Exhibit No.:
Issues: *Leases; Cost of Removal/Salvage; Fuel-Interchange Sales; Greewood Leases*
Witness: *Cary G. Featherstone*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *ER-2001-672*
Date Testimony Prepared: *December 6, 2001*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

UTILICORP UNITED INC.
d/b/a MISSOURI PUBLIC SERVICE

CASE NO. ER-2001-672

Jefferson City, Missouri
December 2001

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CARY G. FEATHERSTONE

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CASE NO. ER–2001–672

Q. Please state your name and business address.

A. Cary G. Featherstone, 3675 Noland Road, Independence, Missouri.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Kansas City in December 1978 with a Bachelor of Arts degree in Economics. My course work also included study in the field of Accounting.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have assisted, conducted and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunication companies. I have been involved in cases concerning proposed rate increases, earnings investigations and complaint cases as well as cases relating to mergers and acquisitions and certification cases.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have. Schedule 1 to this testimony is a summary of rate cases in which I have submitted testimony. In addition, Schedule 1 also identifies other cases where I directly supervised and assisted in audits of several public utilities, but where I did not file testimony.

Q. With reference to Case No. ER-2001-672, have you examined and studied the books and records of UtiliCorp United Inc and its division Missouri Public Service?

A. Yes, with the assistance other members of the Commission Staff (Staff).

Q. What is the purpose of your direct testimony?

A. I will provide testimony that supports Staff's positions on the rate treatment of Greenwood Energy Center costs, cost of removal/net salvage and interchange sales, which is commonly referred to as off-system sales. I will also provide testimony on the new generating facility currently under construction by UtiliCorp United Inc (UtiliCorp) and an operating partner Calpine Corporation — a 580-megawatt combined cycle unit located at Pleasant Hill, Missouri. Staff witness Mark L. Oligschlaeger will also provide testimony on the combined cycle unit. Throughout Staff's direct testimony filing, the Aries Combined Cycle Unit will be referred to as the "Combined Cycle Unit" or "Aries Plant."

Q. Please identify which adjustments you are sponsoring.

A. I am sponsoring adjustment S-12.1 relating to Cost of Removal/Net Salvage and adjustment S-29.1 relating to the lease payments of the Greenwood Energy Center. These adjustments appear on Accounting Schedule 10, Adjustments to Income Statement.

Q. How is your testimony organized?

A. The following is the structure of my testimony by areas:

1. Cost of Removal and Salvage;

2. Interchange Sales/Off-System Sales;

3. Greenwood Energy Center; and

4. Aries Combined Cycle Unit.

Q. What caused Staff's review in this case?

A. On June 8, 2001, UtiliCorp filed for a $49.4 million increase in its Missouri electric retail rates, exclusive of franchise and occupational taxes. This represents an overall 16.9 percent increase to existing rates. UtiliCorp is currently constructing a new generating facility -- the Aries Combined Cycle Unit – that is scheduled for completion by January 1, 2002. Consequently, the Company requested a true-up audit of the major components of the revenue requirement, including plant in service and a purchased power agreement between UtiliCorp affiliate, Merchant Energy Plant-MEP Pleasant Hill, LLC (MEPPH) and Missouri Public Service to recognize the Combined Cycle Unit in rates. Staff Accounting witness Phillip K. Williams describes the Staff's proposed true-up process and test year recommendation in his direct testimony.

Q. Does UtiliCorp currently provide utility services within the state of Missouri?

A. Yes. UtiliCorp provides retail electric utility service to customers in the western and central part of the state of Missouri through its division, Missouri Public Service (MPS or Company), from its electric generation, transmission and distribution facilities. MPS provides electricity on a wholesale basis through tariffs approved by the Federal Energy Regulatory Commission (FERC). MPS also provides natural gas utility service to customers in Missouri. UtiliCorp provides retail and wholesale electricity and natural gas to several other states, as well as Canada, United Kingdom, New Zealand and Australia through its international subsidiaries and partnerships.

UtiliCorp is an investor-owned electric and natural gas utility that is engaged in the generation, purchase, transmission, distribution and sale of electricity on a regulated basis to approximately 408,000 customers in three states, Missouri, Kansas and Colorado (page 7 of UtiliCorp 2000 Annual Report.). The Company also serves 863,000 natural gas customers on a regulated basis in seven states: Missouri, Kansas, Colorado, Nebraska, Iowa, Michigan and Minnesota. The Company provides trading and marketing of wholesale services on non-regulated basis for natural gas, electricity, broadband capacity and other commodities, and provides "a wide range of energy-related financial and risk management products and services" (page 7 of UtiliCorp 2000 Annual Shareholders Report). UtiliCorp owns, operates or controls electric generating plants, and engages in gathering, processing and transporting natural gas in Oklahoma and Texas. UtiliCorp also provides telecommunications, cable television and high-speed internet services in selected markets, including the Kansas City area. UtiliCorp, through its 36% equity ownership of Quanta Services, Inc., builds and maintains networks serving utilities, telecommunications and cable television entities.

COST OF REMOVAL AND SALVAGE

Q. Please explain adjustment S-12.1.

A. This adjustment reflects cost of removal/salvage costs to be included in the cost of service expense levels.

Q. What is cost of removal and salvage?

A. Cost of removal is incurred when utility property is retired from service. Generally, removing property from service eventually causes the utility to incur costs to physically dismantle, tear down or otherwise remove the property from its site. Salvage is the residual value or scrap value that some property has when it is removed from utility service. After a piece of property is dismantled or removed from service, utilities can in some instances sell or receive some value for the displaced property. Utilities track the costs relating to removal costs and salvage value on an ongoing annual basis. Typically, removal costs exceed salvage value, resulting in a "net negative salvage" value. The net effect of cost of removal and salvage was included in Staff's determination of the overall revenue requirement for MPS.

Q. How did Staff determine the proper level of cost of removal and salvage value to include in this case?

A. Staff reviewed the cost of removal and salvage values by year for MPS from the period 1993 to 2000. Based on this information, Staff calculated cost of removal and salvage values using a five-year average for the period 1996 through 2000. Use of the five-year average reflected that UtiliCorp incurred a net salvage value over this period of time that represents a cost to UtiliCorp. This amount was included in Accounting Schedule 9, Income Statement, on both a total Company and jurisdictional basis.

Q. What were the cost of removal/salvage amounts for the five-year period?

A. The five-year amounts for the period between 1996 and 2000 were:

Year	Cost of Removal	Salvage	Net Salvage
1996	$1,399,148	($339,912)	$1,059,236
1997	452,875	(190,589)	262,285
1998	303,736	(177,357)	126,379
1999	1,916,892	(1,860,577)	56,315
2000	3,811,253	(854,021)	2,957,232

[Source: Data Request No. 250]

Q. Why did Staff use a five-year average to determine the level of cost of removal and salvage value to include in the revenue requirement?

A. A five-year average was used because the costs of removal and salvage values fluctuated from year to year for each of the years examined. Using a five-year average for fluctuating costs, such as the net negative salvage amount, removes or smoothes out the differences from one year to the next. Averaging costs to mitigate the impact of unusual fluctuations is commonly used in the ratemaking process and is consistent with how other costs have been treated in this case.

Q. Have cost of removal and salvage value been treated this way in prior UtiliCorp rate cases?

A. Not to my knowledge. Previously, the cost of removal and salvage values have been reflected in the overall depreciation rates for MPS and, thus, an amount for these items were included in depreciation expense. However, the Staff recently has proposed to remove from the depreciation rates the accrual of the removal costs and salvage value. Staff witness Jolie L. Mathis of the Engineering and Management Services Department is sponsoring Staff's position in this case to remove these items from the accrual of depreciation. Her testimony will provide the basis and reasoning for making this change. Consistent with this proposal, Staff has included the cost of removal and salvage value in the cost of service determination as a current expense item rather than as part of the depreciation accrual process.

OFF-SYSTEM SALES

Q. Has Staff included in this case, the sales from off-system sales in the interchange market?

A. Yes. Staff has determined the level of off-system sales that UtiliCorp experienced during the 12 months ended December 31, 2000, (the test year used in this case) and included that amount in this case. In addition, as an offset to the off-system sales, the fuel costs and purchased power costs relating to off-system sales for the test year have also been reflected in this case.

Q. What are off-system sales?

A. Off-system sales relate to sales of electricity made at times when utilities have met all obligations to serve their native load customers and have excess energy to sell to other utilities. The off-system sale transactions occur between utilities resulting in profits (net margin) to the selling entity, in this case, UtiliCorp.

Q. What levels of off-system sales has UtiliCorp experienced over the last several years?

A. For the period 1996 through 2000, UtiliCorp experienced the following levels for off-system sales:

Year	**Megawatt Hours**	**Dollars**
1996	693,034	$12,818,027
1997	1,254,030	$28,577,330
1998	1,828,255	$56,203,070
1999	541,755	$15,994,633
2000	584,175	$16,974,510

[Note: All amounts exclude demand charges]

Q. Why is it appropriate to include off-system sales in the current revenue requirement determination for the Missouri Public Service division of UtiliCorp?

A. The same generating facilities, equipment, and employee/personnel that are necessary to provide service to Missouri retail electric customers are also needed to make off-system sales. It is appropriate to include the off-system sales in this case because UtiliCorp customers are paying for all costs associated with the facilities to produce electricity for the firm retail customers, i.e., native load customers. To the extent that other sales can be made using those facilities, the customers should benefit from these sales. The off-system sales are made at a time when the generating facilities of power and purchases are not needed to serve the native load customers. Off-system sales represent an efficient utilization of the electric system that has been put in place to meet the native load customers' electricity needs. Off-system sales occur at a time when the production facilities and purchases are not needed for Missouri retail customers.

Q. Does UtiliCorp benefit from these off-system sales?

A. Yes. To the extent that there are increases in off-system sales that occur after rates are determined in any given proceeding, the Company will benefit from the growth and increase in net margins (off-system sales less fuel costs) throughout the period until rates are changed by the Commission in a general rate proceeding.

Q. Has the Commission recognized the benefits of including off-system sales in the determination of revenue requirements in prior cases?

A. Yes. In UtiliCorp's last general rate case filed in Missouri, Case No. ER-97-394, the Commission included off-system sales in the calculation of the rate level ordered in that case. The Commission stated, in part, as follows:

> The Commission finds the Staff provided competent and substantial evidence that all of the off-system sales revenue should be reflected in the test year revenue for the purposes of setting rates. The Staff is correct in stating that, since all of the costs of producing the off-system

> sales revenue were borne by the ratepayers, and since UtiliCorp has benefited from regulatory lag, the total amount of this revenue should be included in rates.
>
> The Commission adopts the adjustment proposed by the Staff.

Staff has consistently included off-system sales in all of the electric cases that I am aware of dating back to the early 1980s.

GREENWOOD ENERGY CENTER

Q. What is the Greenwood Energy Center?

A. The Greenwood Energy Center (Greenwood) is located in the Southeastern part of Jackson County and has four combustion turbine generators, each capable of producing 64-megawatts of electricity. These are peaking generators. The first two units at Greenwood completed in June of 1975. The third Greenwood unit was completed in the summer of 1977 and Unit 4 was completed in early 1979. While the units are located on a 160-acre site, the actual plant facility occupies the center 35 acres. Originally, the Greenwood units used oil as its fuel source. However, in 1996 all four units were converted to also burn natural gas, and now have dual-burner capabilities. The primary fuel source is natural gas with oil as an emergency or backup fuel. Each unit was originally rated at 45-megawatts or a combined total of 180-megawatts for the entire Greenwood Energy Center facility. During Greenwood's operations, there have been enhancements such as the conversion to natural gas as the fuel source so that now the units have an accredited rating of 64-megawatts each, or a combined capacity of 256-magawatts for the Greenwood generating station as a whole.

Q. Were the Greenwood units owned by UtiliCorp?

A. Originally, the Greenwood units were owned by Missouri Public Service Company (MoPub), the predecessor name of UtiliCorp, when they were originally constructed. However, prior to completion, MoPub entered into a sale agreement with a financial institution and ownership of the Greenwood Units was transferred to that entity. Upon completion of the sale arrangement, MoPub entered into a 25-year lease agreement with the financial institution, commencing with the commercial operation of each Greenwood unit. Each of these leases was for a period of 25 years. The leases for Greenwood Units 1 and 2, terminated June 2000. The Greenwood Unit 3 lease will terminate June 2002 and the Greenwood Unit 4 lease will terminate June 2003. The Greenwood units were sold to the financial institution at the actual "original cost" to construct each unit; thus, there was no gain associated with the sale transaction (Data Request No. 281).

Q. Did the Commission approve the original leases that Missouri Public Service Company entered into with the banking institution in the 1970's?

A. Yes. The Commission approved the original leases for Greenwood Unit 3 in Case No. EA-77-153 and Unit 4 in Case No. EO-79-38. Staff has not located, and the Company has not provided, the Commission Order for Units 1 and 2.

Q. Has the ownership of the Greenwood Units recently changed?

A. Yes. Upon the termination of the lease in June 2000 for Greenwood Units 1 and 2, UtiliCorp, through a non-regulated subsidiary of the Company called EnergyOne Ventures, acquired the ownership rights to these two units. UtiliCorp then, through its Missouri Public Service division, entered into a lease arrangement with EnergyOne Ventures for supply of power for a period of five years, with two renewal periods of five years each, resulting in the total term of the lease to be 15 years, if fully exercised.

Q. What is EnergyOne Ventures?

A. EnergyOne Ventures is a wholly owned subsidiary of UtiliCorp. The Company indicated the following as it relates to EnergyOne Ventures:

> EnergyOne Ventures is an energy services provider created to market commodity and related services to retail and wholesale markets. EnergyOne Ventures primary business activity at this time is selling natural gas commodity in several states, including Missouri. EnergyOne Ventures operates separately and independently from the regulated utilities of UtiliCorp.
>
> EnergyOne Ventures, LP, is a Delaware limited partnership formed on September 28, 1999.
> [Source: Data Request No. 479]

Q. Have UtiliCorp's lease payments for power supplied to MPS increased since the acquisition of Greenwood Units 1 and 2 by UtiliCorp's affiliate EnergyOne Ventures?

A. Yes. The lease payments have increased substantially from those of the original lease. The lease payment in the original lease for Greenwood Units 1 and 2 was $1,106,260 on an annual basis. The lease payment "negotiated" between Missouri Public Service and UtiliCorp's EnergyOne Ventures in the first year of the new lease is $3,127,954. This represents an increase of 183% from the original lease. The annual periodic lease payments paid quarterly by UtiliCorp declines throughout the five-year term of the lease with EnergyOne Ventures, as follows:

June 2001 through May 2002	$3,127,954
June 2002 through May 2003	$2,997,132
June 2003 through May 2004	$2,866,310
June 2004 through May 2005	$2,735,488
June 2005 through May 2006	$2,604,666

[Source: Data Request No. 171---First Amendment to Restated Indenture of Lease, page 7—Schedule 1]

Q. What is the amount that UtiliCorp has included in its case?

A. UtiliCorp has included an annual lease payment of $3,000,063 for Greenwood Units 1 and 2.

Q. Does UtiliCorp plan to acquire Greenwood Units 3 and 4?

A. Yes. It is expected that at the conclusion of the individual leases for Greenwood Units 3 and 4 occurring in 2002 and 2003, UtiliCorp, through the wholly owned subsidiary EnergyOne Ventures, will acquire both of those units and enter into a lease arrangement with Missouri Public Service for Greenwood Units 3 and 4. It is expected that the terms of the lease and the periodic quarterly lease payments to be similar to those that have been "negotiated" for Greenwood Units 1 and 2.

Q. Does Staff consider the lease between EnergyOne and UtiliCorp's division, Missouri Public Service, to be an "arms-length" transaction?

A. No. The Staff does not believe that the proposed lease agreements between MPS and EnergyOne Ventures constitutes an "arms-length" transaction. In effect, UtiliCorp has avoided rate basing properties originally constructed by the Missouri Public Service Company and is proposing to enter in lease agreements which have not been negotiated as one would expect an "arms-length" third party transaction would be negotiated. Because EnergyOne Ventures is a wholly-owned subsidiary of UtiliCorp and Missouri Public Service is a division of UtiliCorp, Staff does not believe that the current lease of Greenwood Units 1 and 2 with EnergyOne Ventures, can in any way be thought of as an "arms-length" transaction. It is clear, that UtiliCorp did not want to "rate base" any of the Greenwood units in its regulated Missouri Public Service division, so the Company acquired the units and placed them in a non-regulated entity of UtiliCorp. UtiliCorp, in essence, "negotiated" with itself to enter into a leasing arrangement with the regulated Missouri Public Service, the entity that first owned the units many years ago prior to them being in-service. UtiliCorp made the decision to acquire the Greenwood Units; UtiliCorp made the decision to place the Greenwood investment in EnergyOne Ventures; and UtiliCorp made the decision to have its Missouri Public Service division to enter into a lease contract to purchase the capacity from UtiliCorp (EnergyOne Ventures).

Q. Is there a current lease in effect between EnergyOne Ventures and Missouri Public Service?

A. No. The original lease expired for Greenwood Units 1 and 2 in June 2000. The lease "negotiated" between EnergyOne Ventures and Missouri Public Service has not been signed nor executed and is still in draft form. UtiliCorp's EnergyOne Ventures acquired the Greenwood Units 1 and 2 at the expiration of the original lease and Missouri Public Service continues to operate those units in the same manner that it did under the old lease. Payments are being made to EnergyOne as stated in the draft lease although it has not been executed between EnergyOne and Missouri Public Service. At the expiration of the original leases respecting Greenwood Units 3 and 4, EnergyOne Ventures will acquire those units and UtiliCorp plans to enter into a lease agreement through its division, Missouri Public Service, to operate those units.

Q. What were the original costs of Greenwood Units 1 through 4?

A. Greenwood Units 1 and 2 together were originally built for $11,482,874 in June 1975. Greenwood Unit 3 was originally built for $5,432,798 in June 1977 and Greenwood Unit 4 was originally built for $7,072,860 in June 1979. (Source: Data Request No. 281).

Q. What are the newly acquired costs by EnergyOne Ventures?

A. EnergyOne Ventures acquired Greenwood Units 1 and 2 together for $17,675,000, Greenwood Unit 3 for $8,900,000 and Greenwood Unit 4 for $6,500,000. The following table represents the differences between the original cost and newly acquired costs for each of the Greenwood Units 1 through 4:

Greenwood Units	**Original Cost**	**Newly Acquired Costs**	**Difference**
Units 1 and 2	$11,482,874	$17,675,000	$6,192,126
Unit 3	5,432,798	8,900,000	3,467,202
Unit 4	7,072,860	6,500,000	(572,860)

[Source: Data Request Nos. 281 and 283]

Q. How were the purchased prices for the Greenwood Units determined by UtiliCorp?

A. In response to Data Request No. 236, UtiliCorp provided its analysis, along with an engineering evaluation of the Greenwood Units that was conducted by Fern Engineering, Inc. (Fern Engineering) dated July 9, 1999.

Q. Did Fern Engineering make a determination as to the appraised value of each of the Greenwood Units 1 through 4?

A. Yes. In its engineering evaluation made of the Greenwood Units, Fern Engineering indicated in the summary section of the report that "the average price the current owner can expect to receive if the turbines were sold and <u>moved</u> is $6,500,000" for each unit (Data Request No. 236). Thus, for Greenwood Units 1 and 2 together, the appraised value would be $13 million. EnergyOne Ventures, as noted earlier, acquired Greenwood Units 1 and 2 for $17,675,000, or $4,675,000 above the appraised value.

Q. In the original leases for the Greenwood Units, was Missouri Public Service responsible for all maintenance and miscellaneous costs to operate those units?

A. Yes. Under the terms of the original lease, Missouri Public Service was required to incur the costs for maintaining the units, providing property insurance and paying the costs of property taxes, along with any other costs to operate these units. They were also responsible for all fuel costs to operate those units. In addition, Missouri Public Service was also required to incur all capital costs for the plant additions to each of these four combustion turbines.

Q. What is the quantification of the costs that Missouri Public Service has incurred for capital additions to Greenwood Units 1 through 4 during their useful lives to date?

A. Missouri Public Service has incurred capital costs of $10.4 million in plant additions since the Greenwood Units 1 through 4 became operational in the late 1970s. (Data Request No. 452). This entire amount has been included in Missouri Public Service's rate base and included in rates for recovery from its Missouri retail electric customers.

Q. Have the maintenance and other costs incurred by Missouri Public Service for Greenwood Units 1 through 4 been included in rates?

A. Yes. In addition to the lease payments related to the original lease, Missouri electric customers have been required to pay costs associated with the fuel, maintenance, property taxes, property insurance and other operating costs in rates, as well as the rate basing of the plant additions. Effectively, all costs associated with Greenwood Units 1 through 4 have been included in rates for recovery by Missouri Public Service retail customers.

Q. Did UtiliCorp consider acquiring the Greenwood Units 1 through 4 upon the expiration of the original leases through its Missouri Public Service division and treating the investment as a rate base component?

A. No. There is no indication that UtiliCorp ever considered this as an option. All documents indicate that UtiliCorp's intent was to acquire these units through its wholly owned non-regulated subsidiary, EnergyOne Ventures and set up a lease between that entity and UtiliCorp's regulated Missouri Public Service division.

Q. Why did UtiliCorp not consider including the Greenwood Units in rate base as each of the individual leases expired?

A. It appears that UtiliCorp has made a corporate decision that its regulated divisions will not build or construct generating units and include those units in the regulated rate base of those entities. In response to Data Request No. 365, UtiliCorp indicated that it "believes that the current regulatory climate does not warrant the business risk associated with constructing and owning rate-based generating plants." It would appear from this statement that UtiliCorp did not consider rate basing the Greenwood Units because of the "regulatory climate" that exists in this state.

Q. Does Staff believe that this is a valid reason for not including Greenwood Units 1 through 4 in Missouri Public Service's rate base?

A. No. Staff believes, at a minimum, that Greenwood Units 1 and 2 should be rate based in this and all future Missouri Public Service rate cases and that Units 3 and 4, upon the expiration of the existing leases, should be afforded the same regulatory treatment. Staff has included Greenwood Units 1 and 2 in its rate base in this case and will propose to rate base Units 3 and 4 at the appropriate time when those leases have terminated.

Q. Has Staff included in MPS's rate base the acquired price of Greenwood Units 1 and 2 in rate base?

A. No. Staff has included the "appraised value" of each of the Greenwood Units as identified by the Fern Engineering analysis, dated July 9, 1999 based on its evaluation of each of the Greenwood combustion turbines. In that engineering report, the appraised value was identified as $6.5 million for each unit, thus Staff has included $13 million for the rate basing of Greenwood Units 1 and 2 ($6.5 million for Unit 1 and $6.5 million for Unit 2) in this case. In addition, Staff has identified an amount for depreciation reserve that the Commission should consider offsetting the newly-acquired appraised value cost of Greenwood Units 1 and 2.

Q. Could the Commission consider treating the Greenwood Units in any other fashion for the ratemaking process?

A. In addition, to the aforementioned rate basing at the "appraised value" net of accumulated depreciation reserve, the Commission could consider any of the following options:

1) To rate base Greenwood at the "original cost" for each of the units with a full depreciation reserve identified along with current depreciation expense;

2) To rate base Greenwood at the full newly acquired cost with the full accumulated depreciation reserve level and current depreciation expense.

The fuel and maintenance costs, property taxes, insurance and other costs along with all the capital plant additions would continue to be included in the revenue requirement determination with rate recovery from Missouri retail electric customers with any of the above alternatives. Under all of the alternatives, there would be no recovery in expense of affiliated lease payments.

Q. Please explain adjustment S-29.1.

A. This adjustment annualizes the amount of lease payments for Greenwood Units 3 and 4.

Q. Why were Units 3 and 4 not included in rate base in this case?

A. The leases for these units continue to be in effect through the years 2000 and 2003. Staff will propose to rate base these units, using a similar method that it is proposing for Greenwood Units 1 and 2 when they are purchased.

Q. Did any of the original leases specifically provide for UtiliCorp to acquire the Greenwood Units upon the expiration of the leases?

A. Yes, the Greenwood Unit 3 lease did. The other Greenwood Units' leases did not specifically contain language to purchase the units. The lease for Greenwood Unit 3 provided specific language for an option to purchase the unit at the expiration of the lease.

The original lease for Unit 3 had the terms of "Right of First Refusal – Purchase Option" for Unit 3. That lease stated that the fair market sales value for that unit will be considered to determine the acquired value. The original lease states in part regarding the fair market sales value:

> The "fair market sales value" of the Unit shall be an amount mutually agreed upon by Lessor and Lessee; provided that if, they are unable to agree upon the fair market sales value of the Unit within 30 days after receipt by Lessor of the notice of Lessee's election to exercise its purchase option in respect of the Unit, either the Lessor or the Lessee may request that such fair market sales value shall be determined by the "Appraisal Procedure." Such "fair market sales value" shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's length transaction between an informed and willing buyer-user (other than a lessee currently in possession or a used equipment dealer) and an informed and willing seller under no compulsion to sell.
>
> [Source: Data Request No. 171-Greenwood Unit 3 Lease, page 34, Section 20.3, dated May 1, 1977]

While the "Right of First Refusal" language only appears in the Unit 3 lease, Units 1, 2 and 4 were also acquired by UtiliCorp from the original Lessor.

Q. If UtiliCorp had not agreed to purchase the Greenwood Units upon the expiration of the original leases, what would have happened to the Greenwood Units?

A. The original leases required, upon expiration of the leases, that each of the combustion turbines at Greenwood would be disassembled and transported at the lessee's, or UtiliCorp's, expense to a mutually agreed upon site.

Q. Was dismantling the units ever considered by UtiliCorp?

A. No. No analysis or study was ever performed to determine what the cost relating to the removal option if the leases were either not renewed or a purchase agreement could not be reached [Data Request No. 446.]. Section 16 of the leases provided that UtiliCorp would have the responsibility to disassemble, dismantle and transport the combustion turbines. Since UtiliCorp acquired Greenwood Units 1 and 2 (and plan to acquire Greenwood Units 3 and 4 at the conclusion of the existing leases), the disassembled units were not removed; therefore, the units remained located at the Greenwood Energy Center and UtiliCorp incurred no disassembly or removal costs. The only change that occurred was a transfer of ownership of these units from the banking institution (lessor) to UtiliCorp's subsidiary, EnergyOne Ventures. The continued operations of each of the Greenwood Units, therefore, remained uninterrupted and transparent to these ownership transactions.

Q. Did Staff inquire as to why UtiliCorp did not conduct a cost analysis of disassembly and removal of the units upon the expiration of the leases?

A. Yes. This question was asked in Data Request No. 446. UtiliCorp indicated that the reason why the costs to disassemble, dismantle and remove the units were not considered was because "Greenwood has capital assets included in rate base." In addition, one of the reasons why there was no serious consideration to the option of UtiliCorp not purchasing the Greenwood Units 1 through 4 was because its Missouri Public Service division needed and continues to need the capacity of each one of those units. If either the leases were not renewed or the units were not acquired by UtiliCorp, the Company would have had to replace the existing capacity of each of the combustion turbines located at Greenwood by another generation or a purchased power source.

Greenwood Units 1 through 4 represent 256-megawatts of capacity at the current rating of 64-megawatts for each of the four combustion turbines. Without having this capacity available to meet MPS's system load requirements, UtiliCorp would either have to build replacement capacity or find sources of purchased power. Either would have resulted in considerable additional cost that, ultimately, Missouri retail customers would have to absorb. Therefore, the only option economically feasible to UtiliCorp was to acquire the Greenwood facilities when the leases expired.

The only issue that Staff has with UtiliCorp regarding the purchase option is the matter of what UtiliCorp entity acquired the ownership of the units -- a non-regulated entity, EnergyOne Ventures or the regulated entity, Missouri Public Service. Staff believes that the regulated entity, UtiliCorp's Missouri Public Service, is the entity needing the capacity and the entity which has operated these units, should be the entity that "controls" the capacity. Staff believes it is not necessary for the non-regulated subsidiary of UtiliCorp to "purchase" the units and in-turn lease them to the regulated Missouri Public Service in an non-arms length transaction. This type of arrangement will lead to affiliate abuse.

Q. What were the total lease payments paid by Missouri Public Service during the duration of the 25-year lease for Greenwood Units 1 and 2?

A. Missouri Public Service, during the period from June 1, 1975, through May 2000 incurred a total of $27.6 million in lease payments for the entire 25-year term of the lease. If the units would have been placed in rate base, the amount of depreciation expense booked for these units would have been $10.4 million over this same time period. The total lease payments under the expired lease for Units 1 and 2 represents an amount that is 165 percent over the depreciation expense if the units would have been rate based instead of leased at the original cost amount. In addition, if the units would have originally been put in rate base by the then-Missouri Public Service Company instead of leased, the accumulated depreciation reserve would have been $10.4 million, thus there would have only been approximately $1.0 million amount of net plant that would be in Missouri Public Service's rate base at the end of the original lease in June 2000 related to the Greenwood Units 1 and 2. As a consequence of that decision by Missouri Public Service Company to lease rather than own the Greenwood Units 1 and 2, under UtiliCorp's current proposal of reacquiring the 25-year-old units at a value of $17.7 million (the amount paid for Units 1 and 2 by UtiliCorp), Missouri customers will have to pay for the entire plant again, in effect. This reacquisition amount is $6.2 million larger than the $11.5 million original cost actually incurred to construct the two units in 1975. Thus, the decision by the Missouri Public Service Company in the 1970s to lease rather than own the Greenwood Units will be ultimately a very costly decision from the perspective of the Missouri retail electric customers. A similar analysis and conclusion can be drawn relating to Greenwood Units 3 and 4.

Q. Did Staff perform an analysis of "rate basing" the Greenwood Units 1 and 2?

A. Yes. Attached as Schedule 2 is such an analysis. This analysis shows that rate basing the Greenwood Units 1 and 2 at the original cost value of $11.5 million would have been far less costly to Missouri retail customers over an estimated useful life of these two units. This analysis assumes the life of the units will be at least 40 years (the original lease of 25 years plus the anticipated life of the new lease of up to 15 years). Comparing the total lease payments to the combined depreciation expense and return components of rate basing the two units, results in an almost doubling of the costs that consumers would have to pay for capacity of these units. The total lease payments appearing on Schedule 2 is $60.5 million while the rate basing costs would have been $32.3 million, a difference of $28.2 million. The cost to the ratepayers of leasing these units is divided between the old non-affiliated lease and the new affiliated lease in this manner.

"Old" Lease Payment	$27.6 million
"New" Lease Payment	$32.9 million
Total Lease Payments	$60.5 million

What is interesting is that the "new" lease payments for 15 years is $5.3 million greater than what the "old" lease payments were for 25 years. Of course, the "new" lease for 25-year-old power plants was "negotiated" between UtiliCorp affiliates.

Q. Why is the leasing option so much more expensive than the rate basing option?

A. The rate basing option assumes the original cost of plant investment is eventually fully recovered from customers. While depreciation expense continues throughout the useful life of the plant, the capital costs (or return on investment) declines. On the other hand, the lease payments Missouri Public Service is required to make under the terms of the newly "negotiated" lease, while fluctuating somewhat, are at a high level in relation to fully depreciated units under the rate basing scenario.

Q. What would have been the difference in rate basing Units 1 and 2 instead of making the lease payments over a 25-year period of the lease?

A. It is difficult to make an exact and precise analysis, using capital structures and rates of return authorized by the Commission during the period of the lease and comparing that to the lease payments, Staff believes the lease option will, ultimately, be considerably more costly to the customers than the rate basing (ownership) option because during the 25-year period, there would have been a continued decline of rate base because of the increase to accumulated depreciation reserve which is used as an offset to the original cost plant investment. In addition, Missouri retail electric customers would have received the benefit of any resulting deferred taxes relating to the Greenwood Units which are used as an offset to rate base in the ratemaking process. The deferred tax amounts were not available to include in the analysis appearing on Schedule 2, including deferred taxes would have resulted in further savings under the rate basing ownership option.. While UtiliCorp would still be entitled to a return of this plant investment, the revenue requirements associated with rate basing the Greenwood units would continually decline because the recovery of depreciation by the customers would have resulted in increasing accumulated depreciation reserve and in addition, would have also reduced the capital costs using the deferred tax benefits.

Q. Is Staff proposing a means of correcting this costly past mistake of leasing rather than owning the Greenwood Units?

A. No. It is not possible to go back in time and restate for rate purposes what the cost would have been of owning versus leasing the Greenwood Units. However, it is important for the Commission to realize the full impacts of the prior leases and the potential to repeat those results by allowing UtiliCorp to acquire 25-year-old combustion turbines through an affiliated company and then that affiliated company leasing to Missouri Public Service, these units at an amount greater than the original cost of those facilities when they were first constructed in the 1970's.

ARIES COMBINED CYCLE UNIT

Q. Is UtiliCorp currently constructing new generating capacity in Missouri?

A. Yes. Aquila, Inc. (Aquila), which is currently 80% owned by UtiliCorp, and an operating partner, Calpine Corporation (Calpine), are constructing a 580-megawatt combined cycle unit at its Aries Power Plant site to increase its generating capacity. (While UtiliCorp currently owns 80% of Aquila, having earlier in the year issue a public spin-off of the other 20%, in November UtiliCorp announced a buy-back of the 20% to allow it to own 100% of Aquila's stock.)

Q. When does UtiliCorp expect its combined cycle unit to be operational?

A. The partners believe the Aries Combined Cycle Generating Facility (Combined Cycle Unit or Aries Plant) will be completed and ready to provide utility service by January 1, 2002.

Q. What is UtiliCorp's interest in the Aries Combined Cycle Unit?

A. UtiliCorp owns 50% of this unit. Calpine is the operating partner of the Combined Cycle Unit through a Partnership Agreement. On January 12, 2000, UtiliCorp entered into an agreement (Partnership Agreement) for the construction, ownership and operation of the Aries Combined Cycle Unit with Calpine. The actual partnership agreement is entitled "Amended And Restated Limited Liability Company Agreement of MEP Pleasant Hill, LLC a Delaware Limited Liability Company" (Data Request No. 315). The Partnership Agreement provides that UtiliCorp will have a 50% ownership share, which entitles it to 290 megawatts of the total 580 megawatt combined cycle capacity. Calpine will own the remaining 50% of capacity, or 290 megawatts of this generating facility.

The Combined Cycle Unit under construction at Pleasant Hill, Missouri, is made up of two newly constructed combustion turbines and a 280-megawatt steam turbine generator that will operate as part of the combined cycle unit, using heat generated by the two combustion turbine generator units that otherwise would be wasted. When these two 150-megawatt combustion turbines and the 280-megawatt steam turbine generator are operating in combined cycle, they should provide a total generating capacity of 580-megawatts.

Q. What type of unit is the combined cycle unit?

A. When operating in combined cycle mode, this unit will be efficient enough to be considered an intermediate generating facility. While the two combustion turbine-generators can be operated in what is referred to as "simple cycle" or "independent mode," the optimal and most efficient mode of operation is when the two 150-megawatt combustion turbine-generators are running in tandem and the heat recovery system is capturing the exhaust heat and converting it to steam. The steam is then used to power the 280-megawatt steam turbine-generator. The heat recovery system for each combustion turbine-generator is known as the heat recovery steam generator (HRSG). There is a separate HRSG unit for each of the two combustion turbine-generators. To obtain the optimal operating performance, the combined cycle unit will utilize the capacity from the two 150-megawatt combustion turbines and the steam flow to power the 280-megawatt steam turbine, giving the Combined Cycle Unit a total operating capacity at full load of 580-megawatts.

Q. What fuel sources will the Combined Cycle Unit use?

A. The Combined Cycle Unit will operate only on natural gas.

Q. What was the total cost of the Aries Combined Cycle Unit?

A. Since the unit is still under construction, the final cost is unknown at this time. However, UtiliCorp has projected the final cost to be approximately $277 million (UtiliCorp Annual Shareholders Report—page 17). UtiliCorp's 50% ownership share of this amount is $138.5 million with Calpine responsible for the remaining 50% share.

Q. Does the capacity agreement between Missouri Public Service and the partners of the Aries Combined Cycle Unit allow the pass-through of construction cost amounts in excess over the original estimate?

A. Yes. The agreement Missouri Public Service reached allowed for certain costs to be absorbed through the purchased power agreement. There were some construction problems that resulted in costs over the original construction estimate. Installation of the two HRSGs caused some of the cost overruns. Also, the purchase and installation of the two combustion turbines caused overruns. These latter cost overruns have been charged back to Missouri Public Service through terms of the purchased power agreement.

Q. What amount has been charged to Missouri Public Service relating to the increase in cost for the combustion turbines at Aries?

A. In a March 19, 2001 letter from Aquila Energy, Missouri Public Service was notified of a cost increase for power purchased through the Power Sales Agreement. The letter from Aquila Energy stated that the combustion turbines cost $2.4 million more than expected and, in accordance with Section 5.1(a) of the agreement, "an increase of the capacity charge to [MPS] by $0.055 per kW-month for the first $1,000,000 of cost increase above the original estimate" would be charged to MPS.

In addition, the March 19, 2001, letter indicated that there was a $0.0297 per kW-month credit in the capacity charge. The credit offset to the increase results in an overall increase in capacity charge of $0.0253 per kW-month.

Q. Should this increase be charged to Missouri Public Service customers?

A. No. One of the purposes of purchasing capacity through a power sales agreement is not having to absorb the "risk" of ownership, in particular, the risks associated with the construction of the power generating facility. These cost overruns are clearly the responsibility of the owners and not the entities acquiring short-term power or capacity. Therefore, if the Commission should allow the capacity charge costs in rates, the amount of the increase of $0.0253 per kW-month for these associated over-runs and under-runs should not be included in rates.

Q. What is the total amount of the increase relating to these over-runs and under-runs?

A. The Power Sales Agreement provides Missouri Public Service 200 megawatts for the 12 months of the year (January 1 through December 31). This agreement also provides an additional 300 megawatts of capacity for six months of each year of the agreement starting April 1, 2002 through September 30, 2005. Based upon this information, the amount of the $0.0253 per kW-month cost overruns pass through totals to $106,260 on an annual basis:

200 megawatts for 12 months (200,000 kWs) [200,000 kWs times $0.0253 per month times 12]	$ 60,720
300 megawatts for six months (300,000 kWs) [300,000 kWs times $0.0253 per month times 6]	45,540
TOTAL MPS - electric	**$106,260**

Q. How has the Aries Combined Cycle Unit been financed?

A. The Aries partners, Aquila and Calpine, have "sold" the ownership rights to Cass County, the county in which the combined cycle facility is located. The partners have entered into a very complex and convoluted financing arrangement with Cass County through a "sale-leaseback" proposal. Attached as Schedule 3, is a diagram entitled "ARIES Financing Structure" prepared by UtiliCorp that shows this complex structure of "ownership" of the Aries Combined Cycle Unit.

UtiliCorp, through its ownership of Aquila, and Calpine have a 30-year operating lease with Cass County, the "owner" of the power plant. Each of these entities has a separate agreement with each of the two lessors, i.e., Union Bank of California and BankOne. In turn, Cass County has a 27-year financing lease with two separate banks. The partnership structure between Aquila and Calpine is MEP Pleasant Hill, LLC, each having a 50% ownership share (membership).

Cass County "financed" the construction costs of building the Aries plant by selling revenue bonds. UtiliCorp informed Staff that "MEP Pleasant Hill, LLC purchased the one and only bond sold by Cass County" (Data Request No. 496). Thus, in reality, Aquila and Calpine financed the plant themselves, entered into an operating agreement for 30-years, paying Cass County lease payments each year during that time period. In addition, Calpine is the operating partner of the Aries Plant under a separate operating agreement with MEP Pleasant Hill, LLC effective January 12, 2000 (Data Request No. 315).

Q. Has Staff completed its review of the Aries ownership and financing structure?

A. No. Staff witness Mark L. Oligschlaeger also addresses the Aries Combined Cycle Unit ownership and financing structure in his testimony. As indicated in that testimony, Staff has not received and reviewed all the documents identifying the complex nature of these financing transactions. Since the Aries plant is not scheduled to be in-service until January, 2002, Staff has included this issue as part of the true-up in this case. However, Staff does not want to wait to discuss all aspects of the Aries Combined Cycle Unit until the true-up so as to provide the Commission with as much information relating to the Aries power sales agreement as possible for review in the initial hearings scheduled in this proceeding. As Staff obtains more information about Aries issues, the Staff will provide such information to the Commission.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of the Tariff Filing of Missouri Public Service (MPS) A Division of UtiliCorp United Inc., 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 CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 29 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone

Cary G. Featherstone

Subscribed and sworn to before me this 6th day of December 2001.

Toni M Charlton

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

Cary G. Featherstone

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony	Case
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph Light & Power Company (industrial steam)	Direct	Stipulated
1980	Case No. GR-80-173	The Gas Service Company (natural gas)	Direct	Stipulated
1980	Case No. GR-80-249	Rich Hill-Hume Gas Company (natural gas)	No Testimony filed	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Contested
1981	Case No. ER-81-42	Kansas City Power & Light Company (electric)	Direct Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone)	Direct	Stipulated
1981	Case No. TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone-- depreciation case)	Direct	Contested
1982	Case Nos. ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating)	Direct Rebuttal Surrebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)	Direct	Contested

Year	Case No.	Utility	Type of Testimony	Case
1983	Case No. EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1983	Case No. ER-83-49	Kansas City Power & Light Company (electric)	Direct Rebuttal Surrebuttal	Contested
1983	Case No. TR-83-253	Southwestern Bell Telephone Company (telephone)	Direct	Contested
1984	Case No. EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1985	Case Nos. ER-85-128 and EO-85-185	Kansas City Power & Light Company (electric)	Direct	Contested
1987	Case No. HO-86-139	Kansas City Power & Light Company (district steam heating-- discontinuance of public utility)	Direct Rebuttal Surrebuttal	Contested
1988	Case No. TC-89-14	Southwestern Bell Telephone Company (telephone-- complaint case)	Direct Surrebuttal	Contested
1989	Case No. TR-89-182	GTE North, Incorporated (telephone)	Direct Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50	Kansas Power & Light - Gas Service Division (natural gas)	Direct	Stipulated
1990	Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)	Direct Surrebuttal	Contested
1990	Case No. GR-90-198	UtiliCorp United, Inc., Missouri Public Service Division	Direct	Stipulated

Year	Case No.	Utility	Type of Testimony	Case
		(natural gas)		
1990	Case No. GR-90-152	Associated Natural Gas Company (natural gas)	Rebuttal	Stipulated
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas-- acquisition/merger case)	Rebuttal	Contested
1991	Case Nos. EO-91-358 and EO-91-360	UtiliCorp United Inc., Missouri Public Service Division (electric-- accounting authority orders)	Rebuttal	Contested
1991	Case No. GO-91-359	UtiliCorp United Inc., Missouri Public Service Division (natural gas)	Memorandum Recommendation	Stipulated
1993	Case Nos. TC-93-224 and TO-93-192	Southwestern Bell Telephone Company (telephone-- complaint case)	Direct Rebuttal Surrebuttal	Contested
1993	Case No. TR-93-181	United Telephone Company of Missouri (telephone)	Direct Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas-- sale of Missouri property)	Rebuttal	Stipulated
1994	Case No. GM-94-252	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas--acquisition case)	Rebuttal	Contested
1994	Case No. GA-94-325	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas-- certificate case)	Rebuttal	Contested
1995	Case No. GR-95-160	United Cities Gas Company (natural gas)	Direct	Contested
1995	Case No. ER-95-279	Empire District Electric Company (electric)	Direct	Stipulated
1996	Case No. GA-96-130	UtiliCorp United, Inc./Missouri	Rebuttal	Contested

Year	Case No.	Utility	Type of Testimony	Case
		Pipeline Company (natural gas-- certificate case)		
1996	Case No. EM-96-149	Union Electric Company merger with CIPSCO Incorporated (electric and natural gas-- acquisition/merger case)	Rebuttal	Stipulated -
1996	Case No. GR-96-285	Missouri Gas Energy Division of Southern Union Company (natural gas)	Direct Rebuttal Surrebuttal	Contested
1996	Case No. ER-97-82	Empire District Electric Company (electric-- interim rate case)	Rebuttal	Contested
1997	Case No. EO-97-144	UtiliCorp United Inc./Missouri Public Service Company (electric)	Verified Statement	Commission Denied Motion
1997	Case No. GA-97-132	UtiliCorp United Inc./Missouri Public Service Company (natural gas—certificate case)	Rebuttal	Contested
1997	Case No. GA-97-133	Missouri Gas Company (natural gas—certificate case)	Rebuttal	Contested
1997	Case Nos. EC-97-362 and EO-97-144	UtiliCorp United Inc./Missouri Public Service (electric)	Direct	Contested
1997	Case Nos. ER-97-394 and EC-98-126	UtiliCorp United Inc./Missouri Public Service (electric)	Direct Rebuttal Surrebuttal	Contested
1997	Case No. EM-97-395	UtiliCorp United Inc./Missouri Public Service (electric-application to spin-off generating assets to EWG subsidiary)	Rebuttal	Withdrawn
1998	Case No. GR-98-140	Missouri Gas Energy Division of Southern Union Company (natural gas)	Testimony in Support of Stipulation And Agreement	Contested

Year	Case No.	Utility	Type of Testimony	Case
1999	Case No. EM-97-515	Kansas City Power & Light Company merger with Western Resources, Inc. (electric acquisition/ merger case)	Rebuttal	Stipulated (Merger eventually terminated)
2000	Case No. EM-2000-292	UtiliCorp United Inc. merger with St. Joseph Light & Power Company (electric, natural gas and industrial steam acquisition/ merger case)	Rebuttal	Contested
2000	Case No. EM-2000-369	UtiliCorp United Inc. merger with Empire District Electric Company (electric acquisition/ merger case)	Rebuttal	Contested
2001	Case No. ER-2001-299	Empire District Electric Company (electric)	Direct Surrebuttal True-Up Direct	Contested
2001	Case No. ER-2001-672	UtiliCorp United Inc./Missouri Public Service Company (electric)	Verified Statement	Pending

AUDITS WHICH WERE SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
1986	Case No. TR-86-14 (telephone)	ALLTEL Missouri, Inc.		Stipulated
1986	Case No. TR-86-55 (telephone	Continental Telephone Company of Missouri		Stipulated
1986	Case No. TR-86-63 (telephone)	Webster County Telephone Company		Stipulated
1986	Case No. GR-86-76 (natural gas)	KPL-Gas Service Company		Withdrawn
1986	Case No. TR-86-117 (telephone)	United Telephone Company of Missouri		Withdrawn
1988	Case No. GR-88-115 (natural gas)	St. Joseph Light & Power Company	Deposition	Stipulated
1988	Case No. GR-88-116 (industrial steam)	St. Joseph Light & Power Company	Deposition	Stipulated

Greenwood Power Plant
units one and two
Comparasion of purchase versus lease costs to ratepayers

	Dates	Lease Payments	Depreciation Rate	Annual Depreciation	Accumulated Depreciation	Net Plant Book Value @ 12/31	Rate of Return	Rate Base Portion of Revenue Requirement	Revenue Requirment (Rate Base plus Depreciation	Revenue Requirement Plus Depreciation Minus Lease Payments
	original cost $11,482,874									
	Plant values at inception		0.03636	$ -	$ -	$ 11,482,874.00				
1	June 1, 1975 - December 31, 1975	$ 553,130	0.03636	$ 243,552	$ 243,552	$ 11,239,322	10.5450%	$ 691,359	$ 934,911	$ 381,780.52
2	January 1, 1976 - December 31, 1976	$ 1,106,260	0.03636	$ 417,517	$ 661,069	$ 10,821,805	10.5450%	$ 1,141,159	$ 1,558,677	$ 452,416.51
3	January 1, 1977 - December 31, 1977	$ 1,106,260	0.03636	$ 417,517	$ 1,078,586	$ 10,404,288	10.5450%	$ 1,097,132	$ 1,514,649	$ 408,389.31
4	January 1, 1978 - December 31, 1978	$ 1,106,260	0.03636	$ 417,517	$ 1,496,104	$ 9,986,770	12.2578%	$ 1,224,158	$ 1,641,676	$ 535,415.51
5	January 1, 1979- December 31, 1979	$ 1,106,260	0.03636	$ 417,517	$ 1,913,621	$ 9,569,253	12.4622%	$ 1,192,539	$ 1,610,057	$ 503,796.63
6	January 1, 1980 - December 31, 1980	$ 1,106,260	0.03636	$ 417,517	$ 2,331,138	$ 9,151,736	12.7066%	$ 1,162,874	$ 1,580,392	$ 474,131.63
7	January 1, 1981 - December 31, 1981	$ 1,106,260	0.03636	$ 417,517	$ 2,748,656	$ 8,734,218	12.7066%	$ 1,109,822	$ 1,527,340	$ 421,079.38
8	January 1, 1982 - December 31, 1982	$ 1,106,260	0.03636	$ 417,517	$ 3,166,173	$ 8,316,701	14.5124%	$ 1,206,953	$ 1,624,470	$ 518,210.12
9	January 1, 1983 - December 31, 1983	$ 1,106,260	0.03636	$ 417,517	$ 3,583,690	$ 7,899,184	15.2414%	$ 1,203,946	$ 1,621,464	$ 515,203.39
10	January 1, 1984 - December 31, 1984	$ 1,106,260	0.03636	$ 417,517	$ 4,001,207	$ 7,481,667	15.2414%	$ 1,140,311	$ 1,557,828	$ 451,567.90
11	January 1, 1985 - December 31, 1985	$ 1,106,260	0.03636	$ 417,517	$ 4,418,725	$ 7,064,149	15.2414%	$ 1,076,675	$ 1,494,193	$ 387,932.42
12	January 1, 1986 - December 31, 1986	$ 1,106,260	0.03636	$ 417,517	$ 4,836,242	$ 6,646,632	15.2414%	$ 1,013,040	$ 1,430,557	$ 324,296.94
13	January 1, 1987 - December 31, 1987	$ 1,106,260	0.03636	$ 417,517	$ 5,253,759	$ 6,229,115	15.2414%	$ 949,404	$ 1,366,922	$ 260,661.46
14	January 1, 1988 - December 31, 1988	$ 1,106,260	0.03636	$ 417,517	$ 5,671,277	$ 5,811,597	15.2414%	$ 885,769	$ 1,303,286	$ 197,025.98
15	January 1, 1989 - December 31, 1989	$ 1,106,260	0.03636	$ 417,517	$ 6,088,794	$ 5,394,080	15.2414%	$ 822,133	$ 1,239,651	$ 133,390.50
16	January 1, 1990 - December 31, 1990	$ 1,106,260	0.03636	$ 417,517	$ 6,506,311	$ 4,976,563	14.8936%	$ 741,189	$ 1,158,707	$ 52,446.53
17	January 1, 1991 - December 31, 1991	$ 1,106,260	0.03636	$ 417,517	$ 6,923,829	$ 4,559,045	14.8936%	$ 679,006	$ 1,096,523	$ (9,736.83)
18	January 1, 1992 - December 31, 1992	$ 1,106,260	0.03636	$ 417,517	$ 7,341,346	$ 4,141,528	14.8936%	$ 616,823	$ 1,034,340	$ (71,920.18)
19	January 1, 1993 - December 31, 1993	$ 1,106,260	0.03636	$ 417,517	$ 7,758,863	$ 3,724,011	14.8936%	$ 554,639	$ 972,157	$ (134,103.54)
20	January 1, 1994 - December 31, 1994	$ 1,106,260	0.03636	$ 417,517	$ 8,176,380	$ 3,306,494	14.8936%	$ 492,456	$ 909,973	$ (196,286.90)
21	January 1, 1995 - December 31, 1995	$ 1,106,260	0.03636	$ 417,517	$ 8,593,898	$ 2,888,976	14.8936%	$ 430,273	$ 847,790	$ (258,470.25)
22	January 1, 1996 - December 31, 1996	$ 1,106,260	0.03636	$ 417,517	$ 9,011,415	$ 2,471,459	14.8936%	$ 368,089	$ 785,607	$ (320,653.61)
23	January 1, 1997 - December 31, 1997	$ 1,106,260	0.03636	$ 417,517	$ 9,428,932	$ 2,053,942	14.8936%	$ 305,906	$ 723,423	$ (382,836.97)
24	January 1, 1998 - December 31, 1998	$ 1,106,260	0.03636	$ 417,517	$ 9,846,450	$ 1,636,424	12.0446%	$ 197,101	$ 614,618	$ (491,642.05)
25	January 1, 1999 - December 31, 1999	$ 1,106,260	0.03636	$ 417,517	$ 10,263,967	$ 1,218,907	12.0446%	$ 146,812	$ 564,330	$ (541,930.34)
26	January 1, 2000 - May 31, 2000	$ 460,942	0.03636	$ 173,966	$ 10,437,933	$ 1,044,942	12.0446%	$ 52,441	$ 226,407	$ (234,534.92)
		$ 27,564,315		$ 10,437,933				$ 20,502,011	$ 30,939,944	$ 3,375,629.14
	Second lease first five years									
27	June 1, 2000 - December 31, 2000	$ 1,824,640	0.03636	$ 243,552	$ 10,681,484	$ 801,390	12.0446%	$ 56,306	$ 299,858	$ (1,524,782.44)
28	January 1, 2001 - December 31, 2001	$ 3,051,641	0.03636	$ 417,517	$ 11,099,002	$ 383,872	12.0446%	$ 46,236	$ 463,753	$ (2,587,888.19)
29	January 1, 2002 - December 31, 2002	$ 2,920,819	0.03636	$ 417,517	$ 11,516,519	$ (33,645)	12.0446%	$ (4,052)	$ 413,465	$ (2,507,354.68)
30	January 1, 2003 - December 31, 2003	$ 2,789,997	0.03636	$ 417,517	$ 11,934,036	$ (451,162)	12.0446%	$ (54,341)	$ 363,176	$ (2,426,820.88)
31	January 1, 2004 - December 31, 2004	$ 2,659,175	0.03636	$ 417,517	$ 12,351,553	$ (868,679)	12.0446%	$ (104,629)	$ 312,888	$ (2,346,287.09)
32	January 1, 2005 - May 31, 2005	$ 1,085,278	0.03636	$ 417,517	$ 12,769,070	$ (1,286,196)	12.0446%	$ (154,917)	$ 262,600	$ (822,677.63)
		$ 14,331,551		$ 2,331,137				$ (215,397)	$ 2,115,740	$ (12,215,810.91)
	Second lease second five years									
33	June 1, 2005 - December 31, 2005	$ 1,443,076		$ 417,517	$ 13,186,587	$ (1,703,713)	12.0446%	$ (205,205)	$ 212,312	$ (1,230,764.02)
34	January 1, 2006 - December 31, 2006	$ 2,419,335		$ 417,517	$ 13,604,104	$ (2,121,230)	12.0446%	$ (255,494)	$ 162,023	$ (2,257,311.41)
35	January 1, 2007 - December 31, 2007	$ 2,266,709		$ 417,517	$ 14,021,621	$ (2,538,747)	12.0446%	$ (305,782)	$ 111,735	$ (2,154,973.94)
36	January 1, 2008 - December 31, 2008	$ 2,135,887		$ 417,517	$ 14,439,138	$ (2,956,264)	12.0446%	$ (356,070)	$ 61,447	$ (2,074,440.14)
37	January 1, 2009 - December 31, 2009	$ 2,005,065		$ 417,517	$ 14,856,655	$ (3,373,781)	12.0446%	$ (406,358)	$ 11,159	$ (1,993,906.33)
38	January 1, 2010- May 31, 2010	$ 812,732		$ 417,517	$ 15,274,172	$ (3,791,298)	12.0446%	$ (456,647)	$ (39,130)	$ (851,861.20)
		$ 11,082,803		$ 2,505,102				$ (1,985,556)	$ 519,546	$ (10,563,257.04)
	Second lease fhird five years									
39	June 1, 2010 - December 31, 2010	$ 758,222		$ 417,517	$ 15,691,689	$ (4,208,815)	12.0446%	$ (506,935)	$ (89,418)	$ (847,640.26)
40	January 1, 2011 - December 31, 2011	$ 1,743,421		$ 417,517	$ 16,109,206	$ (4,626,332)	12.0446%	$ (557,223)	$ (139,706)	$ (1,883,126.99)
41	January 1, 2012 - December 31, 2012	$ 1,612,599		$ 417,517	$ 16,526,723	$ (5,043,849)	12.0446%	$ (607,511)	$ (189,994)	$ (1,802,593.19)
42	January 1, 2013 - December 31, 2013	$ 1,481,777		$ 417,517	$ 16,944,240	$ (5,461,366)	12.0446%	$ (657,800)	$ (240,283)	$ (1,722,059.39)
43	January 1, 2014 - December 31, 2014	$ 1,350,955		$ 417,517	$ 17,361,757	$ (5,878,883)	12.0446%	$ (708,088)	$ (290,571)	$ (1,641,525.59)
44	January 1, 2015 - May 31, 2015	$ 540,186		$ 417,517	$ 17,779,274	$ (6,296,400)	12.0446%	$ (758,376)	$ (340,859)	$ (881,044.77)
	Totals	$ 7,487,159		$ 2,505,102				$ (3,795,933)	$ (1,290,831)	$ (8,777,990)
				$ -	$ -			$ -	$ -	-
	Grand Lease Total	$ 60,465,828		$ 17,779,274	$ 17,779,274			$ 14,505,125	$ 32,284,399	$ (28,181,429.00)
	Grand Rate-Base Total	$ 32,284,399								
	Difference	$ 28,181,429								

Schedule 2-1

UTILICORP UNITED INC/ MISSOURI PUBLIC SERVICE
CASE NO. ER-2001-672

Rate of Returns and Capital Structure:

Case No. 18,180 effective date of June 13, 1975

		tax gross-up	
Deferred Taxes	0.0000%		0.0000%
Customer Deposits	0.0400%		0.0400%
Short Term Debt	0.9600%		0.9600%
Long Term debt	3.4700%		3.4700%
Preferred Stock	0.3600%	1.62	0.5832%
Common Equity	3.3900%	1.62	5.4918%
	8.2200%		10.5450%

Case No. ER-78-29 effective date of Order June 23, 1978

Short-term Debt	0.0000%		0.0000%
Long-term Debt	3.8500%		3.8500%
Preferred Stock	1.3800%	1.62	2.2356%
Common Equity	3.8100%	1.62	6.1722%
	9.0400%		12.2578%

Case No. ER-79-60 effective date of Order July 19, 1979

Short-term Debt	0.0000%		0.0000%
Long-term Debt	3.8600%		3.8600%
Preferred Stock	1.3600%	1.62	2.2032%
Common Equity	3.9500%	1.62	6.3990%
	9.1700%		12.4622%

Case No. ER-80-118 effective date of Order August 25, 1980

Short-term Debt	1.0100%		1.0100%
Long-term Debt	3.7100%		3.7100%
Preferred Stock	1.1700%	1.62	1.8954%
Common Equity	3.7600%	1.62	6.0912%
	9.6500%		12.7066%

Case No. ER 82-39 effective date of Order June 21, 1982

Long-term Debt	3.9500%		3.9500%
Preferred Stock	1.5800%	1.62	2.5596%
Common Equity	4.9400%	1.62	8.0028%
	10.4700%		14.5124%

Case No. ER 83-40 effective date of Order July 1, 1983

		tax gross-up	
Short-term Debt	0.0000%		0.0000%
Long-term Debt	4.7600%		4.7600%
Preferred Stock	1.4900%	1.62	2.4138%
Common Equity	4.9800%	1.62	8.0676%
	11.2300%		15.2414%

Case No. ER-90-101 effective date of Order October 17, 1990

Short-term Debt	0.0000%		0.0000%
Long-term Debt	4.7200%		4.7200%
Preferred Stock	0.9600%	1.62	1.5552%
Common Equity	5.3200%	1.62	8.6184%
	11.0000%		14.8936%

Case No. ER-97-394 effecrtive of Order March 18, 1998

Short-term Debt	0.0000%	0.00%	0.0000%	0.00	0
Long-term Debt	7.8490%	56.14%	4.4064%	0.00	4.4064%
Preferred Stock	0.0000%	0.00%	0.0000%	0.00	0
Common Equity	10.7500%	43.86%	4.7150%	1.62	7.6382%
			9.1214%		12.0446%

Schedule 2-2

ARIES Financing Structure