Exhibit No.:
Witness: James T. Selecky
Type of Exhibit: Direct Testimony
Issue: Depreciation Rates
Sponsoring Party: Federal Executive Agencies
Sedalia Industrial Energy Users' Association
St. Joe Industrial Group
Case No.: ER-2005-0436

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

Direct Testimony and Schedule of

James T. Selecky

On behalf of

Federal Executive Agencies
Sedalia Industrial Energy Users' Association
St. Joe Industrial Group

Project 8415
October 14, 2005

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

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

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of James T. Selecky

James T. Selecky, being first duly sworn, on his oath states:

1. My name is James T. Selecky. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by the Federal Executive Agencies, Sedalia Industrial Energy Users' Association and the St. Joe Industrial Group in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2005-0436.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things they purport to show.

James T. Selecky

Subscribed and sworn to before this 13th day of October 2005.

CAROL SCHULZ
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Feb. 26, 2008

Notary Public

My Commission Expires February 26, 2008.

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

Direct Testimony of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Federal Executive Agencies (FEA), Sedalia Industrial Energy Users' Association (SIEUA) and the St. Joe Industrial Group (SJIG). The FEA, SIEUA and SJIG membership represent the interests of large customers with facilities served by Aquila, Inc. (Aquila or Company).

Q WHAT SUBJECTS ARE ADDRESSED IN YOUR TESTIMONY?

A My testimony will address the book depreciation rates that Aquila Networks – L&P and Aquila Networks – MPS are proposing for their electric production plants. These depreciation rates impact the revenue requirements of the electric operation. The fact that I have not addressed an issue, such as book depreciation rates for the electric transmission, distribution and general plant investments should not be construed as an endorsement of Aquila's position.

Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A A summary of my conclusions and recommendations follows:

1. The Missouri Public Service Commission (Commission) should reject Aquila's proposed electric production book depreciation rates for the Lake Road, Iatan, Sibley and Jeffery Energy Center (Jeffery) steam generating plants.

2. The lives utilized to develop the book depreciation rates for Lake Road, Iatan and Sibley should be lengthened from the lives proposed by Aquila.

3. The book depreciation rates should be calculated utilizing the straight-line method, broad group procedure, and whole-life technique since this is the Commission's preferred method.

4. Consistent with the Commission's Order in the Empire District Electric Company case, the depreciation rates should not include a component to allow for the terminal net salvage. However, the depreciation rates should reflect the net salvage associated with any interim retirements.

Q PLEASE SUMMARIZE YOUR CONCERNS ABOUT THE DEPRECIATION RATES THAT AQUILA IS PROPOSING TO USE TO DEPRECIATE ITS INVESTMENT AT LAKE ROAD, IATAN AND SIBLEY.

A First, the depreciation rates were calculated for the electric production plant accounts utilizing a vintage group procedure, combined with the remaining life technique. This represents a departure from Commission-approved past practices. It is my

understanding that the Commission has utilized the straight-line method, broad group procedure, whole-life technique to develop its depreciation rates.

Second, the depreciation rates were developed based on retirement dates for Lake Road, Iatan and Sibley that are not adequately supported. In addition, the proposed average service lives used to develop the depreciation rates are extremely short.

Therefore, the Commission should reject Aquila's proposed electric production depreciation rates as they are not adequately supported and are inconsistent with past MPSC practice.

Q WHAT ARE THE PROJECTED RETIREMENT DATES FOR LAKE ROAD, IATAN AND SIBLEY?

A As indicated in the filings made by Aquila Networks in MPSC Case No. ER-2004-0034, the projected retirement date for Lake Road is 2012; for Iatan, 2015; and for Sibley, 2015. These retirement dates were utilized to develop the depreciation rates for these plants.

Q SHOULD THE COMMISSION UTILIZE THESE RETIREMENT DATES TO DEVELOP THE ELECTRIC PRODUCTION DEPRECIATION RATES?

A No. A review of the depreciation study submitted in Case No. ER-2004-0034 indicates that these lives are not adequately supported. I am also not aware of any plans to replace this existing generation. The increase in gas costs over the last two years, coupled with the low operating costs of these units as compared to other alternatives, should result in lengthening the useful life of these facilities. Therefore, it is reasonable to assume that life extension should be factored into the development of depreciation rates.

Q DO YOU HAVE ANY SUPPORT FOR EXTENDING THE LIFE?

A Yes. In the testimony filed by Aquila in Docket No. ER-2004-0034, the Company was projecting a retirement date for the Jeffery Energy Center (Jeffery) of 2022. However, in this case, Aquila Networks states in the testimony of Susan Braun that the Jeffery retirement date has been changed to 2040, which represents a lengthening of the life span of 18 years. Therefore, it is reasonable to assume the life spans of Lake Road, latan and Sibley should also be extended.

Q WHAT WAS THE IMPACT ON THE AVERAGE SERVICE LIVES FOR JEFFERY BY CHANGING THE RETIREMENT DATE FROM 2022 TO 2040?

A Increasing the retirement date by approximately 18 years increased the average service life from approximately 36.5 years to approximately 53 years. It also lowered the depreciation rate for Jeffery to 1.05%.

Q WHAT IS YOUR RECOMMENDATION FOR DEVELOPING DEPRECIATION RATES FOR AQUILA'S ELECTRIC PRODUCTION PLANT ACCOUNTS?

A My recommendation is that the average service lives that were utilized to develop the depreciation rates contained in the Unanimous Stipulation and Agreement in Case Nos. ER-2004-0034 and HR-2004-0024 should be lengthened by 10 years. Consistent with Commission past practices, those lives would be utilized to calculate the depreciation rates based on the straight-line method, broad group procedure and whole-life technique.

Q WHAT ARE THE CURRENT LIVES AND DEPRECIATION RATES FOR THE ELECTRIC PRODUCTION PLANT ACCOUNTS?

A As contained in the Unanimous Stipulation and Agreement in Case Nos. ER-2004-0034 and HR-2004-0024, the following electric production depreciation rates and lives were approved:

TABLE 1

Electric Production Rates and Life Parameters

Account Number	Account	Depreciation Rates	Average Service Life Years
311	Structures & Improvements	2.22%	45
312	Boiler Plant Equipment	2.22%	45
314	Turbine Generator Units	2.22%	45
315	Accessory Electric Equipment	2.63%	38
316	Miscellaneous Power Plant Equipment	2.86%	35

It is my understanding that these lives and rates were recommended by the Staff in those cases.

Q HAVE YOU CALCULATED NEW ELECTRIC PRODUCTION DEPRECIATION RATES FOR THE STEAM PRODUCTION PLANTS?

A Yes. I have calculated new depreciation rates for the electric production plants. To develop these rates, I increased the average lives that were contained in the Unanimous Stipulation and Agreement by 10 years. I also included in the depreciation rates a component for the net salvage associated with interim retirements. I have utilized the net salvage percentages proposed by Aquila to develop my depreciation rates.

Q WHAT DEPRECIATION RATES ARE YOU PROPOSING IN THIS CASE?

A Table 2 below shows the depreciation rates and the life parameters and net salvage parameters that I am proposing in this case.

TABLE 2

Proposed Electric Production
Depreciation Parameters and Rates

Account Number	Average Service Life Years	Net Salvage Ratio	Depreciation Rates
311	55	-1.2%	1.84%
312	55	-3.0%	1.87%
314	55	-2.3%	1.86%
315	48	-2.1%	2.13%
316	45	-2.4%	2.17%

The depreciation rates shown in Table 2 are calculated utilizing Aquila's proposed net salvage ratios for the electric production plants and the whole-life technique. The depreciation rates are applicable to Lake Road, Iatan, Sibley and Jeffery.

Q PLEASE DESCRIBE HOW YOU DEVELOPED THE NET SALVAGE RATIO SHOWN ON TABLE 2.

A I developed these net salvage ratios from the data contained in Aquila's workpapers. Aquila provided separate net salvage ratios for each plant account for Lake Road, Iatan, Sibley and Jeffery. I weighted Aquila's proposed net salvage ratio by the investment in each plant and each plant account. This weighting produced the net salvage ratios shown in Table 2 above.

Q DO YOU HAVE ANY COMMENTS TO MAKE REGARDING YOUR PROPOSED AVERAGE SERVICE LIVES?

A Yes. It should be noted that my proposed average service lives are consistent with the average service lives that Aquila is proposing for the Jeffery facility. The average service life that Aquila was proposing for Jeffery was approximately 53 years. The average service life that I am proposing for all of Aquila's electric production plants is approximately the same.

Q HAVE YOU CALCULATED THE IMPACT OF YOUR PROPOSED DEPRECIATION RATES ON AQUILA'S REVENUE REQUIREMENTS?

A Yes. Attached as **Schedule 1** is the impact of my proposed depreciation rates on Aquila's MPS and L&P electric operations. My proposed book depreciation rates reduce MPS and L&P proposed electric depreciation expense by $6.361 million.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Appendix A

Qualifications of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and am a principal with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978, I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company (DECo) in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and troubleshooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

In May of 1975, I transferred to the Rate and Revenue Requirement area of DECo. From that time, and until my departure from DECo in June 1984, I held

various positions which included economic analyst, senior financial analyst, supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division and director of the Revenue Requirement Department. In these positions, I was responsible for overseeing and performing economic and financial studies and book depreciation studies; developing fixed charge rates and parameters and procedures used in economic studies; providing a financial analysis consulting service to all areas of DECo; developing and designing rate structure for electrical and steam service; analyzing profitability of various classes of service and recommending changes therein; determining fuel and purchased power adjustments; and all aspects of determining revenue requirements for ratemaking purposes.

In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc. (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and staff. At DBA and BAI I have testified in electric, gas and water proceedings involving almost all aspects of regulation. I have also performed economic analyses for clients related to energy cost issues.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

A Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In these cases I have testified to rate base, income statement adjustments, changes in book depreciation rates, rate design, and interim and final revenue deficiencies.

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Ohio,

Oklahoma, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the Provinces of Alberta and Saskatchewan. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Florida, Montana, New York, Oregon and Pennsylvania and the Province of British Columbia. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, and rate base adjustments for items such as plant held for future use, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates and rate design.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A Yes, I am a registered professional engineer in the State of Michigan.

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AQUILA NETWORKS
MPS
Annualized Depreciation Expense
Year Ending 12/31/04

Line	FERC Account No.	Account Description	Elec-Juris Plant In Service 12/31/2004 (1)	Aquila Depreciation Rates (2)	Aquila Annualized Depreciation Expense (3)	Proposed Depreciation Rates (4)	Proposed Annualized Depreciation Expense (5)	Reduction In Depreciation Expense (6)
1	311110	STRUCTURES & IMPROVEMENTS - JEC	$ 18,654,441	0.93%	$ 173,486	1.84%	$ 343,242	$ (169,755)
2	311120	STRUCTURES & IMPROVEMENTS - Sibley	37,055,594	3.58%	1,326,590	1.84%	681,823	644,767
3	312110	BOILER PLANT EQUIPMENT - JEC	60,445,006	1.01%	610,495	1.87%	1,130,322	(519,827)
4	312120	BOILER PLANT EQUIPMENT -Sibley	141,605,301	3.96%	5,607,570	1.87%	2,648,019	2,959,551
5	314110	TURBOGENERATOR UNITS - JEC	17,731,902	1.44%	255,339	1.86%	329,813	(74,474)
6	314120	TURBOGENERATOR UNITS - Sibley	55,298,220	4.32%	2,388,883	1.86%	1,028,547	1,360,336
7	315110	ACCESSORY ELEC. EQUIPMENT - JEC	6,348,291	0.52%	33,011	2.13%	135,219	(102,207)
8	315120	ACCESSORY ELEC. EQUIPMENT - Sibley	14,829,229	3.86%	572,408	2.13%	315,863	256,546
9	316110	MISC. POWER PLANT EQUIPMENT - JEC	1,586,196	1.94%	30,772	2.17%	34,420	(3,648)
10	316120	MISC. POWER PLANT EQUIPMENT - Sibley	882,619	2.87%	25,331	2.17%	19,153	6,178
11		**Total Electric Production**	**$ 354,436,799**		**$ 11,023,886**		**$ 6,666,420**	**$ 4,357,466**

AQUILA NETWORKS
L&P (Electric)
Annualized Depreciation Expense
Year Ending 12/31/04

Line	FERC Account No.	Account Description	Elec-Juris Plant in Service 12/31/2004 (1)	Aquila Depreciation Rates (2)	Aquila Annualized Depreciation Expense (3)	Proposed Depreciation Rates (4)	Proposed Annualized Depreciation Expense (5)	Reduction in Depreciation Expense (6)
1	311000	STRUCTURES & IMPROVEMENTS - LAKE RD.	$ 10,625,215	4.32%	$ 459,009	1.84%	$ 195,504	$ 263,505
2	311000	STRUCTURES & IMPROVEMENTS - IATAN	4,288,277	2.84%	121,787	1.84%	78,904	42,883
3	312000	BOILER PLANT EQUIPMENT - LAKE RD.	29,068,926	4.53%	1,316,822	1.87%	543,589	773,233
4	312000	BOILER PLANT EQUIPMENT - IATAN	41,048,472	2.48%	1,018,002	1.87%	767,606	250,396
5	312200	PRECIPATOR BOILER #5 - LAKE RD.	9,732,499	4.53%	440,882	1.87%	181,998	258,884
6	314110	TURBOGENERATOR UNITS - LAKE RD.	14,643,303	3.54%	518,373	1.86%	272,365	246,007
7	314110	TURBOGENERATOR UNITS - IATAN	10,958,015	2.55%	279,429	1.86%	203,819	75,610
8	315110	ACCESSORY ELEC. EQUIPMENT - LAKE RD.	2,654,893	3.68%	97,700	2.13%	56,549	41,151
9	315110	ACCESSORY ELEC. EQUIPMENT - IATAN	7,141,287	2.63%	187,816	2.13%	152,109	35,706
10	316110	MISC. POWER PLANT EQUIPMENT - LAKE RD.	157,205	5.54%	8,709	2.17%	3,411	5,298
11	316110	MISC. POWER PLANT EQUIPMENT - IATAN	814,518	3.46%	28,182	2.17%	17,675	10,507
12		**Total Electric Production**	**$ 131,132,610**		**$ 4,476,713**		**$ 2,473,531**	**$ 2,003,182**