

Exhibit No.:

Issues: Overhead Allocations
& Accounting System

Witness: Beverlee R. Agut

Sponsoring Party: Missouri Public
Service

Case No.: ER-2001-672

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Beverlee R. Agut

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Service Commission

TABLE OF CONTENTS

FINANCIAL ACCOUNTING SYSTEM.....	2
ACCOUNTING RECORDS.....	5
COMPLIANCE WITH FERC UNIFORM SYSTEM OF ACCOUNTS (USOA).....	13
OVERHEAD ALLOCATIONS.....	14

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
REBUTTAL TESTIMONY OF BEVERLEE R. AGUT
ON BEHALF OF MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED INC.
CASE NO. ER-2001-672**

1 Q. Please state your name and business address.

2 A. My name is Beverlee R. Agut and my business address is 10700 East 350 Highway, Kansas
3 City, Missouri 64138.

4 Q. Are you the same Beverlee R. Agut who sponsored direct testimony in this proceeding
5 before the Missouri Public Service Commission ("Commission")?

6 A. Yes.

7 Q. What is the purpose of your rebuttal testimony in this proceeding?

8 A. The purpose of my testimony is to respond to allegations made by witnesses for the
9 Missouri Public Service Commission Staff ("Staff") and the Office of the Public Counsel
10 ("OPC") regarding the accounting records of Missouri Public Service ("MPS") including
11 a discussion of UtiliCorp United's ("UtiliCorp") financial accounting system and
12 UtiliCorp's compliance with the Federal Energy Regulatory Commission ("FERC")
13 Uniform System of Accounts ("USOA"). I will also be testifying on the calculations
14 made by OPC witness Ted Robertson in his proposed adjustment to include the impact of
15 St. Joseph Light & Power ("SJLP") in the centralized support allocations process. I am
16 also providing comments to the proposed adjustment made by Staff witness Charles R.
17 Hyneman to increase the Aquila allocations.

1 **FINANCIAL ACCOUNTING SYSTEM**

2 Q. Are you familiar with the PeopleSoft financial accounting system utilized by UtiliCorp?

3 A. Yes. I was part of the general ledger project team that built and implemented the system,
4 as it was designed.

5 Q. Can you briefly describe the system?

6 A. The PeopleSoft system is a popular financial software. While PeopleSoft made its name
7 in the Human Resource and Payroll areas, its financial system gained in popularity
8 because of its flexibility compared to other widely used packages such as SAP and
9 Oracle. We currently utilize the General Ledger, Project Cost, Accounts Payable ("AP"),
10 Human Resources, Inventory and Purchasing system modules of PeopleSoft. We plan to
11 implement the PeopleSoft Time and Expense Reporting modules in 2002. All modules
12 have a powerful "query" function that can extract many levels of detail from the data
13 base.

14 Q. What is a "query"?

15 A. "Query" is a term attached to a PeopleSoft data extraction tool. PeopleSoft utilizes SQL
16 programming language. SQL stands for "Structured **Q**uery Language." A query can be
17 of a very basic nature or very complicated. Users of PeopleSoft are given training in
18 building and running queries and only experienced users are allowed to run or build the
19 more complex queries.

1 Q. Are there advantages to the query method of extracting data?

2 A. Yes. The query method is faster than flipping through a paper document and also allows
3 the user to define the content of the query, which eliminates unnecessary data.
4 Additionally, the query tool is attached to Microsoft Excel, which allows the user to
5 summarize the data extracted into desired formats using the pivot table function of
6 Microsoft Excel.

7 Q. Can an auditor use a query?

8 A. Yes, most definitely. It can be a very efficient means of conducting an audit. If the
9 auditor can define the nature of the information he or she would like to see and that
10 particular data is contained in the database, a query may exist or can be built to
11 summarize the data, as requested. For example, if the auditor wanted to see all charges
12 for Outside Services for a specific department or business unit, then a query could be run
13 that would summarize all amounts charged to outside services by keying on "Resource
14 Code," specifically 1800-1899 in the UtiliCorp accounting code block. In fact, it is my
15 belief that Commission Staff auditors routinely rely on "query-like" analyses in each of
16 their audits, including utility companies other than UtiliCorp.

17 Q. How does the Staff rely on queries in their other audits?

18 A. Anytime the Staff requests an analysis of a particular account or item of income or
19 expense, the resulting analyses provided by the utility company being audited are, in fact,
20 a query. It may be called something different, but it is still an extraction or analysis of
21 data from the entire system database. Some are prepared manually and others are

1 prepared electronically. In either case, it is similar to a query whether it comes from
2 PeopleSoft or another financial system.

3 Q. Can a query be audited?

4 A. Yes.

5 Q. Please explain.

6 A. Anytime a query is prepared by the company being audited, the auditor will want to test
7 the preparation of the query. This can be done by agreeing balances back to ledgers or
8 trial balances and/or looking at source documents supporting individual transactions.
9 This is usually not done on a 100% basis but rather is done following a pre-defined scope
10 for testing. Once the auditor is satisfied with the preparation of the query then he or she
11 can proceed with analyzing the data contained in the query that may warrant further
12 investigation or analysis. Based on this work, the auditor can reach a final conclusion
13 regarding the propriety of the data being reviewed.

14 Q. Does the query detail always provide a direct link to the source document?

15 A. Not always.

16 Q. Can you elaborate?

17 A. For example, each line of data in a journal line query contains a "journal id" which
18 indicates the source of the data. If a particular line is from a particular general journal
19 entry then the journal id will contain the specific reference to that journal entry. If a
20 particular line of data is from one of the other PeopleSoft modules, say for instance AP,
21 then the reference is usually back to a batch of transactions which will contain the details

1 behind the transaction being reviewed along with other transactions processed in that
2 batch. To review further detail of the AP batch of transactions, a query may be run on the
3 AP data base. In the case of a vendor payment, the additional information found in the
4 AP data base will be vendor, description of payment, coding, etc., and would provide
5 sufficient detail to lead the auditor back to the source document(s).

6 Q. Is this path back to the transaction detail commonly referred to as an "audit trail."

7 A. Yes, it is.

8 ACCOUNTING RECORDS

9 Q. Has MPS previously responded to the comments of the Staff and OPC concerning its
10 accounting records?

11 A. Yes. Without repeating the entire document here, the Commission can refer to MPS's
12 November 1, 2001, response in this proceeding to Staff's Motion to Modify Procedural
13 Schedule. MPS also responded to Public Counsel's Motion to Dismiss.

14 Q. Has MPS met with Staff and OPC representatives since the filing of their direct testimony
15 in this case to discuss the detailed general ledger and other accounting records issues?

16 A. Yes. During the scheduled pre-hearing conferences in Jefferson City the week of
17 December 12-14, 2001, various MPS representatives including myself met with OPC and
18 Staff representatives to discuss specific concerns with respect to information
19 requirements for their audits.

20 Q. Please summarize these discussions.

1 A. It was evident from the discussions that misunderstandings and miscommunications by
2 all parties occurred during the initial discovery process in this case. While it was never
3 the intent of MPS representatives to delay or hamper the audit process, events and
4 misunderstandings that have occurred cannot be changed. We informed Staff and OPC
5 that we are open to suggestions as to how future audit work, including the true-up audit in
6 this case, could be more easily accomplished either through additional specialized
7 reports, enhancements to MPS's financial accounting system, or additional technical
8 software that could be made available to Staff and OPC. We are currently waiting on
9 Staff and OPC to provide their suggestions. Once received, these requests will be
10 evaluated as to their complexity. If there are additional costs to fulfill the requirements,
11 MPS would ask the Commission for permission to recover those costs in this proceeding.

12 Q. What types of additional costs might be incurred?

13 A. If the requests are so complex that either specialized consultants would need to be hired
14 to perform computer programming or if additional specialized software needed to be
15 purchased to achieve the objectives, these costs would need to be included as expense in
16 either this proceeding or a future MPS or SJLP rate case.

17 Q. Do you foresee that additional costs will need to be incurred?

18 A. Although we have not yet received a specific detailed list of reporting or auditing
19 requirements from Staff or OPC, I gathered from the pre-hearing discussions that the
20 Staff only required additional specialized reports. Once the report specifications have

1 been identified, we should be able to meet their needs with internal resources without the
2 need to incur additional consulting, software, or hardware costs.

3 Q. Please summarize the events leading up to these pre-hearing discussions.

4 A. On August 27-28, MPS representatives provided an overview to Staff and OPC of the
5 new accounting code block and the PeopleSoft Financial system that had been
6 implemented after the completion of the last Staff audit in 1997. UtiliCorp is a very
7 complex organization with an extremely sophisticated financial accounting system that
8 was designed and developed with the intent of meeting the regulatory requirements for
9 eight states. The intent of this presentation was to provide Staff and OPC with enough
10 knowledge so that they could better prepare and scope their audit and request more
11 appropriate specific data to aid them in their audit in this case.

12 Q. Has this presentation been made to other regulatory commissions?

13 A. Yes. This same presentation was made to the staff of the Kansas Corporation
14 Commission ("KCC") in connection with their recent audit of UtiliCorp's WestPlains
15 Energy division.

16 Q. Did the KCC find this presentation useful?

17 A. Yes. In Docket No. 01-WPEE-473-RTS, on page 5 of the direct testimony of Joseph M.
18 White, KCC Director of Utilities, he commended UtiliCorp for its efforts to build a
19 proper Corporate Cost Allocations presentation. "These efforts were very successful."
20 After the presentation to the KCC staff, they were able to successfully define specific data
21 information needs.

1 Q. In that same KCC docket, wasn't UtiliCorp ordered to meet with the KCC staff to address
2 concerns about WestPlains' accounting records?

3 A. Yes. We have contacted the KCC staff to address specific concerns about WestPlains'
4 records, but to date the KCC staff has not identified any specific concerns surrounding
5 the accounting system.

6 Q. Please summarize the material presented at the August 27-28 meeting with Staff and
7 OPC.

8 A. At that presentation, training was provided on UtiliCorp's new code block.

9 Q. What is meant by the term "code block?"

10 A. The code block of a financial accounting system is the coding (either numeric or alpha-
11 numeric) that defines specifics about a transaction, i.e., what a transaction is about. A
12 company can fashion its code block in any infinitely different ways to meet internal as
13 well as external reporting requirements. UtiliCorp's code block is made up of eight fields
14 of varying length which contain: the business unit ("GL Unit") and functional area
15 ("department") responsible for the transaction, the work being performed ("process"), the
16 detailed transaction type such as labor, travel expenses, outside services, etc.
17 ("resource"), whether the transaction pertains to electric, gas, steam, common, or non-
18 regulated ("product"), and if additional details are needed to be grouped and summarized,
19 an "activity" is added. All transactions are posted to an internal account and the FERC
20 USOA is maintained by populating another code block field.

21 Q. Please continue with a summary of the August presentation.

1 A. We also explained the centralized support function allocation process. In addition, an on-
2 line sample of the information contained in the ledger table was shown. I also referred to
3 my Schedule BRA-3, pages 9 through 11, filed as part of my direct testimony in this
4 proceeding that shows how the centralized support function allocations process
5 exponentially adds transactions to the ledger table. Because of the voluminous nature of
6 the transactions posted to the ledger, a monthly report is not normally produced. Again,
7 the intent of this presentation was to educate the Staff and OPC as to how transactions
8 were captured so that they could define the scope of their audit and make specific
9 requests for information. It wasn't until approximately October 12 that we learned Staff
10 and OPC were not receiving the type of information they apparently needed. On October
11 16, we made a "guess" at what the Staff required to perform their audit by providing two
12 ad hoc reports from the ledger table summarizing two code block fields in each report
13 (data requests MPSC-417, FERC account and resource and MPSC-413 department and
14 resource). We were then informed by Staff that these reports proved very useful. We can
15 easily create these reports for future audit activities for both the MPS and SJLP divisions.

16 Q. Did the OPC find these reports useful?

17 A. Evidently not. Mr. Robertson has devoted numerous pages of his direct testimony
18 towards only utilizing the general ledger as his basis for an audit.

19 Q. Wouldn't the auditing requirements of the Staff and OPC be the same as the KCC staff?

1 A. Not necessarily. From past experience, I have found that state regulatory commissions
2 have different audit scopes and different audit requirements. The October 16 reports
3 created for the Missouri Staff were not ones requested by the KCC audit staff.

4 Q. Does a general ledger for MPS exist?

5 A. Yes. Without an accounting ledger, both MPS and UtiliCorp would be unable to meet
6 their requirements to provide external reports to shareholders, rating agencies, the
7 Securities and Exchange Commission, the FERC, or other state commissions including
8 the Annual Report, FERC Form 1, to this Commission. The general ledger produces
9 basic financial statements of a Balance Sheet and Income Statement which are necessary
10 to produce these external reports. These financial statements were provided to Staff for
11 MPS in response to data request MPSC-78 on July 12, 2001.

12 Q. Do you agree with OPC witness, Ted Robertson's definition of a general ledger?

13 A. Not entirely. Mr. Robertson paints a picture that a general ledger will contain the
14 "detailed" source transactions for financial data. In reality, large corporations, such as
15 UtiliCorp, post summarized "batch" transactions to their ledger. In no way does this
16 contain detailed information.

17 Q. What other utility companies utilize batch transaction posting to their ledgers?

18 A. I have contacted accounting personnel at The Empire District Electric Company, Ameren,
19 Missouri Gas Energy, and Kansas City Power & Light Company. All of these utility
20 companies utilize batch transaction postings to their general ledgers. In addition, the

1 prior St. Joseph Light & Power Company general ledger utilized batch transaction
2 postings.

3 Q. Please explain what you mean by "batch" postings.

4 A. An example would be a payroll posting. UtiliCorp employees are paid on a bi-weekly
5 basis. The bi-weekly payrolls are posted to the ledger in a summarized or "batch" type
6 mode. In no way could anyone examining the payroll posting to the ledger be able to
7 obtain the payments made to any one employee. For confidentiality reasons, one could
8 see the benefits to batch payroll postings. It is common for the details to be held in the
9 subsidiary ledgers, or in UtiliCorp's case, the subsidiary system modules. The details,
10 i.e., payments to individual employees, for batch payroll postings can be derived from the
11 Payroll system. This is true for all other types of batch postings such as Accounts
12 Payable, Accounts Receivable, Project Costing, Fixed Assets, Inventory, etc. Hence, the
13 general ledger is synonymous with its name as it contains "general" financial data, not
14 detailed financial data.

15 Q. Did the prior MPS general ledger system perform batch processing?

16 A. Yes it did. To our knowledge, neither Staff nor OPC had any concerns with this system.

17 Q. In Mr. Robertson's testimony, at pages 22 – 23, he states that he still has not been
18 provided with a copy of the general ledger. Is this a true statement?

19 A. No. Although it was voluminous in nature and contained only batch processing
20 references, a copy of the MPS, and a few other UtiliCorp business unit general ledgers
21 were provided to Mr. Robertson on November 8, 2001. This material consisted of 28

1 boxes of a report printed front and back. It contained exactly the information as
2 processed in the ledger.

3 Q. On page 24 of his direct testimony, Mr. Robertson states that the above report is useless.
4 Do you agree?

5 A. No. The report can be used to agree the basic financial statement information provided
6 and could be used to request more specific reports from other subsidiary systems. I
7 cannot read Mr. Robertson's mind nor do I want to enter into a guessing game, but if he
8 would specifically identify what type of report and from which system, including which
9 specific code blocks along with a defined level of summarization, we would be willing to
10 evaluate the request.

11 Q. What allegations of inconsistent accounting data are you addressing?

12 A. On page 3 of the direct testimony of Alan J. Bax, he states that "MPS has provided
13 conflicting information in response to Staff's Data Requests and in documents filed with
14 the Commission." He further goes on to state that the data filed for the MPS portion in
15 the UtiliCorp system-wide Form 1 does not correspond with the values filed for MPS in
16 the Annual Report to the Commission.

17 Q. Is this a true statement?

18 A. No. Mr. Bax has failed to recognize that when preparing consolidated financial
19 statements, it is necessary to eliminate intracompany transactions. The consolidated
20 UtiliCorp FERC Form 1 incorporates generally accepted accounting practices by
21 eliminating sales between MPS and other UtiliCorp operating divisions. In the specific

1 instance referred to by Mr. Bax, eliminations of sales between MPS and the UtiliCorp
2 WestPlains Energy division were correctly made.

3 Q. What other allegations are you addressing?

4 A. Although Staff witness, Phillip K. Williams, devoted numerous pages of testimony
5 rehashing the issue of alleged inconsistent data request responses, I don't feel it is
6 necessary to respond again. MPS has stated its position with respect to these issues in its
7 response filed on November 1, 2001, to the Staff's Motion to Modify Procedural
8 Schedule.

9 Q. Please summarize your testimony regarding these allegations.

10 A. The initial discovery process for this case was frustrating for all parties. We kept trying
11 to "guess" at what the Staff and OPC needed and they waited until mid-October to
12 communicate to us that they didn't have the information they required to timely perform
13 an independent audit. What has occurred in the past cannot be changed. We are willing
14 to evaluate the specific reporting needs of both Staff and OPC in order to eliminate any
15 audit difficulties in the future.

16 **COMPLIANCE WITH FERC UNIFORM SYSTEM OF ACCOUNTS (USOA)**

17 Q. Is UtiliCorp required to comply with the FERC USOA?

18 A. Yes, it is.

19 Q. How does UtiliCorp accomplish this?

1 A. An automated process is ran monthly on the database based on a combination of code
2 block fields, which then populates an additional field in the ledger. This FERC ledger is
3 used to prepare all analysis/reports that require USOA compliance.

4 Q. Do you believe that your financial system and the production of the FERC ledger is in
5 compliance with the USOA?

6 A. Yes, I do. In implementing the PeopleSoft system, we carefully considered the
7 requirements of the USOA and took great strides to ensure these requirements were
8 achieved. We carefully review the results of the financial system in preparing our
9 periodic and other regulatory filings and believe the system continues to produce accurate
10 and reliable information.

11 Q. Please explain?

12 A. First, the results of our financial system have been used to prepare information for rate
13 proceedings in other UtiliCorp jurisdictions, namely Kansas, Nebraska and Minnesota,
14 and there have been no concerns raised by those Commissions. Second, each year we
15 prepare a FERC Form 1 Annual Report utilizing the FERC USOA. Andersen, our
16 independent auditors, provides an opinion letter on this Annual Report. A copy of the
17 letter for the year ended December 31, 2000, is attached as Schedule BRA-1.

18 **OVERHEAD ALLOCATIONS**

19 Q. Have you reviewed the computations made by OPC witness Ted Robertson in this
20 proceeding and do you agree with his methodology?

1 A. I have reviewed Mr. Robertson's computations and found several mathematical errors,
2 departments in incorrect allocation steps, and other miscalculations. I have contacted Mr.
3 Robertson to arrange a future working session to resolve these errors. However, I do not
4 agree with Mr. Robertson's methodology.

5 Q. Please explain.

6 A. On page 11 of his direct testimony, Mr. Robertson states he is still in the process of
7 analyzing the allocations model provided in our updated case. This model methodology
8 was accepted by Staff witness Charles R. Hyneman and is the appropriate model
9 methodology to use if additional adjustments, such as the impact of SJLP on allocations,
10 are to be included. The model utilized by Mr. Robertson does not include any
11 adjustments for the annualized level of payroll, payroll taxes, or employee benefits that
12 are normally allowed for ratemaking purposes.

13 Q. Is it appropriate to make an adjustment for the impact of the SJLP merger in the
14 allocations process?

15 A. No. The reasons are being addressed by MPS witness Vern J. Siemek in his rebuttal
16 testimony.

17 Q. What are your comments regarding Staff witness Charles R. Hyneman's allocations
18 adjustment to alter the allocation driver statistics for the Aquila operations?

19 A. The Staff should be consistent in their application of all adjustments due to UtiliCorp's
20 plans to exchange the Aquila common stock for UtiliCorp common stock.

21 Q. Does this conclude your rebuttal testimony?

1 A. Yes.

Report of independent public accountants

To the Board of Directors of
UtiliCorp United Inc.

We have audited the balance sheets-regulatory basis of UtiliCorp United Inc. (the Company) as of December 31, 2000 and 1999, and the related statements of income-regulatory basis, retained earnings-regulatory basis and cash flows-regulatory basis for the years then ended, included on pages 110 through 123 (excluding page 115 and 116) of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and proprietary capital of UtiliCorp United Inc. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of UtiliCorp United Inc. and for filing with the Federal Energy Regulatory Commission and should not be used for any other purpose.

Arthur Andersen LLP

Kansas City, Missouri,
February 5, 2001

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

In the matter of Missouri Public Service)
of Kansas City, Missouri, for authority)
to file tariffs increasing electric rates)
for service provided to customers in the)
Missouri Public Service area)

Case No. ER-2001-672

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF BEVERLEE R. AGUT

Beverlee R. Agut, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Beverlee R. Agut;" that said testimony was prepared by her and under her direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge, information, and belief.

Beverlee R Agut
Beverlee R. Agut

Subscribed and sworn to before me this 7th day of January, 2002.

Terry D. Lutes
Notary Public

My Commission expires:

8-20-2004

