Exhibit No.:	
Issue(s):	Common Cost Allocation/ AAO Deferred Balances
Witness/Type of Exhibit:	Robertson/Direct
Sponsoring Party:	Public Counsel
Case No.:	ER-2001-672

DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

UTILICORP UNITED, INC.

Case No. ER-2001-672

December 6, 2001

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 39, Schedules 1 through 2.

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 6th day of December 2001.

Bonnie S. Howard
Notary Public

BONNIE S. HOWARD
NOTARY SEAL
MY COMMISSION EXPIRES 05-03-2005
NOTARY PUBLIC
COUNTY OF MONITEAU
STATE OF MISSOURI

My commission expires May 3, 2005.

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OF

TED ROBERTSON

UTILICORP UNITED INC.

CASE NO. ER-2001-672

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November, 1988, I passed the Uniform Certified Public Accountant Examination, and obtained C. P. A. certification from the State of Missouri in 1989.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE EMPLOY OF 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. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("MPSC")?

A. Yes, I have. Please refer to Schedule TJR-1, attached to this Direct Testimony, for a listing of cases in which I have previously submitted testimony.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of this testimony is to express the Public Counsel's recommendations regarding UtiliCorp United Inc.'s ("UCU" or "Company") methodology and allocation of its test year common operating costs to its Missouri Public Service ("MPS" or "MoPub") and St. Joseph Light & Power ("SJLP") electric operating divisions, and to propose that the unamortized deferred balances associated with two MPS Accounting Authority Orders; 1) Sibley generation station capacity life extension and, 2) Western coal conversion projects, be excluded from the determination of the Company's rate base.

COMMON COSTS ALLOCATION

Q. WHAT IS THE ISSUE?

A. Public Counsel has analyzed UCU's common cost allocation methodology and model and has determined that the current UCU allocation process has overstated the amount of test year common costs allocated to the MPS division Missouri jurisdictional electric operations.

Q. PLEASE EXPLAIN BRIEFLY THE BUSINESS STRUCTURE OF UCU'S ALLOCATION PROCESSES.

A. According to UCU, jurisdictional expenses are determined by various methodologies. Direct expenses are direct assigned to its affiliates. Common costs are incurred in Enterprise Support Function ("ESF") departments or to Intra-Business Unit ("IBU") departments which are then allocated to the various affiliates.

Enterprise Support Functions represent various business units within UtiliCorp United Inc. ESF departments support UtiliCorp business units, centralizing some of the company's operations. ESF are centralized administrative services supporting the field operations of the UCU's business units. The costs associated with the ESF departments are assigned directly whenever possible to a business unit or allocated based on a specific cost driver, or, lacking a specific driver, allocated on a general allocator, such as the "Massachusetts Formula." The majority of Enterprise Support employees are located at three sites: UCU's headquarters in Kansas City, MO., and offices in Raytown, MO., and Omaha, NE.

Intra-Business Units, are departments within the business unit of United States Utilities ("USU"). United States Utility, is a business unit within UtiliCorp. It includes what was formerly known as the United States Energy Delivery and Power Services Groups. Intra-Business Units support functions which were established to provide selected services, such as engineering or billing, to multiple regulatory jurisdictions for the purposes of increased efficiency. Costs are assigned directly whenever possible to a business unit, allocated based on a specific cost driver, or, lacking a specific driver, allocated on a general allocator, such as the "Massachusetts Formula."

Q. WHAT IS THE MASSACHUSETTS FORMULA?

A. The Massachusetts Formula consists of the arithmetic average of payroll charged to expense, gross margin and net plant. An affiliate's share of the common costs allocated by way of this method is represented by its share of the arithmetic average thus calculated.

Q. HOW DOES MPS FIT INTO THE UCU ORGANIZATION?

A. Missouri Public Service is a fictitious name used to identify an unincorporated division of UtiliCorp United Inc. Under this name, UCU provides regulated electricity and gas distribution and retail services to customers in part of its Missouri service territory. For organizational and bookkeeping purposes, UCU has further divided the MPS division into two distinct operations; 1) Missouri Public Service Delivery ("MPD"), the electric and gas distribution and transmission of MPS and, 2) Missouri Public Service Generation ('MPG"), the electric generation business of MPS.

Q. DID PUBLIC COUNSEL ANALYZE THE DIRECT COSTS ASSIGNED TO MPS BY THE ESF AND IBU DEPARTMENTS?

A. No. For the purposes of this testimony we are restricting our recommendations to the allocation of the ESF and IBU common costs only.

Q. HOW WERE THE COMMON COSTS ALLOCATED TO MPS OVERSTATED?

A. The processes and allocation model used to allocate common costs to MPS did not include the operations of the St. Joseph Light & Power Company which was acquired by and merged into UCU after the Commission granted approval on December 14, 2000.

Q. WHEN WAS THE ST. JOSEPH LIGHT & POWER COMPANY MERGER CONSUMMATED?

A. The official closing date of the merger was December 29, 2000.

Q. UPON RECEIVING COMMISSION APPROVAL OF THE PURCHASE AND MERGER DID UCU BEGIN INTEGRATING THE OPERATIONS OF SJLP INTO UCU?

A. Yes. SJLP was set up, like MPS, as an operating division under the corporate umbrella of UCU.

Q. WHAT IS THE OPERATION OF LAW DATE FOR THE INSTANT CASE?

A. It's my understanding that the operation of law date is May 6, 2002.

Q. IS IT ALSO YOUR UNDERSTANDING THAT THE INTEGRATION OF SJLP OPERATIONS INTO UCU OPERATIONS SHOULD BE COMPLETE OR NEARLY COMPLETE BY THE OPERATION OF LAW DATE FOR THIS CASE?

A. Yes, it is. My conversations with Company personnel have led me to believe that most, if not all, of the former SJLP's operations will soon be integrated with the UCU operations.

Q. WHAT WERE THE TOTAL COSTS ALLOCATED BY UCU TO MPS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000?

A. According to the Company, the total allocation of common costs to MPS for the calendar year 2000 was $54,870,954 (the ESF allocation was $37,106,396 and the IBU allocation was $17,764,558).

Q. DID THE COMPANY LATER UPDATE ITS ORIGINAL FILED ALLOCATION MODEL TO INCLUDE ALLOCATION FACTORS REPRESENTATIVE OF OPERATIONS AT JULY 2001?

A. Yes. However, the Company's updated allocation model continued to exclude the impact of the SJLP operations from the calculation of the common costs determined allocable to MPS.

Q. DID YOU UTILIZE THE UPDATED ALLOCATION FACTORS TO DETERMINE THE AMOUNT TO BE ALLOCATED TO MPS FOR THE TWELVE MONTHS ENDED JUNE, 2001, WHEN THE SJLP OPERATIONS ARE INCLUDED IN THE ALLOCATION PROCESS?

A. Yes.

Q. WHAT ARE THE TOTAL COSTS THAT SHOULD BE ALLOCATED TO MPS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000, UPDATED TO INCLUDE THE NEW ALLOCATION FACTORS AND TO INCLUDE THE SJLP OPERATIONS?

A. Public Counsel's modification to the Company's updated allocation model to include the updated allocation factors and to include the SJLP operations results in a $45,158,483 allocation of common costs to MPS (the ESF allocation amount decreased to $24,740,135 and the IBU allocation increased to $20,418,348 for a total decrease of $9,712,470 from the actual total calendar year 2000 allocation of $54,870,954). These costs I've just described represent total common costs allocated to MPS before adjustment for the allocation between the electric and gas operations and the allocation between regulated and non-regulated electric operations.

Q. PLEASE IDENTIFY THE PUBLIC COUNSEL'S ADJUSTMENT TO THE MPS TEST YEAR RATE CASE FOR ALLOCATED COMMON COSTS TO MPS AFTER ADJUSTING FOR THE ALLOCATION BETWEEN ELECTRIC AND GAS OPERATIONS AND ELECTRIC REGULATED AND NON-REGULATED OPERATIONS.

A. Public Counsel recommends that the decrease in common costs allocated to MPS (i.e., $9,712,470) after adjustment for the allocation between electric and gas operations and the jurisdictional allocation between regulated and non-regulated electric operations should be **$6,554,643**.

Q. DOES THE $6,554,643 DECREASE REPRESENT THE ENTIRE COMMON COSTS ALLOCATION ADJUSTMENT PUBLIC COUNSEL IS RECOMMENDING?

A. No. The adjustment that I've described in the previous Q & A represents only the change in the Company's common costs allocation model to include the updated July 2001 allocation factors and to include the SJLP operations. Public Counsel is still in the process of auditing and analyzing the alleged actual costs the Company proposes to allocate to MPS in this rate case, along with the methods and processes by which it intends to do so. We think it is probable that the incorporation of other changes to the common costs allocation adjustment will be necessary. When the other changes are determined, we will identify and explain them.

Q. WHEN WAS THE COMPANY'S UPDATED RATE CASE MODEL PROVIDED TO PUBLIC COUNSEL?

A. Company's updated rate case model was provided to Public Counsel on October 25, 2001. The workpapers associated with the updated rate case model were provided to Public Counsel on or about October 26, 2001 (twenty days before the original filing due date of direct testimony).

Q. WHEN WAS THE CORPORATION OVERHEAD ALLOCATIONS MODEL PROVIDED?

A. It was provided with the updated rate case on October 25, 2001. In addition to being updated for allocation factors as of July 2001, the allocation model was drastically altered from the format which was provided with the Company's original filing in June, 2001. The updated allocation model contains several quantitatively large adjustments that removed allocated payroll, employee benefits and other costs from the allocation process calculations. The costs removed from the allocation model were instead included as components in the Company's calculations of its annualizations for similar costs in its rate case proposal. As a result of the late arrival of the updated case and the large modifications, Public Counsel has not been able to complete its review of the allocation processes and continues to audit the alleged costs.

Q. WERE YOU PROVIDED A REASONABLE AMOUNT OF TIME TO ANALYZE THE COMPANY'S NEW MODEL, AUDIT THE ASSOCIATED COSTS AND PREPARE TESTIMONY ON THIS ISSUE?

A. No. It is unrealistic to believe that the updated case could be analyzed and audited in the time remaining for the filing of direct testimony in this case. Our analysis was further complicated by the fact that the identification and support for the detailed costs allocated have not yet been provided to Public Counsel for audit purposes.

Q. WHAT OTHER CHANGES TO THE COMMON COST ALLOCATION METHODOLOGY, MODEL AND AMOUNTS DOES THE PUBLIC COUNSEL BELIEVE IS LIKELY TO OCCUR?

A. Public Counsel believes it likely that other changes to the common costs allocation will be identified and proposed due to the dynamic nature of the UCU operations and the difficulties we have encountered in auditing its new accounting system. For example, I have recently learned that UCU is in the process of reacquiring the remaining 20% of its

80%-owned subsidiary, Aquila Inc., which it currently does not own. It's my understanding that the stock was sold to the public in an initial public offering during the Spring of calendar year 2001. Because UCU retained control of 80% of Aquila Inc. the common cost allocation model, in many instances, only assigned common costs to Aquila Inc. based on an 80% ownership factor(s). If UCU is again going to own 100% of Aquila Inc. on a going-forward basis, the allocation model will have to be updated to include the impact of the ownership change.

Furthermore, on or about October 25, 2001 (only 22 days before the original November 15, 2001 filing date of Public Counsel's direct testimony) the Company provided the Public Counsel with its updated rate case (i.e., updated through the end of June 2001, the known and measurable period ordered by the Commission). The updated rate case contained an updated common cost allocation model that included allocation factors updated for operations through to July 2001. The common cost allocations model in the Company's original rate case filing included allocation factors that were based on statistics for calendar year 1998 operations and utilized in the allocations for the period July 1, 1999, through September 30, 2000, along with calendar year 1999 statistics that were utilized in allocations for the period October 1, 2000 through June 30, 2001. (sources: OPC Data Request No. 1067 and MPSC Data Request No. 103)

Though the filing date of Public Counsel's direct testimony was extended for 21 days past the original date, it would not be reasonable to expect that an accounting area as complicated and voluminous as the UCU common costs allocation methodology, processes and model can be thoroughly audited in a less than 1 ½ months. Public Counsel is still in the process of trying to ascertain the validity and reasonableness of the updated allocation methodologies/model, the cost allocation amounts that result from it, the changed allocation factors and the statistics that the Company is offering to support the changes in the allocation factors.

Q. IS PUBLIC COUNSEL STILL TRYING TO ASCERTAIN THE VALIDITY AND REASONABLENESS OF THE COMMON COSTS CHARGED FROM THE VARIOUS ESF AND IBU DEPARTMENTS TO MPS AND THE OTHER AFFILIATES?

A. Yes.

Q. WHY HAS THE PUBLIC COUNSEL NOT BEEN ABLE TO COMPLETE ITS ANALYSIS OF THE ALLOCATION OF THE ALLEGED COMMON COSTS?

A. The primary obstacle that has hampered the Public Counsel's audit of the alleged ESF and IBU common costs has been the relatively recent changeover that occurred in the

Company's accounting systems. According to Company personnel, it converted its prior accounting systems to a new PeopleSoft Accounting System in September, 1997.

Q. HAS THE COMPANY'S NEW ACCOUNTING SYSTEM MADE IT DIFFICULT TO AUDIT THE COMMON COSTS ALLEGED?

A. Yes. The Company stated early in the audit that it does not produce a monthly detailed general ledger. The lack of the general ledger has presented many problems; not the least of which is the inability of the auditors to identify and audit, in a timely manner, the detailed costs which the Company alleges to have incurred and allocated to MPS.

Q DID THE PUBLIC COUNSEL SEEK ACCESS TO A GENERAL LEDGER EARLY IN THE CASE?

A. Yes, we did. On July 10, 2001, the Public Counsel requested the UCU, MPS and SJLP electric divisions monthly general ledger for the period January 1, 2000 to present.

Q. DID THE PUBLIC COUNSEL ASK THE COMPANY TO PROVIDE IT ACCESS TO THE GENERAL LEDGER FOR THE COMMISSION ORDERED TEST YEAR AND UPDATE PERIOD?

A. Yes, we did. Public Counsel issued OPC Data Request No. 1001 which stated the following:

> Please provide an electronic (Microsoft Excel) or microfiche copy of the UtiliCorp United Inc., the MPS electric division and the St. Joseph electric division monthly general ledger for the period January 1, 2000 to present. This is a continuing request; please update the information as each new month closes.

On August 2, 2001 OPC received a response to Data Request No. 1001 from the Company. The response contained a copy of the Company's response to the MPSC Staff Data Request No. 70 which consisted of the following:

1. MPS FERC Trial Balance by Month Balance Sheet Accounts for fiscal years 1997-2000 and the first five months of fiscal year 2001.

2. MPS FERC Trial Balance by Month Income Statement Accounts for fiscal years 1997-2000 and the first five months of fiscal year 2001.

Q. IS A TRIAL BALANCE THE SAME AS A GENERAL LEDGER?

A. No, a trial balance is not a general ledger. It is a <u>summary</u> of the total balances recorded in a general ledger, without detailed cost descriptions, by FERC account. In addition, the response contained only MPS data. I contacted Mr. Gary Clemens shortly after receiving the first response and we discussed the new PeopleSoft Accounting System that the Company had recently installed. I was led to believe that the Company did not have or produce a hard copy or electronic copy of the monthly general ledger. Subsequently, in a supplemental response to Public Counsel Data Request No. 1001, the Company provided the following additional Trial Balances:

1. UCU and SJLP MPS FERC Trial Balance by Month Balance Sheet Accounts for fiscal year 2000 and the first six months of fiscal year 2001.

2. UCU and SJLP FERC Trial Balance by Month Income Statement Accounts for fiscal year 2000 and the first six months of fiscal year 2001.

Q. DID THE PUBLIC COUNSEL MAKE OTHER ATTEMPTS TO GAIN ACCESS TO A GENERAL LEDGER?

A. Yes. In August of 2001, I, along with most of the members of the MPSC Staff audit team, met with Company personnel in Raytown, Missouri, to discuss the operation of the new PeopleSoft Accounting System. Again, while attending these meetings, Company personnel stated several times that it did not develop or maintain a monthly general ledger. Public Counsel was led to believe that if a general ledger could be prepared, the end result would be extremely voluminous. In fact, Company personnel stated that the document, if prepared, would in all likelihood be so voluminous that it would fill a room and that most of the entries would be basically (or at least initially) indecipherable due to the fact that they would be allocations (without detailed descriptions) from the various Enterprise Support Functions and/or Intra-Business Units that provided services to and/or for MPS and affiliates.

Q. WHAT IS A DETAILED GENERAL LEDGER?

A. A detailed general ledger is the primary source or location where all the financial transactions of the Company for a test period are aggregated. It is often call the financial books of record. It contains the fundamental financial data upon which auditors rely when comparing a utility's alleged cost structure with the cost structure that actually occurred. It is the financial record wherein the detail of the accounting entries related to a company's balance sheet and income statement information for a specific period of time (usually a calendar or fiscal year) is recorded. It contains the detailed accounting entries cost description and amounts which when summed create the trial balance which the Company provided in its initial and supplemental response to OPC Data Request No. 1001.

Q. WHAT IS THE SIGNIFICANCE OF A GENERAL LEDGER?

A. The general ledger contains the detailed financial data that allows an auditor to trace an actual cost of service item from the recorded amount back to the source documents from which it was created and forward to the published public financial reports upon which investors and/or other stakeholders rely. It is the pivotal brick in the audit trail that allows an auditor to conduct an independent unbiased audit. It provides the auditor with a listing of all the detailed financial data which can then be compared to public sources and/or documentation originating outside the utility.

Q. IS THE FINANCIAL DATA PRESENTED IN A GENERAL LEDGER THEN SUMMARIZED AND PRESENTED IN PUBLIC FINANCIAL STATEMENTS?

A. Yes. A summary of the detailed financial data contained in the general ledger is subsequently presented in monthly, quarterly and yearly financial statements provided to investors and regulatory authorities such as the MPSC, FERC and the IRS. A Company's presentation of these summary financial documents to the regulatory authorities provide another level of creditability upon which an auditor can independently rely that the financial information for the period being audited is indeed valid and accurate.

Q. HOW IS AN AUDITOR CONSTRAINED IF A GENERAL LEDGER IS NOT AVAILABLE?

A. Without access to a detailed general ledger an auditor must rely solely on the utility's employees for the aggregation and presentation of the financial data for the period being reviewed. Without access to a detailed general ledger an auditor cannot see in one place a complete descriptive listing of all charges or costs incurred during the test period. Without it, the auditor must rely on the utility's employees for the development and presentation of all detailed financial data subject to audit. Potentially, the audit may be compromised because the utility's employees are unable to provide in an comprehensive and timely manner the source documents that support the detail behind the summary financial data presented in the financial statements.

Time is of the essence in all audits; even more so when a detailed general ledger is not available for the auditors review. Reliance on utility employees for the sole access to and provision of the financial data subject to review seriously hinders an audit in that it may not allow an auditor to obtain a complete picture of the utility's operations and certainly obstructs their **independence** level and faith or reliance in the data the utility's employees are able to provide. The auditors are put into a position whereby they must trust the utility employees to provide complete and accurate financial data subject to audit rather than relying on impartial sources for verification. The Public Counsel believes that in this case the Company has not yet provided the support for the detailed financial data necessary to support an audit of its filing.

Q. DID THE PUBLIC COUNSEL REQUEST PERSONAL ACCESS TO THE ACCOUNTING COMPUTER SYSTEM?

A. Yes, but Company personnel indicated that access to the accounting system could not be accomplished due to the inherent complexities of the system. Instead Company stated it would prepare any queries and provide the information required by the auditors.

Q. WHY IS THIS METHOD OF PROVIDING INFORMATION NOT A GOOD PRACTICE?

A. There are many reasons that a regulatory auditor should not rely solely on Company employees to identify and aggregate material subject to audit. The most important being the possibility of impairment of the auditors independence level and the fact that Company employees must be viewed as potentially biased. Regulatory auditors must have personal access to the sources of independently verifiably information in order to maintain a high level of confidence in the audit and the opinions that result from the audit.

Q. DID THE COMPANY ULTIMATELY PROVIDE PUBLIC COUNSEL WITH A COPY OF ALL DETAILED GENERAL LEDGERS REQUESTED?

A. No. Public Counsel was told many times that the Company does not develop or maintain a monthly detailed general ledger. In fact, in his reply to an October 17, 2001, memorandum which I sent asking for information on the Company's possible production of a general ledger to the MPSC Staff, Mr. Gary Clemens again stated, "We do not have a general ledger." (The memorandum is attached to this Direct Testimony as Schedule TJR-2.)

However, in response to inquiries by Staff auditors, the Company created a report that provided a listing by FERC Account functionalized (by resource code number and cost type) balances for total MPS operations for calendar years 1998-August 2001.

On or about October 24, 2001, the Company provided to the Public Counsel a copy of the detailed monthly general ledger for <u>SJLP</u> for calendar year 2000. It also provided a copy of the functionalized cost report (costs summarized by function rather than detailed by each actual vendor, etc.) that it had earlier provided to the MPSC Staff, for MPS, for the period January 2000 through August 2001. <u>These reports were provided to the Public</u>

Counsel approximately 106 days after the date of its original request for a copy of the detailed general ledgers.

Q. WAS THE MPS FUNCTIONALIZED COST REPORT PROVIDED ON OCTOBER 24, 2001 A DETAILED GENERAL LEDGER?

A. No.

Q. DID THE COMPANY LATER PROVIDE PUBLIC COUNSEL WITH A COPY OF ALL OTHER DETAILED GENERAL LEDGERS?

A. No. Shortly before the middle of November the Company contacted me and stated that it was having a *Detailed General Ledger by Journal Line* for UCU, MPS and other affiliates that allocated costs to MPS printed and sent from Omaha, NE to Kansas City, MO. I was informed later that the information provided consisted of approximately 28 boxes of computer printout that was available for my review in the Raytown offices of the Company. On the 28th and 29th of November I went to the Company's offices in Raytown, MO. I sorted the various printouts provided (they were not in any particular order) and then removed the MPS and a portion of the UCU printouts to the OPC office in Jefferson City.

Incidentally, the printouts provided for MPS were not combined for all MPS operations. The MPS printout consisted of two separate documents; 1) Missouri Public Distribution and, 2) Missouri Public Generation. The MPS printouts, which represented the twelve months ended December 31, 2000, consisted of approximately 8 large boxes of computer paper. This does not constitute a reliable document necessary to perform an independent audit.

Q. DO THE PRINTOUTS YOU RECEIVED FROM THE COMPANY PROVIDE THE DETAILED DESCRIPTIONS OF AMOUNTS AND COST VENDORS OR SOURCES NECESSARY TO ALLOW FOR AN EFFICIENT AND EFFECTIVE AUDIT OF THE OPERATIONS OF MPS FOR THE TEST YEAR?

A. No. Just as the Company had stated earlier, the printouts provided contain line after line of basically indecipherable data and amounts. That is not to say that any specific amount shown in the printout cannot be traced back to original source documentation by Company personnel. I've been told that it can. However, the data provided in the printouts does not, for a large portion, contain an adequate detailed description of the individual entries cost source nor does it identify with any precision the percentage of the total amount or cost from which each amount listed is originally derived or represents. The data is basically the output of a "black box", the PeopleSoft Accounting System.

Given the limitations of the data provided, tracing each cost listed back to the original source documentation would be an extremely labor intensive, if not impossible, task.

Q. DO YOU BELIEVE THE PRINTOUTS PROVIDED BY THE COMPANY TO BE ESSENTIALLY A USELESS SOURCE OF FINANCIAL DOCUMENTATION FOR THE PURPOSE OF AUDITING THE COMMON COSTS ALLOCATION TO MPS?

A. Yes.

Q. COULD UCU HAVE MADE THE NEW ACCOUNTING SYSTEM "REGULATOR FRIENDLY" WITH A COUPLE OF MINOR ADJUSTMENTS?

A. Yes, in my opinion, it could have. If the PeopleSoft Accounting System had been set up to create a regulated operations general ledger that identifies in detail the cost source (provider, vendor, invoice number and date, etc.) of each specific allocation entry along with the portion of the total amount allocated that it represents, the problems we are now encountering would have been mitigated significantly. In fact, if the Company had only provided the detailed general ledger within 20 days of our original request along with the detailed information we are discussing here, it is likely that this issue would have never arisen.

Q. IS THE PUBLIC COUNSEL STILL ATTEMPTING TO INTERPRET THE PRINTOUTS PROVIDED ALONG WITH OTHER SOURCES OF DOCUMENATION AND DATA TO AUDIT THE COMMON COSTS ALLOCATIONS OF THE ESF AND IBU DEPARTMENTS?

A. Yes, we are. We are diligently ploughing through the information provided by the Company in an attempt to be as thorough as possible given the limitations placed upon us by the deficient PeopleSoft Accounting System. It is probable that in later testimony we will more accurately identify necessary changes to the common costs allocated to MPS.

AAO DEFERRED BALANCES

Q. WHAT IS THE ISSUE?

A. Pursuant to Commission order, the Company was authorized to defer depreciation expenses, property taxes, and carrying costs associated with the capacity life extension and western coal conversion projects at its Sibley generating station ("SCLE/WC"). All are costs which would have normally been expensed beginning with the in-service date of the new plant. Approval to defer and recover the costs was made pursuant to the Commission's Accounting Authority Orders ("AAO") in Case Nos. EO-90-114 and ER-90-101and subsequent reauthorization in Case Nos. EO-91-358 and ER-93-37. At issue is whether or not the unamortized deferred balances associated with the two AAOs should be included in the determination of the instant case rate base.

Q. WHAT DOES THE COMPANY MEAN WHEN IT USES THE TERM "DEFER"?

A. When a cost (expense) has been deferred, it is removed from the income statement and entered on the balance sheet (e.g., Account 186, Miscellaneous Deferred Debits), pending the final disposition of these costs at some future point, usually a rate case. The Federal Energy Regulatory Commission Uniform System of Accounts, Account No. 186, Miscellaneous Deferred Debits, states:

> A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, construction certificate application fees paid prior to final disposition of the application as provided for in gas plant instruction 15A, and unusual or extraordinary expenses not included in other accounts which are in process of amortization, and items the final disposition of which is uncertain.
>
> B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit included herein.

Q. DID THE COMMISSION AUTHORIZE THE UNAMORTIZED COSTS TO BE REFLECTED IN RATE BASE?

A. Yes. In the MPSC Order for Case No. ER-90-101, page 31, it states:

> The Commission determines that these costs should be amortized over 20 years which is the approximate extended life of the plant. The Commission finds that this approach matches the payments of the costs by the ratepayers for the rebuilding with their enjoyment of its benefits. The Commission further determines that the unamortized costs should be reflected in rate base.

Also in the MPSC Order, Case No. ER-97-37, page 7, it states:

> Staff initially opposed the deferral of a portion of the costs as proposed by MoPub, but the Stipulation at paragraph 6 indicates that Staff agreed to allow MoPub to include the AAO "deferrals authorized in Cases No. EO-90-114 and EO-91-358, as adjusted by MoPub, to be reflected in rate base and amortized over a twenty-year period." Public Counsel opposes the inclusion of any of these deferred costs in MoPub's revenue requirement.

Continuing on page 12 of the ER-97-37 Order, the Commission stated:

> ...the Commission finds that the recovery of the deferred costs as proposed by MoPub and agreed to in the Stipulation And Agreement is reasonable.

Q. WHAT IS THE CURRENT BALANCE OF THE UNAMORTIZED DEFERRED BALANCES?

A. According to Company rate case workpapers; CS-73A, RB-40 and RB-40A, provided in response to OPC Data Request No. 1006, the total electric jurisdictional unamortized deferred balance for the two AAOs as of June 30, 2001 is $3,506,104.

Q. IF APPROVED WHAT IS TOTAL UNAMORTIZED DEFERRED BALANCES THAT WOULD BE INCLUDED IN THE RATE BASE FOR THE INSTANT CASE?

A. The Company has identified total unamortized deferred balances of $3,506,104.

Q. WHAT PORTION OF THE TOTAL UNAMORTIZED DEFERRED BALANCES WOULD BE INCLUDED IN THE COST OF SERVICE?

A. Company is, pursuant to the Commission Orders, amortizing the deferred balances over twenty years. The electric jurisdictional annual amortization amount, which is identified on the Company's direct filing workpaper, Schedule RB-40A, approximates $333,478 ($193,582 of the annual amortization is associated with Case EO-90-114/ER-90-101 and the remainder is for Case EO-91-358/ER-93-037).

Q. IS THE TWENTY YEAR AMORTIZATION PERIOD UTILIZED BY THE COMPANY THE APPROPRIATE TIME PERIOD TO USE IN DETERMINING THE ANNUAL AMORTIZATION OF THE DEFERRED BALANCES?

A. Yes. Under normal regulatory accounting, carrying costs (AFUDC) and taxes (property) are added to an investment's balance during the period that the investment is categorized as construction work in progress. These additional costs appropriately follow the investment to plant-in-service upon its completion. The total cost of the investment, including carrying costs, property taxes and depreciation, are then recovered by the Company over the used and useful life of the investment. In many instances, these costs are associated with plant that is normally recovered over periods that far exceed a twenty year used and useful life. In these instances, the extension of the life of the Sibley Generation Station was identified as twenty years thus, Public Counsel believes that, at a minimum, the time period for amortization of the deferred balances should remain at not less than twenty years as originally ordered by this Commission.

Q. PLEASE CONTINUE.

A. Intrinsic to the Public Counsel's position that the deferred balances should be amortized over the remaining twenty years is the fact that the costs deferred are the result of a Commission ordered aberration or accounting variance from normal regulatory ratemaking.

Absent the AAO orders, the Company would not have been allowed to even aggregate and defer costs for later Commission review.

The deferred costs are solely a product of the accounting authority orders and the accounting authority orders are solely related to investment in the Sibley capacity life extension project, and the western coal conversion project associated with meeting the requirements of the Federal Clean Air Act. In fact, many of the same costs deferred (i.e., interest and property taxes) are directly charged to the plant investment during the period it is accounted for as construction work in progress. These same costs are then depreciated in their entirety over the lives of the respective plant investments. To separate the lives of the plant investment from the AAO deferred costs (consisting of interest, depreciation and property taxes aggregated between the date the plant is placed in-service and the date the plant investment is included in rates) is not logical.

Q. YOU STATED EARLIER THAT THE COMPANY HAS IN THE PAST INCLUDED THE SIBLEY CAPACITY LIFE EXTENSION AND COAL CONVERSION PROJECTS UNAMORTIZED DEFERRED BALANCE IN RATE BASE, DOES THE PUBLIC COUNSEL AGREE WITH THIS ADJUSTMENT?

A. No. It's the Public Counsel's position that the unamortized deferred balance associated with the AAOs not be included in the determination of the Company's rate base. The rationale for this position is based on the view that the Company is being given what amounts to a guaranteed "return of" the deferrals associated with the SCLE/WC projects; therefore, it should not be also provided with a "return on" those same amounts.

Q. ISN'T IT TRUE THAT THE UNAMORTIZED DEFERRED CARRYING COSTS AND DEPRECIATION EXPENSES ARE NOT ACTUALLY FUNDED BY THE COMPANY?

A. Yes, that is a true statement. The carrying costs and depreciation expenses associated with the unamortized deferral are not actual dollars of investment funded by the Company, they are merely accounting entries on the financial books. Neither the carrying cost nor the depreciation expense causes the Company to forego any **actual outlay** of cash. However, the dollars associated with these book entries will be charged to ratepayers through the amortization included in the Company's cost of service .

Q. IF THE UNAMORTIZED DEFERRED BALANCES ARE INCLUDED IN RATE BASE WOULDN'T THAT PERMIT THE COMPANY TO EARN A RETURN ON FICTITIOUS INVESTMENTS BY THE COMPANY?

A. Yes, it would. In fact, allowing the Company to earn a "return on" the unamortized deferrals has the same effect of allowing it to earn a "return on" a "return of." Stated another way, the Company will recover (receive a "return of") the deferred carrying cost, depreciation and property tax expense by way of the amortization included in rates and then will earn a "return on" those same amounts.

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

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

Q. WHAT IS THE EFFECT OF THE COMPANY'S SIBLEY CAPACITY LIFE EXTENSION AND WESTERN COAL CONVERSION PROJECTS ACCOUNTING AUTHORITY ORDERS?

A. The Commission's authorization of AAO treatment for the Company's SCLE/WC projects has the potential to insulate MoPub shareholders from the risks associated with regulatory lag that occurs when the SCLE/WC construction projects are completed, and placed in service, before the operation law date of a general rate increase case.

Q. PLEASE EXPLAIN THE CONCEPT OF REGULATORY LAG.

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

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

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

> Lessening the effect of regulatory lag by deferring costs is beneficial to a company but not particularly beneficial to ratepayers. Companies do not propose to defer profits to subsequent rate cases to lessen the effects of regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part of the regulatory process and can be a benefit as well as a detriment. Lessening regulatory lag by deferring costs is not a reasonable goal unless the costs are associated with an extraordinary event.
>
> Maintaining the financial integrity of a utility is also a reasonable goal. The deferral of costs to maintain current financial integrity, though, is of questionable benefit. If a utility's financial integrity is threatened by high costs so that its ability to provide service is threatened, then it should seek interim rate relief. If maintaining financial integrity means sustaining a specific return on equity, this is not the purpose of regulation. It is not reasonable to defer costs to insulate shareholders from any risks. 1 Mo. P.S.C. 3d 200, 207 (1991).

Q. HAS THE COMMISSION MADE A DETERMINATION THAT THE SIBLEY CAPACITY LIFE EXTENSION AND WESTERN COAL CONVERSION PROJECTS WERE EXTRAORDINARY EVENTS?

A. Yes, it has. The Commission, however, has more recently refined how an extraordinary event is identified when it stated on page 13 of its Report and Order in St. Louis County Water Company, Case No. WR-96-263:

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

Q. DID THE COMMISSION, IN A RECENT ORDER, DENY THE INCLUSION IN RATE BASE OF UNAMORTIZED DEFERRED BALANCES ASSOCIATED WITH AN ACCOUNTING AUTHORITY ORDER?

A. Yes, in Missouri Gas Energy, Case No. GR-98-140, the Commission ordered that the unamortized deferred balances associated with the Company's gas safety line replacement program would not be included in the determination of the Company's rate base. On page 19 of the GR-98-140 Order, it states:

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

Continuing on page 20, it states:

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

Q. DID THE COMMISSION RECOGNIZE IN A LATER UTILITY ORDER THAT AAO DEFERRED BALANCES WERE NOT TO BE INCLUDED IN THE DETERMINATION OF RATE BASE?

A. Yes. The Commissions Order in Laclede Gas Company, Case No. GR-99-315, approved a partial stipulation and agreement entered into by the parties that provided no rate base treatment of the Company's AAO deferred balances. On page 5 of the *First Amended Partial Stipulation and Agreement* it states:

> The parties agree that they will not propose, in any manner, exclusion of such amortized amounts in Laclede's cost of service for ratemaking purposes during the aforementioned periods required to amortize such balances. <u>The parties further agree that they will not propose to include such balances in the Company's rate base.</u>
>
> (Emphasis added by OPC)

Q. WERE THE SCLE/WC PROJECTS UNPREDICTABLE IN NATURE?

A. No, they were not. The SCLE/WC projects were a continuing construction project that existed for several years. It would be unrealistic to believe that a construction project that lasted as long as the SCLE/WC projects could not be predicted and planned for by management with a minimum of error in their results.

Q. SHOULD RATEPAYERS BE REQUIRED TO PROVIDE UCU WITH A GUARANTEED RETURN ON THE AAO DEFERRED BALANCES JUST BECAUSE THE COMPANY'S MANAGEMENT CHOSE NOT TO EXERCISE ITS PLANNING AND OPERATING RESPONSIBILITIES?

A. No, ratepayers should not be required to fund such a return. Planning and operation of the Company's construction projects are a fundamental responsibility of management. Only management has complete access to the data and resources necessary to fulfill these responsibilities, and as such, management should have been able to implement a SCLE/WC construction program that minimized the effects of regulatory lag on the Company finances. To the extent regulatory lag moves against the Company, the Commission has already decided, as mentioned earlier, that lessening regulatory lag by deferring costs is not a reasonable goal.

Q. PLEASE CONTINUE.

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

Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING MOPUB'S ACCOUNTING AUTHORITY ORDERS FOR THE SCLE/WC PROJECTS.

A. The Public Counsel has reviewed the prior Commission orders pertaining to the Company's AAOs, the associated unamortized deferred balances, the annual amortization of the deferred balances, and the past regulatory treatment of these costs and we do not believe it reasonable to include the unamortized deferred balances in rate base. Public

Counsel recommends that the Company's rate base determination in the instant case exclude the unamortized deferred balances so that UCU does not earn a "return on" the deferred amounts. Guaranteeing the Company a "return of" and "return on" the unamortized deferred balances is not a fair allocation of regulatory lag resulting from the Company's construction projects. This view is based on the fact that management of the Company is responsible for the planning and operating activities associated with construction projects undertaken by the Company. If management is unable to or chooses not to implement processes and procedures which would limit the effect of regulatory lag on its finances, the Company should not be protected by the Commission with a guaranteed earnings opportunity on the amounts deferred. Therefore, in order that ratepayers and shareholders both share in the effect of regulatory lag, Public Counsel is recommending that the Commission allow the Company to earn a "return of" the unamortized deferred balances, over the remainder of the twenty-year period that is representative of the life of the plant to which the deferrals relate, but not a "return on" the unamortized deferred balances.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

CASE PARTICIPATION
OF
TED ROBERTSON

Company Name	Case No.
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
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
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
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

Robertson, Ted

From: Clemens, Gary [GClemens@utilicorp.com]
Sent: Wednesday, October 17, 2001 4:33 PM
To: Robertson, Ted; Coffman, John
Subject: RE:

-----Original Message-----

From: **Robertson, Ted [mailto:troberts@mail.state.mo.us]**
Sent: Wednesday, October 17, 2001 11:53 AM
To: 'Gary Clemens'; Coffman, John
Subject:

Wednesday, October 17, 2001

Gary,

We met with Staff yesterday to discuss there problems. We do not have a general ledger. We are creating a report that will help them. We will be copying you on the report and it should be ready early next week.

During some informal discussions with the MPSC Staff I've learned that the Company has committed to providing the Staff with a hardcopy of the Company's General Ledger. Since this request was made by the OPC as one of its very first data requests in this case, and the Company indicated none existed, I'm curious as to why the OPC has not been informed of the Company's intentions and abilities with regard to producing the requested information. Please let us know what information is going to be provided and when.

Thanks,

Ted Robertson