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Witness: Janis E. Fischer
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JANIS E. FISCHER

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Missouri Public Service Commission

UTILICORP UNITED INC.

d/b/a MISSOURI PUBLIC SERVICE

CASE NO. ER-2001-672

Jefferson City, Missouri
December 2001

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Q. Please state your name and business address.

A. Janis E. Fischer, 3675 Noland Road, Suite 110, Independence, Missouri 64055.

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

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

Background of Witness

Q. Please describe your educational background.

A. I graduated from Peru State College, Peru, Nebraska and received a Bachelor of Science degree in Education (Basic Business) and Business Administration. In May 1985, I completed course work and earned a Bachelor of Science degree in Accounting. I passed the Uniform Certified Public Accountant examination in May 1994 and received my license to practice in March 1997. Prior to my employment at the Commission, I worked over six years as the office and accounting supervisor for the Falls City, Nebraska Utilities Department (Utilities Department).

While with the Utilities Department, I completed water and electric rate reviews, developed procedures for PCB monitoring and disposal, implemented a program to verify the accuracy of remote water meters, supervised office staff and handled customer complaints. I assisted with the acquisition of Falls City's natural gas distribution system from Kansas Power and Light Company, predecessor company of Western Resources, Inc. After the acquisition, I compiled asset records for the natural gas distribution system for the utility, nominated gas supplies for the municipal power plant, monitored gas transportation customer loads and billed transportation customers. I was appointed by the Board of Public Works (Board) to the Nebraska Public Gas Agency (NPGA) Board and later was elected Vice Chairperson of the Board. NPGA is comprised of members from municipal natural gas systems who collectively purchase natural gas and acquire natural gas wells to supply gas to municipal gas systems and power plants at reduced costs.

I also was employed as a staff accountant with the accounting firm of Cuneo, Lawson, Shay and Staley, PC, in Kansas City, Missouri, for approximately two years. While employed as a staff accountant, I assisted in various audits, compilations and reviews of corporations and prepared individual and corporate state and federal tax returns. I researched tax issues, assisted with compliance audits and interacted with various clients.

Q. What has been the nature of your duties with the Commission?

A. I have directed and assisted with various audits and examinations of the books and records of public utilities operating within the state of Missouri under the jurisdiction of the Commission.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a list of the major audits on which I have assisted and filed testimony.

Purpose of Testimony

Q. With reference to Case No ER-2001-672, have you examined and studied the books and records of Missouri Public Service (MPS or Company) and Saint Joseph Light & Power (SJLP), divisions of UtiliCorp United Inc. (UCU or UtiliCorp) relating to the filing in this case?

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

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to address the annualization of MPS and SJLP revenues, postretirement benefits expense (OPEBs), pension expense and uncollectibles (bad debt) expense.

Q. What Income Statement adjustments are you sponsoring?

A. I am sponsoring the following Income Statement adjustments:

Revenues	S-1.1, S-1.2, S-1.3, S-1.4, S-1.5, S-7.1 and S-94.1
OPEBs	S-85.7
Pensions	S-85.6
Uncollectible/Bad Debts	S-72.5

Q. Please provide a general outline of your discussion of revenues.

A. A company's test year revenues, like its expenses, must be annualized and normalized in order to develop a cost of service that is representative of the company's operations. Reflection of the impact of the joint dispatch of MPS and SJLP generation units in rates also requires that the revenues of each division be annualized and normalized for purposes of setting rates for MPS. The impact of UCU's acquisition of

SJLP will be addressed further in the direct testimony of Staff Accounting witness Steve M. Traxler.

Generally, my discussion of revenues will be developed in five parts. My analysis of revenues followed the same approach for both MPS and SJLP. The difficulty in obtaining consistent information for the test year period and the update period for both divisions required alternative methodology in some cases. These differences are discussed later in my testimony. First, I will discuss the general operations of MPS and SJLP as they relate to the area of revenues. Second, I will describe the types of adjustments the Staff is proposing in this case. Third, I will discuss some of the specific adjustments and reference the Staff members who assisted in developing the revenue analysis and adjustments. Fourth, I will describe the approach I performed regarding the determination of customer levels for purposes of revenue annualizations. Lastly, I will describe the specific general service adjustments for MPS and SJLP by customer class.

Q. Please provide an overview of the other issues addressed in your testimony.

A. I will discuss Statement of Financial Accounting Standards No. 106 (FAS 106) and Statement of Financial Accounting Standards No. 87 (FAS 87) and the Staff's application of these standards in its determination of pension and OPEB costs. The Staff's position is to use a five-year average of the unrecognized net gain/loss balance amortized over five years in the calculation of FAS 87 pension and FAS 106 OPEB costs. MPS's present case reflects methodology in which the current year unrecognized gain/loss is amortized over five years for calculating FAS 87 and FAS 106 costs related to the MPS division of UtiliCorp. UtiliCorp also allocates a portion of its corporate FAS 87 pension and FAS 106 OPEB costs to MPS. Expenses associated with

UtiliCorp corporate FAS 87 pension and FAS 106 OPEBs are allocated in part to MPS based upon the UtiliCorp Corporate Allocation Model. UtiliCorp's methodology for allocating FAS 87 and FAS 106 corporate costs to MPS reflects use of the "corridor" approach in determining the amount of the unrecognized gain/loss balance subject to amortization. The Staff is adjusting the portion of the UtiliCorp corporate FAS 87 pension and FAS 106 OPEBs costs allocated to MPS to reflect the same five-year average and five-year amortization methodology used for UtiliCorp's adjustment related to pension and OPEBs cost directly assigned to MPS. This will eliminate the impact of the corridor approach on MPS. SJLP adopted the Staff's methodology for its treatment of FAS 87 pension and FAS 106 OPEB costs as a result of the Commission's Report and Order in Case No. ER-99-247.

Q. Does the Staff have additional adjustments for other employee related benefits that are expensed to MPS's cost of service?

A. The other employee benefits that are included in MPS cost of service are addressed in Staff Accounting witness Graham A. Vesely's direct testimony.

Q. Please describe your testimony related to uncollectibles (bad debt).

A. The Staff's approach is to perform an analysis of MPS's bad debt expenses over the last five years to determine a normalized level.

FAS 87 – PENSIONS AND FAS 106 - OPEBS

Q. Please provide a brief explanation of FAS 106.

A. FAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, provides the accrual accounting method used in determining the annual expense and liability for providing OPEBs. This method was developed by the Financial

Accounting Standards Board (FASB) and is required under Generally Accepted Accounting Principles (GAAP) for financial reporting purposes.

Q. Is the Commission required under GAAP or Missouri law to adopt FAS 106 for determining pension expense for ratemaking purposes?

A. Yes, the Commission is required by Missouri law (Section 386.315 RSMo), passed in 1994, to allow the recovery of OPEB expense as calculated under FAS 106. The Commission must adopt the FAS 106 method for ratemaking purposes as long as the assumptions used by the utility are considered reasonable, and the amounts collected in rates are externally funded by the utility.

Q. Please provide a brief description of FAS 87.

A. The FAS 87, Employers' Accounting for Pensions, provides the accrual accounting method used in determining the annual expense and liability for providing pensions. This statement was also issued by the FASB and is considered GAAP for financial reporting purposes.

Q. Is the Commission required under GAAP or Missouri law to adopt FAS 87 for determining pension expense for ratemaking purposes?

A. No. However, since State law beginning in 1994 has required the adoption of FAS 106, the Staff has taken the position that consistent treatment of retirement costs requires the use of FAS 87 for determining pension expense for ratemaking purposes.

Q. Are the methods used in calculating pension expense under FAS 87 and OPEB expense under FAS 106 similar in many respects?

A. Yes. Many of the same actuarial and financial assumptions are used for both. Some of the assumptions used for both include:

<u>Actuarial Assumptions</u>

Employee Mortality
Employee Turnover
Retirement Age

<u>Financial/Accounting Assumptions</u>

Expected Rate of Return Earned on Plan Assets
Future Salary Increases
Time Value of Money (Discount Rate)
Amortization Period for Gains and Losses
Use of Corridor Approach for Gain/Loss Recognition

Q. Why have you classified assumptions used in calculating FAS 87 and FAS 106 as either actuarial or financial/accounting?

A. The purpose of FAS 87 and FAS 106 is to provide uniform financial statement recognition of a company's total estimated liability for pensions and OPEBs and to reflect the annual cost of these benefits in the income statement ratably over the service life of the employee.

A qualified actuary must develop the actuarial assumptions required for these calculations; i.e., such as employee mortality.

On the other hand, someone with a financial and/or accounting background could develop all of the financial assumptions. For example, a decision as to the number of years to use for gain/loss amortization or use of the so-called "corridor approach" for gain/loss amortization is a judgment made based upon the impact on the financial statements and/or impact on utility rates. Under the corridor approach, the amount amortized is the cumulative net gain or loss that exceeds ten percent of the greater of the pension liability or the value of pension plan assets. Use of the corridor approach results in the minimum amount of amortization of gains and losses allowed by the FASB.

Q. Please explain the term "unrecognized net gain/loss" as it applies to calculating pension expense under FAS 87 and OPEB expense under FAS 106.

A. FAS 87 and FAS 106 are calculated using numerous actuarial, financial and accounting assumptions. When the actuary changes an assumption to reflect more current information based on updated actual experience data, a change in the total projected liability and/or assets under FAS 87 and FAS 106 will result. This change is accounted for as an unrecognized gain or loss depending upon the impact on the projected liability. The impact of these changes are reflected in expense under FAS 87 and FAS 106 by amortizing the unrecognized net gain/loss balance over a period of time not to exceed the remaining service period of active plan participants.

Q. What is the Staff's method for gain/loss recognition in calculating FAS 87 pension expense and FAS 106 OPEB expense?

A. The Staff's method for gain/loss recognition has been a two step approach:

1. To determine the unrecognized net gain/loss balance, subject to amortization, a five-year average historical balance is used for the most current five-year period.

2. After determining the five-year average of the unrecognized net gain/loss balance, the result is amortized (reflected in FAS 87 and FAS 106 expenses) using a five-year period.

Q. Please explain why the Staff has recommended that the unrecognized net gain/loss balance, subject to amortization, be calculated based upon a five-year average balance instead of the current year balance.

A. Gains and losses under FAS 87 and FAS 106 result from changes in assumptions (changing the discount rate, for example) and from differences between estimated assumptions and actual results. In dealing with this issue in cases involving major utility companies in Missouri, differences between the expected return on funded assets and the actual return earned on those assets comprises the majority of the balance in the unrecognized net gain/loss balance. Annual differences between the expected rate of return assumption and the actual return earned are often so significant that the unrecognized net gain/loss balance experiences considerable annual fluctuation (volatility).

Since the unrecognized net gain/loss balance is amortized in calculating pension and OPEB cost under FAS 87 and FAS 106, significant volatility in the balance subject to amortization has an undesirable impact on the calculation of annual pension and OPEB expense for ratemaking purposes.

Using a five-year average balance to determine the unrecognized net gain/loss balance subject to amortization mitigates the effect on rates of any significant volatility experienced.

Q. Please define the term "volatility" and explain the impact of excessive volatility on determining pension and OPEB expense for ratemaking and financial reporting purposes.

A. Volatility is the degree to which revenue and expenses are subject to significant increases or decreases on an annual basis, which is beyond the control of management. For example, the cost of gas purchased on the open market in the last two or three years has been subject to considerable fluctuation (volatility).

The Staff's recommended use of a five-year average of the unrecognized net gain/loss balance will result in a significant reduction in the potential volatility that may make it difficult to match rate recovery with financial statement recognition.

Using a five-year average for determining the unrecognized net gain/loss balance that will be subject to the five-year amortization will not only limit the potential for volatility for ratemaking purposes, but will also aid the utility company in avoiding significant fluctuations in reported earnings as a result of a potential annual fluctuation in the unrecognized net gain/loss balance being amortized over five years in calculating FAS 87 and FAS 106.

Q. Does the use of a five-year average for determining the unrecognized net gain/loss balance to be amortized over five years result in a significant difference in the level of pension and OPEB cost than would result from amortizing the current year balance over five years?

A. In any given year, the answer is yes. However, over an extended period of time, the total amount of gains and losses amortized in calculating FAS 87 and FAS 106 will be approximately the same under either approach. The benefit of using the average balance approach is to stabilize the annual level of gains/losses used in calculating pension and OPEB costs under FAS 87 and FAS 106. Stabilizing the annual amount of gains/losses used in calculating FAS 87 and FAS 106 is advantageous for both ratemaking and financial reporting purposes, as I have previously explained.

In addition, the primary objective of recognizing gains and losses on a timely basis over five years will still be attained by using the average balance approach in determining the unrecognized net gain/loss balance subject to amortization.

Q. Has a five-year average of the unrecognized net gain/loss balance been used in setting rates for other Missouri utilities?

A. Yes. Using a five-year average balance of the unrecognized net gain/loss balance was used in Missouri Gas Energy's (MGE's) last rate case, No. GR-2001-292. It has also been previously used for Laclede Gas Company (Laclede) and UCU's Missouri division, SJLP.

Q. Has MPS adopted the five-year average balance to determine the unrecognized net gain/loss balance, subject to amortization, in its filing of this case?

A. No. MPS has not used the five-year average of the unrecognized net gain/loss balance for the calculation of FAS 87 pension costs or FAS 106 OPEB costs related to MPS. UtiliCorp has also not included the use of the five-year average balance for the calculation of the FAS 87 pension costs or FAS 106 OPEB costs included in the UtiliCorp corporate expenses that are allocated in part to MPS.

Q. Has a five-year amortization period for unrecognized net gain/loss balance been used for the calculation of FAS 87 pension and FAS 106 OPEB expense for other Missouri utilities?

A. Yes. The Empire District Electric Company (Empire), United Cities Gas Company, Laclede, SJLP and St. Louis County Water Company are all using the five-year amortization period for recognizing gains and losses in the calculation of FAS 87 pension and FAS 106 OPEB expense.

Q. Has MPS used a five-year amortization period in calculating FAS 87 pension and FAS 106 OPEB costs in this case?

A. MPS has used a five-year amortization period for its FAS 87 pension and FAS 106 OPEB costs. This was adopted based upon the Commission Report and Order for MPS's prior rate case, No. ER-97-394, and reflects the Staff's recommended methodology at that time. However, UtiliCorp did not use a five-year amortization in calculating its allocated share of UtiliCorp's corporate FAS 87 pension and FAS 106 OPEB costs to MPS's cost of service.

Q. Is the Staff's proposed five-year amortization period for unrecognized gains and/or losses consistent with current tax treatment of pension asset gains and losses?

A. Yes. The federal government enacted legislation in 1987 (the Omnibus Budget Reconciliation Act of 1987) that reduced the amortization period for asset gains and losses from 15 years to five years for pension funding requirements. Section 412 (b)(2)(B) of the Internal Revenue Code requires that gains and/or losses from pension plan assets be amortized over a five-year period. A five-year amortization would treat asset gains and losses consistently for pension expense under FAS 87 and funding requirements under the Employee Retirement Income Security Act/Internal Revenue Service Regulations.

Q. As one of the conditions for adopting the five-year average balance and five-year amortization of unrecognized net gain/loss, should UtiliCorp be required to use this method consistently for costs directly assigned to MPS and UtiliCorp corporate FAS 87 pension and FAS 106 OPEB costs allocated to MPS's cost of service for both ratemaking and financial reporting purposes?

A. Yes. The Staff is recommending that UtiliCorp be required to adopt this method for calculating both ratemaking and financial reporting of MPS and UtiliCorp corporate allocated FAS 87 pension and FAS 106 OPEB expenses in determining the MPS cost of service. This method cannot be used effectively for ratemaking purposes in future cases unless both MPS and UtiliCorp use it consistently for both ratemaking and financial reporting purposes. The Commission should order UtiliCorp in this case to adopt the five-year average balance and five-year amortization of unrecognized net gain/loss for its Missouri allocated pension and OPEB calculations, in addition to requiring Staff's methodology for MPS's direct pension and OPEB costs.

Q. Why is the Staff recommending that UtiliCorp's corporate FAS 87 pension and FAS 106 OPEB costs be calculated using the same method used for MPS's direct FAS 87 pension and FAS 106 OPEB costs?

A. The allocation of like costs (FAS 87 pension and FAS 106 OPEB) from UtiliCorp to MPS should follow a consistent methodology used in calculating MPS's FAS 87 pension and FAS 106 OPEB costs. The Staff is not suggesting that UtiliCorp must follow the Staff's proposed methodology company-wide but that the five-year average balance method should be calculated in conjunction with UtiliCorp's allocated share to MPS. It would be sufficient for a disclosure included in UtiliCorp's financial statements to identify the amount of FAS 87 pension and FAS 106 OPEB expenses under the Missouri jurisdictional approach consistent with the Staff's recommendation. The allocation of UtiliCorp's FAS 87 pension and FAS 106 OPEB costs to MPS would then be consistent with the five-year average balance methodology, and five-year amortization of unrecognized gain/loss balance the Staff is requesting be adopted by MPS.

Q. Please describe Adjustment S-85.6.

A. Adjustment S-85.6 adjusts MPS and UtiliCorp corporate FAS 87 pension costs using the Staff's method for the plan year beginning January 1, 2001. (See attached Schedule 2 for the calculation of this adjustment amount.)

Q. Please describe Adjustment S-85.7

A. This adjustment applies the same methodology applied by the Staff to FAS 87 pension costs to FAS 106 OPEB costs. Adjustment S-85.7 adjusts MPS and UtiliCorp corporate FAS 106 OPEB costs using the Staff's method for the plan year beginning January 1, 2001. (See attached Schedule 3 for the calculation of this adjustment amount.)

REVENUES

Q. Why has the Staff annualized the revenues of MPS and SJLP?

A. A company's test year revenues, like its expenses, must be annualized and normalized in order to develop a cost of service that is representative of the Company's operations. The Staff's proposed reflection of the joint dispatch of MPS and SJLP generation units in rates also requires that the revenues of each division be annualized and normalized. The fuel model analysis completed by the Staff to determine the costs associated with the generation of electricity ultimately sold to MPS and SJLP customers must include the generation units operated by both MPS and SJLP.

Q. Please describe MPS and SJLP operations.

A. For purposes of recording revenues and levels of customers (numbers), customers are divided into customer classes of residential, commercial, and industrial. To further differentiate between customers, classes are separated based on general consumption habits; e.g., space heating, large and small volume energy consumers, and primary and secondary services.

Q. Please describe and discuss the types of adjustments the Staff developed to determine annualized revenues.

A. The Staff's annualized revenues reflect the following adjustments:

1. For normalized weather
2. For customer growth or loss
3. For customer load changes

Weather Normalization of Usage

Q. Why is it appropriate to adjust revenues for normalized weather?

A. Temperature levels experienced during any twelve month period could have a significant impact on the Company's revenues. If the overall temperature were very hot during the summer season or cold during the winter season, the Company's revenue would be overstated in relation to normal weather. Conversely, if the overall temperature were cool during the summer season and mild during the winter season, the Company's revenues would be understated in relation to normal weather. Therefore, the Staff normalized revenues for weather to eliminate the effects of abnormal temperatures during the test year.

Q. Did the Staff apply a weather normalization analysis to both MPS and SJLP?

A. No. The Staff determined that the effect of a weather normalization adjustment to SJLP revenues for the updated test year would be minimal. Therefore, only MPS revenues have been adjusted to reflect the effects of weather normalization.

Q. What methodology did the Staff use to normalize for weather?

A. The methodology used by the Staff to normalize revenues for weather is discussed in the direct testimony of Staff witness Lena M. Mantle of the Energy Department. Based on that analysis, the Staff has proposed to reflect the effect on revenue of normalization due to weather in Adjustment S-1.3.

Customer Growth/Loss Annualization

Q. Why is it appropriate to adjust revenues for customer growth or loss?

A. It is appropriate to analyze customer growth and loss in order to reflect the most current on-going level of revenues in the Staff's overall determination of MPS's cost of service.

Q. Did the Staff adjust revenues of both MPS and SJLP for customer growth or loss?

A. Yes. However, the method used was different for the two divisions, MPS and SJLP.

Q. Please explain your analysis related to customer growth/loss for the MPS and SJLP customer classes.

A. The Staff analyzed customer growth for each of the rate classes included in the weather normalization analysis of MPS: MO860, MO870, MO710, MO711, MO716, MO720, MO725 and MO740. The customer growth adjustments are comprised of two components. The first component relates to the normalized kilowatt-hour (kWh) usage per customer for the annualized level of customers. The second component annualizes the revenue dollars associated with the normalized kWh usage per customer.

Q. Please explain how the annualized level of customers for MPS was determined.

A. In order to determine the annualized level of customers, the Staff issued Data Request No. 13 to the Company, requesting for all rate classes, customer counts from the Company for each month of the test year, January through December 2000, and for the update period through June 30, 2001. MPS began using a new method of counting customers during March of the test year. After discussions with MPS/UCU employees, it was determined that the customer counts initially provided in response to Staff Data Request No. 13 would not provide consistent information for the test year and update period. Another method of calculating customer counts was therefore provided by the Company to the Staff. Upon analysis, however, it was determined that there were still problems with the consistency of the customer counts in UCU/MPS's new method of counting customers. As a result of these difficulties, the Staff adopted a third approach to arriving at customer counts. Under this approach, the total customer charge dollars billed each month were divided by the customer charge to determine the number of customers in each rate class.

Q. Why is this an appropriate way to count customers?

A. The Company bills a customer charge based on the number of days that the customer is an active customer during the billing period. For example, if a customer moves out of a rental property five days into the billing period, that customer would be charged 5/30ths of the normal customer charge. The customer charge total for the month represents both full month customers and partial month customers. Therefore, the Staff did not have to take an average of beginning and ending customers for each month as is typically done in the customer count analysis performed. In fact, the customer charge total in this case is a more accurate method of counting customers. The Staff compared the number of customers in each month of the test year with the number of customers at the end of the update period, June 30, 2001.

Q. How was the growth or loss in kWh sales and revenues calculated?

A. The Staff's revenue annualization consists of two components. First the test year kWh sales for each of the rate classes were adjusted each month for weather to arrive at a normalized kWh level. The normalized kWh sales were then divided by the actual customer count to calculate a normalized kWh usage per customer for each month of the test year. The customer count at the end of the update period was then compared to the test year monthly customer counts. The difference in customer count was then multiplied by the normal use per customer to calculate the growth or loss in kWh sales for each month of the test year. The total test year growth/loss for each rate class was then calculated.

Q. Please describe the second component of the revenue annualization.

A. The second component of the revenue annualization develops revenues in a similar way that annualized kWh sales are calculated. The total test year revenues for each of the rate classes were adjusted for weather to arrive at a normalized revenue level. The total normalized revenue dollars were then divided by the actual customer count to calculate a normalized revenue per customer bill for each month of the test year. The customer count at the end of the June 30, 2001, update period was then compared to the test year monthly customer counts. The difference in customer count was then multiplied by the normal revenue dollars per customer bill to calculate the growth or loss in revenue dollars for each month of the test year. The total test year revenue growth/loss for each rate class was then calculated. The methodology for the normalization of revenue dollars is discussed in the direct testimony of Staff witness Janice M. Pyatte of the Energy Department.

Q. What is the purpose of Adjustment S-1.4?

A. This adjustment increases test period kWh sales and revenues to reflect the customers added to or removed from the MPS residential and small commercial rate schedules through June 30, 2001. Each new customer is assumed to increase test period sales at the average normalized usage per customer from the calendar 2000 base test year period.

Q. Please explain how the annualized level of kWh sales and revenues for SJLP was determined.

A. The Company, in response to Staff Data Request No. 133, provided the SJLP customer counts. In contrast to the counts provided by MPS, the test year customer counts were consistent. However, upon the completion of the UtiliCorp acquisition of SJLP, the SJLP billing was transferred to the UtiliCorp system in May of 2001, and as a result, the customer billing report format changed. The Staff asked for clarification related to the April through June billing reports for customer count information, which was needed to complete the growth analysis for the update period. Because of changes in customer rate classes used in reporting customer counts, and similar problems with respect to customer count changes as were encountered with the MPS data, the Staff was not able to determine a consistent method for counting customers in individual rate classes for the 2000 and 2001 periods analyzed.

As an alternative, the Staff compared the kWh sales and revenues by customer rate class for the test year ending December 31, 2000 to the kWh sales and revenues for the year ending June 30, 2001. This information was provided by UCU in response to Staff Data Request No. 133. The resulting difference in the total kWh sales and revenues for each customer rate class between the 2000 test year and the year ending June 30, 2001 represents six months of growth/loss from January 1, 2001 to June 30, 2001. A customer rate class that increased kWh sales and revenues between the test year and the twelve months ending June 30, 2001 experienced growth. In contrast, a customer rate class that decreased kWh sales and revenues experienced a loss. To reflect a twelve-month change in usage and revenue, I multiplied the difference in growth/loss between the two years by two. This adjustment will be reflected in the SJLP revenue requirement calculation when it is completed.

Large Customer Annualization

Q. Are the test year kWh sales for the large commercial and industrial classes typically adjusted to reflect normal weather?

A. No. The loads for large commercial and/or industrial customers are not considered weather sensitive and, therefore, no attempt is made to adjust for weather impacts.

Q. How does the Staff typically annualize large volume customer rate classes?

A. The Staff annualizes large volume customer rate classes based on a review of monthly consumption for each customer during the test year and update period.

Large customers require detailed study rather than generalized (average usage) adjustment for several reasons. First, when MPS and/or SJLP adds a new large customer, that customer's usage is not reasonably estimated by simple reference to average usage levels for all other industrial customers. Second, MPS makes available to qualifying new customers its Economic Development Rider (EDR), which causes average-revenue-per-kWh statistics to be imprecise in predicting ongoing revenue levels for new large customers. Finally, new large customers may have initially erratic load levels until stable patterns of demand are established. Specific analysis of individual large customers is required to deal with these concerns.

Q. What is the process used by the Staff in its analysis of large volume customers?

A. The Staff uses a two-step process in its analysis of large volume customers. The first step measures kWh sales and revenue growth/loss in a manner similar to the alternative method employed by the Staff in measuring SJLP customer growth. This step compares the test year kWh usage and revenue to the update year kWh usage and revenue and adjusts for increases or decreases in the two annual periods. This adjustment is based upon the difference between the actual kWh sales and the revenues billed each month throughout the test year and the year ending June 30, 2001.

The second step in the process is to analyze changes in specific customer usage. These changes occur because of new customers coming on to, and established customers leaving, the electric system. In addition the Company provides information to the Staff regarding expected changes in customer loads due to expansion projects, downsizing or any other change known to affect a specific customer electric usage. The Staff annualizes these changes to reflect their impact for a full year.

Q. Please explain Adjustment S-1.5 related to MPS large volume customers.

A. Detailed monthly billing information was requested from MPS (Staff Accounting Data Request Nos. 16-19 and Energy Department Data Request Nos. 3501 and 3513) for each customer that entered or exited MPS large volume customer rate classes since January 2000. Staff Data Request No. 325 asked for 2001 monthly billing information. Unfortunately, data for 2001 has not been provided to the Staff in a format that can be used to complete the analysis for MPS. Continued problems in obtaining reconcilable kWh sales and revenue information by customer rate classes from MPS to enable the Staff to complete the first step in the process of analyzing large volume customers have resulted in an adjustment that will require further revision at the completion of the true-up audit. Step two in the analysis process, the Staff's analysis of specific customer changes in usage for the large customer classes, will also be updated during the true-up audit for this case, also.

Q. Was the Staff able to complete its analysis of SJLP large volume customers?

A. Yes. The Staff requested similar information from SJLP to complete its two-step analysis process. The kWh sales and revenue differences from test year to update period (step one) and the information provided for individual large volume customers by SJLP (step two in the analysis process) allowed the Staff to make an adjustment for large volume customers. SJLP has had changes in customer loads for several large customers as of June 30, 2001, which is the end of the update period in this case. The Staff will review large customer usage again at the end of the true-up period, January 31, 2002. In addition, consistency with Staff's June 30, 2001 update for fuel costs, rate base and other test year annualizations requires that customer and sales levels be annualized at the same point in time, at the end of the true-up period.

Elimination of Unbilled Revenues

Q. What are unbilled revenues and why is it appropriate to remove the effects of unbilled revenues in a rate case?

A. Unbilled revenues represent accounting estimates booked by the Company at the end of each month to account for the kWh sales to customers through the last day of the month, even though meters are not read on the last day to render actual billings for such sales. The cycle billing process employed by MPS and SJLP contributes to a continuous change in the amount of sales that the two divisions have recognized at any given month-end that have not been billed to customers. In the test year, the net change in unbilled kWh sales and related revenue from month-end December 1999 to month-end

December 2000 is recorded as calendar 2000 revenue on the books. Elimination of these accrued estimated revenues allows the Staff to analyze test year revenues based upon actual billed data. For example, Ms. Mantle's usage analysis begins with actual billed-basis sales data for the test period.

Q. Was unbilled revenue eliminated in MPS's last rate case, No. ER-97-394?

A. Yes. The adjustment I propose in this case is comparable to that which was proposed by the Staff in the last MPS rate case.

Q. What is the source for the eliminated unbilled revenue amount in the Adjustment S-1.1 which you sponsor?

A. The source for the eliminated unbilled revenues for SJLP is the 2000 Federal Energy Regulatory Commission (FERC) Form 1. The actual per books amount of calendar 2000 MPS unbilled revenues, as reflected in the Company's general ledger and in the Company's rate case Adjustment R-30, are eliminated. The Staff's and Company's adjustment for unbilled revenues in this case, are the same.

Elimination of Revenue Franchise Taxes

Q. Why have you removed franchise revenue taxes in determining annualized revenue levels?

A. The Company's approved tariffs are subject to a "Tax and License Rider," which allows MPS to add to customers' bills the local franchise taxes imposed by local taxing authorities. The Staff's analysis of MPS revenues can be conducted either inclusive or exclusive of such franchise taxes. As a matter of administrative simplicity, the Staff's analysis focused upon "bare" revenues, excluding such taxes. Therefore, to be sure a matched level of revenues and costs is included in the Staff's filing after various revenue adjustments are calculated, the entirety of recorded franchise revenues and expenses is eliminated from per books test period financial data. Specifically, Adjustment S-1.2 eliminates these franchise tax dollars included in test year revenue accounts and Adjustment S-94.1 eliminates from the expense accounts the franchise tax costs.

Other Revenue Account Adjustments

Q. Has the Staff reviewed the Other Revenues associated with MPS and SJLP?

A. Yes, the Staff has completed a review of the Other Revenues of both MPS and SJLP. Adjustment S-7.1 annualizes the test year Other Revenues of MPS. The analysis of the Other Revenues included a review of revenues over the last five years and through the update period. These revenues include forfeited discounts, miscellaneous service revenues, rent from property and other revenues including charges for wheeling over MPS transmission lines. In the case of rent from property, the adjustment reflects the use of a four-year average. The test year revenues of the other categories are representative of an annualized level of revenue for each respective category.

The SJLP other revenues have been analyzed using a five-year review also. This adjustment will be reflected in the SJLP revenue requirement calculation when it is completed.

UNCOLLECTIBLES (BAD DEBT) EXPENSE

Q. What is the purpose of Adjustment S-72.5?

A. Adjustment S-72.5 normalizes bad debt expense.

Q. How was a normal level of bad debt expense for MPS calculated?

A. As stated in the revenue section of my testimony, I have determined an annualized revenue for MPS for the update period ending June 30, 2001. I calculated the 2000 ratio of net bad debt write-offs to adjusted update period electric revenue. I arrived at a normal level of bad debt expense by multiplying annualized revenue by the average write-off ratio for the years 1996 through 2000.

Q. Why did Staff use a five-year average net write-off ratio in its calculation of bad debt expense?

A. An analysis of bad debt write-off ratios at MPS over the most recent five-years shows that the first and last year of the analysis did not fit the norm. 1996 bad debt write-offs were lower and the 2000 bad debt write-offs were higher in relationship to the most recent five-year bad debt write-offs. Taking a five-year average has normalized the fluctuation in the level of bad debt write-offs.

Q. Has the Staff completed an analysis of SJLP uncollectibles?

A. No, the Staff has not completed a similar analysis of SJLP uncollectibles at this time. An analysis will be completed prior to the completion of the SJLP revenue requirement calculation and any adjustment based upon the analysis will be included.

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 JANIS E. FISCHER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Janis E. Fischer, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 25 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Janis E. Fischer

Janis E. Fischer

Subscribed and sworn to before me this 5th day of December 2001.

D Suzie Mankin

D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

SUMMARY OF RATE CASE TESTIMONY FILED

Janis E. Fischer

COMPANY	CASE NO.
Empire District Electric Company	ER-97-81
Union Electric Company (AmerenUE)	GR-97-393
Osage Water Company	WA-98-236/ WC-98-211
Western Resources/Kansas City Power & Light Company	EM-97-515
UtiliCorp United, Inc./St. Joseph Light & Power Company	EM-2000-292
UtiliCorp United, Inc./Empire District Electric Company	EM-2000-369
KLM Telephone Company	TT-2001-120
Empire District Electric Company	ER-2001-299
Missouri Gas Energy, Division of Southern Union Company	GR-2001-292

UtiliCorp United dba Missouri Public Service
Case No. ER 2001-672
Staff's Calculation of Pension Expense under FAS 87

Line No	MPS Specific FAS 87 Costs Description	MPS Books	*Adjustment to Amortize Gains/Losses Over 5 Yrs.	Staff Adjusted
1	Service Cost	1,464,496		1,464,496
2	Interest Cost	2,951,730		2,951,730
3	Expected Rate of Return	(5,239,594)		(5,239,594)
4	(Gain)/Loss Amortization to MPS (20.731%)	(200,222)	1,888	(198,334)
5	Prior Service Cost Amortization	(73,572)		(73,572)
6	Transition (Asset)/Obligation	(383,561)		(383,561)
7	MPS Regulatory Adjustment	(1,040,041)	1,040,041	0
8	Total MPS Specific Pension Cost	(2,520,765)	1,041,929	(1,478,835)

Line No	UCU Corporate FAS 87 Costs Allocated to MPS Description	MPS Books	Adjustment	Staff Adjusted
9	Service Cost	1,346,429		1,346,429
10	Interest Cost	2,713,763		2,713,763
11	Expected Rate of Return	(4,817,182)		(4,817,182)
12	(Gain)/Loss Amortization to UCU (19.06%)	(184,081)	1,733	(182,348)
13	Prior Service Cost Amortization	(45,431)		(45,431)
14	Total UCU Corporate Pension Cost	(986,502)	1,733	(984,769)
15	Allocation to MPS (22.3459%)			(220,055)
16	MPS Pension Costs			(1,478,835)
17	MPS Share of UCU Costs			(220,055)
18	Total MPS Pension Costs per Staff			(1,698,890)
19	Pension MPS per books Test Year			(3,477,286)
20	Adjustment			1,778,396
21	Less: capitalization rate	78.140%		
22	**MPS O & M Adjustment S-85.6**			**1,389,638**

*5 Year Average of Unrecognized FAS 87 (Gains)/Losses From DR 120 Mercer Actuary Reports

	Period	Amount	(Gain)/Loss Months	Weighted
23	1/1/1995			
24	1/1/1996	$ 22,483,833	3	$ 1,124,192
25	1/1/1997	$ 6,764,694	12	$ 1,352,939
26	10/1/1997	$ (1,973,104)	9	$ (295,966)
27	10/1/1998	$ 17,819,791	12	$ 3,563,958
28	1/1/1999	$ (3,623,947)	3	$ (181,197)
29	10/1/1999	$ (14,720,802)	9	$ (2,208,120)
30	1/1/2000	$ (53,667,122)	3	$ (2,683,356)
31	10/1/2000	$ (36,373,130)	9	$ (5,455,970)
32		$ (63,289,787)	60	$ (4,783,520)
33	Amortized 5 Years			$ (956,704)

UtiliCorp United dba Missouri Public Service
Case No. ER 2001-672
Staff's Calculation of Pension Expense under FAS 106

Line No	MPS Specific FAS 106 Costs Description	Company Actual Pension Cost 2000	Adjustment to Amortize Gains/Losses Over 5 Yrs.*	Staff Pension Cost as Adjusted
1	Service Cost	102,894		102,894
2	Interest Cost	448,535		448,535
3	Expected Rate of Return	(112,421)		(112,421)
4	Amort of Unrecognized Transition Obligation	305,986		305,986
5	(Gain)/Loss Amortization to MPS (11.08%)	0	(85,296)	(85,296)
6	Amortization of Prior Svc Cost	76,625		76,625
7	Net Periodic Postretirement Benefit Cost	821,619	(85,296)	736,323

Line No	UCU Corporate FAS 106 Costs Allocated to MPS Description	MPS Books	Adjustment	Staff Adjusted
8	Service Cost	127,257		127,257
9	Interest Cost	116,411		116,411
10	Expected Rate of Return	0		0
11	Amort of Unrecognized Transition Obligation	9,295		9,295
12	(Gain)/Loss Amortization to UCU (3.09%)		(23,804)	(23,804)
13	Net Periodic Postretirement Benefit Cost	252,963	(23,804)	229,159
14	Allocation to MPS (22.3459%)			51,208
15	MPS FAS 106 OPEB Costs			736,323
16	MPS Share of UCU FAS 106 OPEB Costs			51,208
17	Total MPS FAS 016 OPEB Costs			787,530
18	FAS 106 OPEB MPS per books Test Year			887,926
19	Adjustment			(100,396)
20	Less: Capitalization Rate	78.140%		21,947
21	**MPS O & M Adjustment S-85.7**			**(78,449)**

*5 Year Average of Unrecognized (Gains)/Losses
From DR 121 Mercer Actuary Reports SFAS 106
Company Updated Case Workpapers

	Period	(Gain)/Loss	Months	Total UCU Avg Wt Mos
22	January 1, 1996	(4,740,410)	12	(997,981)
23	January 1, 1997	(8,573,227)	12	(1,804,890)
24	September 30, 1997	(8,365,698)	9	(1,320,900)
25	September 30, 1998	(1,221,575)	12	(257,174)
26	September 30, 1999	2,526,217	12	531,835
27		(20,374,693)	57	(3,849,109)
28				
29	Amortized 5 Years			(769,822)