shareholders of SJLP and Aquila. Therefore, it is the Public Counsel's recommendation that they be accorded below-the-line treatment for ratemaking purposes. Furthermore, the alleged transition costs included in the Company's proposal have not been shown to provide any benefits to ratepayers thus, they too should not be allowed in the cost of service for ratemaking purposes. Therefore, as shown on the

Robertson MPS and L&P Exhibits, Schedules C-4, I have adjusted the SJLP merger costs amortizations proposed by the Company so that they are excluded from the determination of the respective MPS and L&P cost of service.

**E. SOUTH HARPER PLANT ADDITION**

**Q. WHAT IS THE ISSUE?**

A. This issue pertains to the appropriate amount of costs to include in the MPS cost of service for the recent South Harper plant addition. Company included a budgeted amount of plant cost, and related depreciation, in its filing. However, in Aquila, Inc., Case No. EO-2005-0156, Aquila, the MPSC Staff and the Public Counsel reached a settlement agreement whereby the cost associated with the combustion turbines, transformers and breakers (as identified in the settlement agreement in Case No. EO-2005-0156) was set at an amount less than what the Company has included in the instant case. In addition, Public Counsel has identified certain other costs Company booked to the construction of the plant addition that should also be disallowed.

**Q. HAS THE COMMISSION APPROVED THE SETTLEMENT AGREEMENT REACHED BY THE PARTIES IN AQUILA, INC., EO-2005-0156?**

A. As of the date that I prepared this testimony, the Commission has not approved the settlement agreement.

1 Q. ARE THERE OTHER ISSUES WHICH MAY IMPACT THE DETERMINATION OF  
2 THE COST OF THE PLANT ADDITION AND WHETHER OR NOT IT SHOULD BE  
3 INCLUDED IN THE MPS COST OF SERVICE?

4 A. Yes. As the parties are aware, there is ongoing litigation concerning the plant addition  
5 that could ultimately result in it being completely dismantled.  
6

7 Q. DOES THE PUBLIC COUNSEL KNOW WHEN THE LITIGATION CONCERNING  
8 THE SOUTH HARPER PLANT WILL BE FINAL?

9 A. No.  
10

11 Q. IF THE OUTCOME OF THE LITIGATION REQUIRES AQUILA TO DISMANTLE  
12 THE SOUTH HARPER PLANT ADDITION, SHOULD THE COSTS OF ITS  
13 CONSTRUCTION, OR DISMANTLING, BE RECOVERED FROM RATEPAYERS?

14 A. No. It is the Public Counsel's belief that all costs the Commission allows in the MPS cost  
15 of service that are related to the construction and operation of the South Harper plant  
16 addition should not be recovered from ratepayers if the outcome of the litigation requires  
17 it to be removed from service. In order to protect ratepayers in the event dismantling of  
18 the plant addition is required, it is the Public Counsel's recommendation that all costs  
19 associated with the South Harper plant addition and its operations be ordered  
20 implemented as interim subject to refund.  
21

1 Q. PLEASE EXPLAIN THE PUBLIC COUNSEL'S ADJUSTMENTS IN THE EVENT  
2 THE SOUTH HARPER PLANT ADDITION IS ALLOWED RECOVERY IN THE  
3 MPS COST OF SERVICE.

4 A. Schedules B-2 and C-7 of the Robertson MPS Exhibit identify the Public Counsel's  
5 recommended plant and depreciation costs of the plant addition as of June 30, 2005, the  
6 end of the Commission ordered known and measurable period for the instant case. Line  
7 1, Column C, of Schedule B-2 shows the Company's actual plant addition costs as of June  
8 30, 2005. Lines 3 through 9 show the adjustment necessary to achieve the cost of the  
9 combustion turbines/transformers/breakers reached in the settlement agreement of  
10 Aquila, Inc., Case No. EO-2005-0156. Lines 11, 13 and 15 show OPC construction,  
11 transmission and allowance for funds used during construction ("AFUDC") cost  
12 adjustments that reduce the plant addition costs for items related to the settlement  
13 agreement plant cost reduction and other costs OPC recommends be disallowed. Line 25  
14 shows the OPC recommended plant addition adjustment after comparing the OPC  
15 recommended plant addition cost, as of June 30, 2005, with the budgeted plant addition  
16 costs Company included in the instant case. The amount shown on line 25 was then  
17 carried over as a plant adjustment to the Robertson MPS Exhibit, Schedule B -  
18 Jurisdictional Rate Base.

19  
20 Schedule C-7, lines 1 through 9, show a comparison of the OPC recommended  
21 annualized depreciation, based on the OPC recommended plant addition as of June 30,  
22 2005, with the budgeted plant addition annualized depreciation costs the Company  
23 included in the instant case. Line 9 shows the OPC annualized depreciation adjustment



1 which I included as a depreciation expense adjustment to the Robertson MPS Exhibit,  
2 Schedule C - Jurisdictional Income Statement.

3  
4 Q. WILL THE PLANT ADDITION COSTS YOU DESCRIBE ABOVE REQUIRE TRUE-  
5 UP?

6 A. Yes. In the Commission's Order Concerning Test Year And True-Up And Adopting  
7 Procedural Schedule, Aquila, Inc., Case No. ER-2005-0436, beginning on page 9 it  
8 states:

- 9  
10 2. That there shall be a true-up audit and hearing as recommended by  
11 the Staff of the Missouri Public Service Commission. The true-up  
12 shall include all major changes to revenue, expenses, rate base, and  
13 capital structure occurring through October 31, 2005.  
14  
15

16 Public Counsel recognizes that the Company continued to booked significant costs  
17 beyond June 30, 2005 related to the construction of the plant addition; therefore, a true-up  
18 of the plant addition costs through October 31, 2005 will be necessary. In addition,  
19 Public Counsel has several data requests currently outstanding regarding clarification of  
20 the purpose and necessity of the various construction and transmission costs OPC  
21 recommends be disallowed. Company's responses to those data requests may or may not  
22 provide information that would initiate an adjustment of the construction and  
23 transmission cost disallowances proposed by the Public Counsel.  
24

25 **F. CHAPTER 100 FEES**

26 Q. WHAT IS THE ISSUE?

1 A. The issue is whether or not certain costs Company has incurred that are related to its  
2 South Harper generation construction project financing should be reimbursed by  
3 ratepayers. On or about December 29, 2004 Company booked several accruals totaling  
4 \$925,000 to MPS FERC Account No. 186. The accruals represent a deferral of certain  
5 costs the Company has classified as Chapter 100 Fees. The "Fees" are composed of three  
6 items, 1) the City of Peculiar required and received a \$700,000 issuance fee for the  
7 Chapter 100 bonds, 2) under the terms of the agreement Aquila paid the cost of the City's  
8 bond counsel (Gilmore and Bell) of which Company has been billed \$95,000 as of  
9 12/31/04, and 3) under the terms of the agreement Aquila paid the cost of the City's  
10 financial advisor (McLiney and Company) \$130,000. It is my understanding that the  
11 agreement referenced is the Economic Development Agreement associated with the  
12 financing of the South Harper project.

13  
14 Q. WHAT IS THE PUBLIC COUNSEL'S POSITION ON THE REIMBURSEMENT OF  
15 THESE COSTS BY COMPANY'S RATEPAYERS?

16 A. Public Counsel recommends that the "Fees" not be allowed either a return of or a return  
17 on in the instant case. The costs Company paid for the City of Peculiar to enter into the  
18 financing agreement were incurred solely for the benefit of that community and its  
19 citizens. The costs should have either not been incurred or paid by the City of Peculiar,  
20 not by Aquila. While it is accurate that the proposed financing of the South Harper  
21 project should decrease the total amount of property taxes paid and distributed within the  
22 entire Aquila Missouri regulated jurisdiction, Aquila's gratuity towards the City of  
23 Peculiar should not imply that the other ratepayers of Aquila should be required to pay

1 for the extra benefits the City of Peculiar garnered in the transaction. For example,  
2 though it is expected that property taxes will not be incurred on the South Harper project,  
3 the City of Peculiar will receive, in addition to the \$700,000 issuance fee it received, a  
4 significant amount of payments in lieu of property taxes ("PILOT") for several years into  
5 the future. OPC believes that the PILOT payments alone are a significant reason or  
6 justification enough for the payment of the Chapter 100 Fees by the City of Peculiar, and  
7 not the other ratepayers within the MPS jurisdiction.

8  
9 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THIS  
10 ISSUE?

11 A. Public Counsel recommends that Aquila not be allowed to recover either a return of or  
12 return on the Chapter 100 Fees. Thus, Public Counsel recommends that Company's  
13 proposal to include the jurisdictional amounts of \$919,987 in rate base and a 30-year  
14 expense amortization of \$30,666 in FERC Account No. 923 be disallowed. Schedules B-  
15 5 and C-5 of the Robertson MPS Exhibit reflect the proposed disallowances.

16  
17 G. **SO<sub>2</sub> EMISSION ALLOWANCES**

18 Q. WHAT IS THE ISSUE?

19 A. The issue concerns the determination of the appropriate amount of SO<sub>2</sub> emission  
20 allowances investment and expense to include in the MPS and L&P cost service.

21 Company witness, Ms. Susan Braun, has made an inventory adjustment to the MPS and  
22 L&P rate bases (i.e., WC-40) to represent the amount of SO<sub>2</sub> emission allowance  
23 inventory investment upon which a return should be earned by Aquila. On the expense

1 side, Company witness, Mr. Ronald A. Klote, has made a fuel cost adjustment to the  
2 MPS and L&P income statements (i.e., FPP-17) to represent the amount of annual SO<sub>2</sub>  
3 emission allowance expense which should be recovered by Aquila.

4  
5 Q. HAS THE PUBLIC COUNSEL MADE ADDITIONAL ADJUSTMENTS TO THE  
6 COMPANY'S SO<sub>2</sub> INVENTORY AND EXPENSE RECOMENDATIONS?

7 A. Yes.

8  
9 Q. PLEASE DESCRIBE THE PUBLIC COUNSEL'S PROPOSED SO<sub>2</sub> EMISSION  
10 ALLOWANCES INVENTORY AND EXPENSE ADJUSTMENTS.

11 A. As shown on the Robertson MPS and L&P Exhibits, Schedules B-6 and C-6 for MPS,  
12 and Schedule B-2 for L&P (no adjustment was made to Company's proposed SO<sub>2</sub>  
13 emission allowance annual expense for L&P), I propose adjustments to the Company's  
14 test year SO<sub>2</sub> emission allowances investment and expense costs so that the cost of  
15 inventory included in rate base and the annual expense cost are based upon the actual  
16 level of annual SO<sub>2</sub> emission allowances required by the utilities.

17  
18 The Robertson MPS and L&P Exhibits, Schedules B-6 and B-2, respectively, show the  
19 OPC recommended level of SO<sub>2</sub> emissions allowances inventory to include in rate base.  
20 Columns (a) through (e) of the Schedules show the annual emission allowances required  
21 (after subtracting the Environmental Protection Agency ("EPA") free allocations)  
22 multiplied by the \$700 per emission allowance cost proposed by the Company. The  
23 resulting amount is then divided by 12 months to show the assignment of the purchase

1 and use of the emission allowances ratably over the course of one year. The monthly cost  
2 is then adjusted for the appropriate electric jurisdictional factor and compared to the  
3 Company's proposed inventory cost amount to determine the OPC adjustment. The  
4 amounts shown on line 19 of Schedules MPS B-6 and L&P B-2 are then shown as an  
5 adjustment to the SO<sub>2</sub> inventory costs on the Robertson MPS and L&P Exhibits,  
6 Schedules B - Jurisdictional Rate Base Summary.

7  
8 The Robertson MPS Exhibit, Schedule C-6, shows the OPC recommended level of SO<sub>2</sub>  
9 emissions allowances expense to include in the cost of service. Columns (a) through (e)  
10 show the required annual emission allowances (after subtracting the EPA free  
11 allocations) multiplied by the \$700 per emission allowance cost proposed by the  
12 Company. The result is compared to the expense amount recorded on the Company's  
13 books for the test year and then adjusted for the appropriate electric jurisdictional factor.  
14 Lastly, the OPC proposed electric jurisdictional amount is compared to the Company's  
15 proposed expense adjustment to determine the OPC adjustment shown on line 19. The  
16 amount shown on line 19 of Schedule C-6 is then shown as an expense adjustment on the  
17 Robertson MPS Exhibit, Schedule C - Jurisdictional Income Statement.

18  
19 Q. ARE THE INVENTORY COSTS PROPOSED BY OPC BASED ON AN ACTUAL  
20 ANNUAL LEVEL OF SO<sub>2</sub> EMISSION ALLOWANCES REQUIRED RATHER THAN  
21 THE RECORDED BOOK COSTS?

22 A. Yes. For L&P I utilized the same number of SO<sub>2</sub> emission allowances proposed by the  
23 Company. However, for MPS, I made an adjustment that reduced the actual 2004 SO<sub>2</sub>

1 emission allowances required for Sibley plant (after reduction for the EPA free  
2 allowances) down from the Company 2005 forecast of 7,576 to 3,068.

3  
4 Q. DID OPC ALSO FACTOR IN THE SIBLEY SO<sub>2</sub> EMISSION ALLOWANCE  
5 REDUCTION FOR ITS MPS SO<sub>2</sub> EMISSION ALLOWANCE EXPENSE  
6 ADJUSTMENT?

7 A. Yes.

8  
9 Q. WHY DID PUBLIC COUNSEL UTILIZE A DIFFERENT NUMBER OF REQUIRED  
10 SO<sub>2</sub> EMISSION ALLOWANCES FOR THE SIBLEY PLANT IN THE  
11 DETERMINATION OF ITS MPS INVENTORY AND EXPENSE ADJUSTMENTS?

12 A. Company's response to MPSC Staff Data Request No. 272 indicated that the required  
13 number of 2005 emission allowances for the Sibley plant are expected to increase  
14 significantly. Company attributes the large increase due to a force majeure declaration  
15 from one of its coal suppliers of high BTU low sulfur blend coal. The response to  
16 MPSC Data Request No. 272 states:

17  
18 The continued use of high sulfur coal has been projected to impact  
19 allowance use in the future for Sibley at an estimated rate of 29.55%  
20 higher than what the actual use was in 2004.  
21  
22

23 The response also states:  
24

1 As a result of burning the higher sulfur coal, Sibley is projected to use  
2 approximately 1,000 additional allowances in 2004 than what was  
3 originally forecasted.  
4  
5

6 Public Counsel's adjustment of the required number of Sibley plant SO<sub>2</sub> emission  
7 allowances takes into consideration that the actual level of SO<sub>2</sub> emission allowances  
8 utilized in 2004 was approximately 1,000 more than necessary due to the failure of the  
9 supplier to supply Company with high BTU low sulfur blend coal. Furthermore, it is my  
10 understanding that the Company has filed suit to recover the damages (the increased  
11 costs) from the supplier; therefore, any increase in SO<sub>2</sub> emission allowances and potential  
12 recovery of the costs of that increase at the Sibley plant that are due to the default of the  
13 supplier should not be collected from the Company's ratepayers. The OPC MPS SO<sub>2</sub>  
14 emission allowance adjustments are based on an actual known and measurable level of  
15 Sibley SO<sub>2</sub> emission allowances for year 2004 less costs related to the contract dispute  
16 that is in litigation.  
17

18 Q. WHY DID YOU REDUCE THE ANNUAL SO<sub>2</sub> EMISSION ALLOWANCES  
19 REQUIRED FOR THE FREE EPA ALLOWANCES?

20 A. The EPA allocates a certain number of free SO<sub>2</sub> emission allowances to the Company  
21 each year; therefore, it is the Public Counsel's position that since the Company has  
22 incurred no cost to obtain the allowances their cost should be set at zero in the utilities  
23 cost of service.  
24  
25

**H. SFAS 106 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

**Q. WHAT IS THE ISSUE?**

**A.** It is the Public Counsel's belief that the Company has violated the requirements of Missouri Revised Statutes Chapter 386.315 regarding the funding of SFAS 106 costs recovered in rates. According to Company's response to MPSC Staff Data Request No. 263.1, Aquila intentionally failed to provide funding that matches its SFAS 106 expense during the years 2003, 2004 and 2005 for MPS and four of five years of the 2001 to 2005 period for L&P. The Company has provided OPC with information that states the contributions not paid into the SFAS 106 plan approximate \$8.4 million.

**Q. WHAT IS THE RELEVANCE OF MISSOURI REVISED STATUTE CHAPTER 386.315?**

**A.** The language of this statute states that a utility may file one set of tariffs modifying its rates to reflect the revenue requirement associated with the utility's expenses for postretirement employee benefits other than pensions, as determined by Financial Accounting Standard 106, if such utility is funding the full extent of its Financial Accounting Standard 106 obligation at the time such tariffs are filed. Company's admission in its response to MPSC Data Request No. 263.1 that it is not funding the FAS 106 expense indicates that the Company has intentionally not met the requirements of the statute. In its entirety Chapter 386.315 states:

A. Chapter 386  
Public Service Commission  
Section 386.315



August 28, 2004

Commission shall not change terms of employment subject to collective bargaining or certain accounting standards--use of accounting standard by utility, requirements--tariff filing allowed, conditions--examination of tariffs, review period.

1. In establishing public utility rates, the commission shall not reduce or otherwise change any wage rate, benefit, working condition, or other term or condition of employment that is the subject of a collective bargaining agreement between the public utility and a labor organization. Additionally, the commission shall not disallow or refuse to recognize the actual level of expenses the utility is required by Financial Accounting Standard 106 to record for postretirement employee benefits for all the utility's employees, including retirees, if the assumptions and estimates used by a public utility in determining the Financial Accounting Standard 106 expenses have been reviewed and approved by the commission, and such review and approval shall be based on sound actuarial principles.

**2. A public utility which uses Financial Accounting Standard 106 shall be required to use an independent external funding mechanism that restricts disbursements only for qualified retiree benefits.** In no event shall any funds remaining in such funding mechanism revert to the utility after all qualified benefits have been paid; rather, the funding mechanism shall include terms which require all funds to be used for employee or retiree benefits. This section shall not in any manner be construed to limit the authority of the commission to set rates for any service rendered or to be rendered that are just and reasonable pursuant to sections 392.240, 393.140 and 393.150, RSMo.

**3. Any public utility which was the subject of a rate proceeding resulting in the issuance of a report and order subsequent to January 1, 1993, and prior to August 28, 1994, directing or permitting the establishment of new rates by such utility, may file one set of tariffs modifying its rates to reflect the revenue requirement associated with the utility's expenses for postretirement employee benefits other than pensions, as determined by Financial Accounting Standard 106, including the utility's transition benefit obligation, regardless of whether the deferral or immediate expense recognition method was used, if such utility is funding the full extent of its Financial Accounting Standard 106 obligation at the time such tariffs are filed.** The tariffs shall reflect the annual level of expenses as determined in accordance with Financial Accounting Standard 106. The commission may suspend such tariffs for no longer than one hundred fifty days to examine the assumptions and estimates used and to review and approve

1 the expenses required by Financial Accounting Standard 106, including an  
2 amortization of the transition benefit obligation over no greater  
3 amortization period than twenty years based upon sound actuarial  
4 principles, and to address any rate design issues associated with the  
5 utility's Financial Accounting Standard 106-based revenue requirement.  
6 The commission shall not examine any other revenue requirement issues.  
7

8 (Emphasis added by OPC.)  
9  
10

11 Q. DOES THE PUBLIC COUNSEL PROPOSE ANY ADJUSTMENT TO ACCOUNT  
12 FOR THE EFFECTS THAT THE LACK OF FUNDING HAS HAD ON THE SFAS 106  
13 EXPENSE LEVEL OF MPS AND L&P?

14 A. Public Counsel does believe that an adjustment may be appropriate, however, as of the  
15 date I am writing this testimony we have several data requests outstanding for  
16 information that is required in order to calculate such an adjustment. Public Counsel will  
17 provide the Commission with its proposed adjustment, if an adjustment is applicable, at a  
18 later date after we have received and had time to analyze the responses to those data  
19 requests. However, it is readily apparent that the Company should be required to fully  
20 fund the SFAS 106 plan for the contributions it intentionally eliminated.  
21

22 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

23 A. Yes, it does.

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b><u>Company Name</u></b>	<b><u>Case No.</u></b>
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**

<b><u>Company Name</u></b>	<b><u>Case No.</u></b>
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