

Exhibit No.: 020
Issues: Transition Costs
Witness: Carol A. Lowndes
Sponsoring Party: Aquila Networks-MPS
& L&P
Case No.: ER-

Before the Public Service Commission
of the State of Missouri

FILED
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**Missouri Public
Service Commission**

Direct Testimony

of

Carol A. Lowndes

Aquila Exhibit No. 20
Case No(s) ER-2007-0004
Date 11-2-07 Rptr KE

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ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF CAROL A. LOWNDES
ON BEHALF OF AQUILA, INC
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Carol A. Lowndes. My business address is 10700 East 350 Highway, Kansas
3 City, Missouri.

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

5 A. I am employed by Aquila, Inc. ("Aquila", or "the Company") as Director – Accounting and
6 Finance supporting Missouri electric operations, Aquila Networks – MPS ("MPS") and
7 Aquila Networks – L&P ("L&P"). I was named to my current position in March 2006.

8 Q. Please describe your educational background and professional experience.

9 A. I graduated from Creighton University in 1979 with a Bachelor of Science Degree in
10 Business Administration, majoring in accounting. I obtained my Certified Public
11 Accountant certificate in 1979 and practiced in public accounting from 1979 to 1985. In
12 November 1985 I joined Aquila, initially as General Ledger Supervisor for its Peoples
13 Natural Gas division, and since then I have held several positions primarily within the
14 CFO organization.

15 **EXECUTIVE SUMMARY**

16 Q. What is the purpose of your testimony in this proceeding before the Missouri Public
17 Service Commission ("Commission")?

18 A. The purpose of my testimony is to present certain schedules and to describe the
19 accounting adjustment made to Aquila Networks – MPS ("MPS") and Aquila Networks –

1 L&P (“L&P”) in this rate case filing regarding transition costs to achieve merger
2 synergies.

3 **TRANSITION COSTS**

4 Q. What are transition costs?

5 A. When a merger occurs costs are incurred to accomplish the merger, called transaction
6 costs. Additionally, after the merger is accomplished, costs are incurred to align staffing,
7 coordinate systems, and implement other changes that will allow synergies and
8 economies of scale to be brought about, called transition costs. To achieve economies of
9 scale benefits, transition costs were incurred by Aquila when it acquired St. Joseph Light
10 & Power Company (“SJLP”).

11 Q. Are these costs part of the premium paid by Aquila when it acquired SJLP?

12 A. No they are not.

13 Q. Are these costs a sharing of the synergies?

14 A. No. These are costs that helped create the synergies, not the synergies themselves.

15 Q. In the course of the merger proceedings and in subsequent cases did the Commission
16 Staff support recovery by Aquila of such costs?

17 A. Yes. In the Stipulation and Agreement for Case No. ER-2005-0436, page 8, Staff agreed
18 to allow Aquila annual amortization of transition costs associated with its merger with
19 SJLP

20 Q. Has the Company included the unamortized costs in rate base?

21 A. No it has not. The Company has only asked for return of transition costs not for a return
22 on the unamortized balance.

23 Q. What costs have been included in this rate case filing?

1 A. While the Company incurred over \$18 million in costs to implement the merger, it has
2 moved fully to Staff's position by including in this case only amortization of those costs
3 approved by Staff in its previous reviews. Aquila has included a combined annual
4 amortization of \$493,886, composed of \$374, 854 (after jurisdictional factor applied) and
5 119,032 for MPS and L & P respectively, which is based on a 10 year amortization of
6 \$4,959,664 of transition costs. The adjustment to reflect this amortization in cost of
7 service is reflected in Adjustment CS-84 on Schedule SKB-4 sponsored by Aquila
8 witness Susan Braun.

9 Q. What was the basis for determining the amount of transition costs to include?

10 A. The \$4.9 million represents only those costs that meet Staff's standard for inclusion.
11 These costs which are detailed in the attached schedule (Schedule CAL-1) are only
12 transition costs required to integrate the combining companies and exclude transaction
13 costs. In Staff Witness Hyneman's surrebuttal testimony in Case No. ER-2005-0436, he
14 stated that "The Staff does not anticipate that the total amount to be recovered will
15 exceed \$4.9 million." (p. 22 lines 5-6)

16 Q. Has the Office of the Public Counsel ("OPC") also agreed to Aquila being able to recover
17 these transition costs?

18 A. No it has not.

19 Q. What opinion has OPC expressed previously?

20 A. OPC Witness Ted Robertson's stated in his direct testimony in Case No. ER-2005-0436,
21 p. 22, lines 5-7, that "whereas costs associated with the actual transition (sometimes
22 called "costs to achieve") should only be allowed if they can be proven to truly benefit
23 the ratepayers".

1 Q. If Mr. Robertson agrees that transition costs should be recoverable, what is your
2 understanding as to why he proposed to exclude them from cost of service in Aquila's
3 last rate case?

4 A. His contention was that the Company had "not sufficiently identified ... whether or not
5 the benefits, if any, associated with the purchase of the SJLP operations outweigh the
6 costs it seeks to recover" (p. 25 lines 9-11).

7 Q. Did Staff believe Aquila had sufficiently identified benefits outweighing the costs it is
8 including for recovery?

9 A. Yes. Staff Witness Hyneman noted in his surrebuttal testimony "There is a savings much
10 greater than the level of transition costs proposed by either Aquila or the Staff in this
11 case." (p. 21 lines 15-16). The savings Mr. Hyneman refers to are related to joint
12 dispatching savings which continues today and could not be achieved without the merger
13 of the two companies taking place.

14 Q. Did OPC raise any other objections in the last case?

15 A. Yes. OPC Witness Robertson stated on page 35 of his surrebuttal testimony (Case No.
16 ER-2005-0436) that because the costs were incurred outside the test period and the
17 Company had not sought an Accounting Authorization Order ("AAO"), it should not be
18 able to recover the costs.

19 Q. Did Staff agree that the Company did not have authority to defer the costs?

20 A. No it did not. Staff Witness Hyneman stated in his surrebuttal testimony that "The
21 Commission reserved the right to consider ratemaking treatment to be afforded the
22 transactions herein involved in a later proceeding. It stands to reason that if Aquila did
23 not defer these merger costs on its books and records it would not have the opportunity in

1 a later case to seek whole or partial recovery of the transition costs. Therefore the Staff
2 believes that the Commission, in this Report and Order (EM-2002-292) gave Aquila the
3 authority to defer its merger transition costs on its books and records.” (p 24, lines 2-8)

4 **SUMMARY**

5 Q. Could you please summarize your testimony?

6 A. Yes. The Company has properly included in its cost of service \$493,886 of amortized
7 costs, representing a 10-year amortization of \$4.9 million of transition costs (excluding
8 all transaction costs). It is proper for Aquila to recover these costs for the following
9 reasons:

- 10 1. Both Staff and OPC stated that transition costs are properly recoverable as long as the
11 savings outweigh the transition costs from the merger. The savings realized have
12 been far greater than the \$4.9 million, as noted by Staff Witness Hyneman, and are in
13 compliance with the amount proposed by Staff in the last case.
- 14 2. Aquila had authority to defer its merger transition costs incurred outside the test
15 period because the Commission reserved its right to consider ratemaking treatment in
16 a later proceeding.

17 Q. Does this conclude your direct testimony?

18 A. Yes it does.

**Aquila Networks - MPS/L&P
St. Joe Merger Transition Costs**

(a) Line No.	(b) Payee	(c) Amount	(d) Description
1	Severance	\$2,227,883	Non-executive severance costs
2	Severance Pr Tax	\$33,577	Payroll taxes incurred on severance payments
3	OPEB Curtailment	\$1,447,631	Curtailment loss as calculated under FAS 106
4	MAPP	\$207,265	Withdraw from power pools
5	Enghouse Systems	\$35,671	AM FM system conversion
6	QC Data Systems	\$245,486	Transition costs for Small World applications and AutoCad
7	Power Plan Consulting	\$67,409	Fixed Asset System conversion
8	Bass	\$59,323	Contract Programmers. Assigned to CIS transition projects.
9	Compuware	\$87,803	Contract Programmers. Assigned to Acctg System transition
10	Rapidigm	\$34,935	Contract Programmers. Assigned to Acctg System transition proj
11	Various employees	\$15,923	Employee expenses for transition including travel, etc
12	Deloitte Consulting	\$78,421	Quality assurance review of transition plans
13	Economists	\$202,110	Filings/Studies regarding joint dispatch.
14	Hogan & Hartson	\$85,920	Filings/Studies regarding joint dispatch.
15	Price Waterhouse	\$35,525	Work on budgets
16	Mercer	\$94,781	Costs to transition the benefit plans
17	Total Transition Costs	<u>\$4,959,664</u>	

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila)
Networks-MPS and Aquila Networks-L&P,)
for authority to file tariffs increasing electric)
rates for the service provided to customers in)
the Aquila Networks-MPS and Aquila)
Networks-L&P area)

Case No. ER-_____

County of Jackson)
State of Missouri)

ss

AFFIDAVIT OF CAROL A. LOWNDES

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

Carol A. Lowndes

Carol A. Lowndes

Subscribed and sworn to before me this 3rd day of July, 2006.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008