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Witness: *Steve M. Traxler*
Sponsoring Party: *MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

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SURREBUTTALTESTIMONY

OF

STEVE M. TRAXLER

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

CASE NOS. ER-2001-672 AND EC-2002-265

Jefferson City, Missouri
January 2002

TABLE OF CONTENTS OF

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Q. Please state your name and business address.

A. Steve M. Traxler, Noland Plaza Office Building, 3675 Noland Road, Independence, Missouri 64055.

Q. Are you the same Steve M. Traxler who previously filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony in this section will address the rebuttal testimony Missouri Public Service (MPS) witness John W. McKinney on the issue of income tax expense and MPS witness Stephen L. Ferry on the Jeffrey Shares interchange sales issue.

Q. What is the primary issue between the Staff and MPS in the income tax area?

A. The primary issue between the Staff and MPS in the income tax area is related to whether the recognition in rates of book depreciation, on fully depreciated assets, should have a corresponding amount reflected as a tax deduction for ratemaking purposes.

The common term used for the tax deduction for book depreciation, used in calculating income tax for ratemaking purposes, is "straight-line tax depreciation."

The term "tax depreciation," used in this testimony, refers to the depreciation deduction allowed by the Internal Revenue Code (IRC) in determining a regulated utility's current income tax liability to the Internal Revenue Service (IRS).

Q. Please summarize the areas of Mr. McKinney's rebuttal testimony that you will be addressing.

A. My surrebuttal testimony will address the following issues raised by Mr. McKinney in his rebuttal testimony:

1) Alleged confusion regarding the Staff's position.

2) Allegation that Staff's method for computing Income Tax Expense fails to provide deferred taxes related to timing differences, which are normalized (provides deferred taxes) for financial reporting and ratemaking purposes.

3) Allegation that the issue between the Staff and MPS regarding the calculation of straight-line tax depreciation results in a violation of the IRC tax normalization rules for a regulated utility.

4) Allegation that the Staff's method for computing straight-line tax depreciation is simply wrong and therefore inappropriate for determining income tax expense for ratemaking purposes.

<u>Income Tax Expense - - Alleged Confusion Regarding the Staff's Position</u>

Q. On page 25, lines 15 through 18, Mr. McKinney makes the following statement:

> In reviewing the Accounting Schedule 11-1 and Staff witness Traxler's direct testimony, UtiliCorp is somewhat confused and has

> issued a number of data requests to try and obtain the necessary information to understand the Staff's position.

Do you agree with Mr. McKinney that he had insufficient information at the time of his rebuttal filing to understand the Staff's position?

A. No. In fact, I was surprised by this comment, given the numerous discussions I have had on this issue with MPS representatives, including Mr. McKinney in this case as well as in MPS's most recent rate case, Case No. ER-97-394.

The primary issue in the income tax area in this case is the same issue in all respects that was discussed at length with MPS representatives in its last rate case, Case No. ER-97-394.

Q. Provide a brief summation of the discussions between MPS and the Staff in Case No. ER-97-394 related to calculation of income tax expense.

A. The income tax issue in this current case, scheduled for hearing, is the difference in method used to calculate straight-line tax depreciation.

This same issue of difference in methodology was an initial issue between the Staff and MPS in its most recent rate case, No. ER-97-394.

The Company's initial main objection to the Staff's method for calculating straight-line tax depreciation in Case No. ER-97-394 was a claim that it resulted in a violation of the IRC tax normalization requirements for a regulated utility. MPS scheduled a meeting with its outside tax expert, Mr. A.C. Hagermann, employed by their outside auditing firm of Arthur Anderson, to discuss the issue.

Q. What was Mr. Hagermann's response to your question regarding whether the Staff' methodology violated the IRC tax normalization rules for a regulated utility?

A. Mr. Hagermann's response was that, in his opinion, the Staff's methodology did <u>not</u> violate the IRC tax normalization rules for a regulated utility.

MPS subsequently adopted the Staff's position in Case No. ER-97-394 for calculating straight-line tax depreciation.

Q. In the current Case No. ER-2001-672, has the Staff had additional discussions with MPS representatives, including Mr. McKinney, regarding the Staff's method for calculating straight-line tax depreciation?

A. Yes. On October 30, 2001, I met with MPS representatives, Mr. Gary Clemens and Ms. Becky Streeter, regarding the differences in the methods that MPS and the Staff used to calculate straight-line tax depreciation. I informed Mr. Clemens and Ms. Streeter that the Company's methodology used in its direct filing in this Case No. ER-2001-672 was consistent with the method it used in its direct case in Case No. ER-97-394.

I also explained the rationale and calculation of the Staff's method and informed them that the differences in the Company's and the Staff's methods for computing straight-line tax depreciation would be a significant issue in this case, No. ER-2001-672.

Q. After your meeting with Mr. Clemens and Ms. Streeer on October 30, 2001, did you issue a written memorandum which summarized the difference in the positions of the Staff and the Company on the straight-line tax issue and provide an estimated value for the difference on that issue?

A. Yes. Schedule SMT-1 attached to this testimony, is a copy of the memorandum provided to Mr. Clemens on October 31, 2001, the day following October 30 meeting. The memorandum also included a calculation of the estimated value of the issue at $6.7 million. The value of the issue at this date is approximately $7.6 million.

In summary, by October 31, 2001, MPS had been notified, in writing, of the Staff's method for computing straight-line tax depreciation and a valid approximation of the value of the difference between the Staff's position and the Company's position on the issue.

I would certainly assume that Mr. Clemens had shared this information with Mr. McKinney, given the significant value of the issue.

Q. Was there a follow-up meeting between Mr. McKinney and Mr. Clemens from MPS and the Staff on the straight-line tax depreciation issue?

A. Yes. Mr. Cary G. Featherstone and I met with Mr. Clemens and Mr. McKinney on December 26, 2001 for a follow-up discussion on the issue.

I certainly left the meeting with the understanding that the Staff's rationale and calculation of straight-line tax depreciation was adequately explained to Mr. Clemens and Mr. McKinney. There was and still is complete disagreement between the Staff and the Company on the issue, but I have difficulty accepting Mr. McKinney's statement in his rebuttal testimony that he was confused about the Staff's position on income tax in this case.

Q. Referring again to Mr. McKinney's rebuttal testimony, page 25, lines 17 and 18, he implies that he was waiting on responses to data requests issued to the Staff for the purpose of gaining an understanding of the Staff's position. Do you take issue with this assertion?

A. Yes, I do. Mr. McKinney issued MPS Data Requests MPS-001 through

MPS-006 on December 26, 2001 to the Staff. I delivered complete answers for Data Request Nos. MPS-001 through MPS-005 to MPS by 10 a.m. on January 3, 2002.

Rebuttal testimony in Case No. ER-2001-272 was filed on January 8, 2002. Mr. McKinney had completed responses to five of the six data requests issued for the income tax area five days prior to the filing of his rebuttal testimony. MPS Data Request No. 006 had clarification questions related to the presentation of the Staff's income tax adjustments in the filed Accounting Schedules but had little, if anything, to do with the differences between MPS and the Staff on the method to be used in calculating straight-line tax depreciation.

Q. What was the nature of information provided in response to MPS Data Request Nos. 001 through 005?

A. The Staff's response to MPS Data Request No. MPS-003, provided on January 3, 2002, included copies of the Staff's testimony on this issue presented in nine other cases involving the former St. Joseph Light and Power Company, Laclede Gas Company, The Empire District Electric Company (Empire), Union Electric Company and MPS's last case, No. ER-97-394. In addition, in the response to MPS Data Request No. 004 the Staff provided copies of prior Commission orders and stipulation and agreements filed in the following cases:

St. Joseph Light & Power Company	ER-93-41	Commission Order
Laclede Gas Company	GR-94-220	Commission Order
St. Joseph Light & Power Company	ER-99-247	Filed Stipulation
St. Joseph Light & Power Company	GR-99-246	Filed Stipulation
St. Joseph Light & Power Company	HR-99-245	Filed Stipulation

For some reason, Mr. McKinney's rebuttal testimony fails to mention the availability of this considerable amount of information on this issue five days prior the filing of his rebuttal testimony.

Q. You mentioned previously that Mr. McKinney issued MPS Data Request Nos. 001 through 006 on December 26, 2001 and that you provided responses to Data Request Nos. MPS-001 through MPS-005 on January 3, 2002. Did you have a specific reason in mind for answering Mr. McKinney's data requests within eight days of the date they were issued?

A. Yes, knowing that all parties had a tight schedule for filing rebuttal testimony in this case by January 8, 2002, I wanted to make sure that Mr. McKinney had answers to all data requests dealing with the primary issue regarding the method used to calculate straight-line tax depreciation in sufficient time that he could consider them when he prepared his rebuttal testimony.

However, when you read Mr. McKinney's rebuttal testimony on page 25, lines 17 and 18, the clear implication is that Mr. McKinney had not received any answers to his data requests prior to when he filed his rebuttal testimony.

Q. Have you attached your responses to MPS Data Request Nos. MPS-001 through MPS-006 as schedules to this surrebuttal testimony?

A. Yes, attached as Schedules SMT-2 through SMT-7 are my responses to MPS Data Request Nos. 001 through 006.

Q. On page 25, beginning on line 20 and continuing on page 26, lines 1 through 7 of his rebuttal testimony, Mr. McKinney indicates that:

1) An adjustment amount for S-98 and S-99 was not reflected on Accounting Schedule 9-4 (Income Statement) and

2) Accounting Schedule 10 did not include a description for these adjustment references.

Are the questions raised here by Mr. McKinney critical to the issue, scheduled for hearing in this case, regarding the proper calculation of the tax deduction for depreciation expense?

A. No. These questions are related to the presentation of adjustments in the Staff's Accounting Schedules. These questions would normally be addressed in the prehearing conference or follow up discussions that take place prior to the filing of rebuttal testimony.

Q. Did Mr. McKinney or any other MPS representatives raise questions regarding the description of the Staff's income tax adjustments in its filed Accounting Schedules during the prehearing conference?

A. No, they did not.

Q. Should the omission of the brief description for Staff adjustments S-98 and S-99 in the Staff's filed Accounting Schedules be considered critical regarding Mr. McKinney's understanding the Staff's position on Income Tax?

A. No. No adjustment amount was reflected for S-98 and S-99 because an "unadjusted" test year amount for Accounts 411.1 and 411.4 was used for what the Staff believed to be the annual amortizations in 2000 of excess deferred taxes in Account 411.1 and the amortization in 2000 of the investment tax credit in Account 411.4. Additionally, the amounts included in these accounts is unrelated to the issue scheduled for hearing in this case, the treatment of depreciation expense deduction in calculating current and deferred income tax expense.

Q. Has MPS provided the Staff additional information since the Staff's direct filing regarding the amounts included in Account 411.1?

A. Yes. It was Staff's understanding, when it filed its direct case, that the entire balance in Account 411.1 was related to the amortization of excess deferred taxes resulting from the 1986 Tax Reform Act.

We included the entire account balance in cost of service in our direct case based upon this understanding.

Subsequent to our direct filing, MPS provided additional information regarding Account 411.1 in response to Staff Data Request No. 556.

Q. Is it now necessary to adjust the 2000 balance in Account 411.1 Provision for Deferred Income Taxes-Credit based upon the Company's response to Data Request No. 556?

A. Yes. The Staff's updated EMS run will reflect an adjustment of $715,572 to reduce the balance in Account 411.1 for deferred tax credits that should not be included in cost of service for ratemaking purposes.

Q. Please summarize your comments regarding Mr. McKinney's assertion that UtiliCorp, as of January 8, 2002, was "confused" about the Staff's calculation of income tax and the issue scheduled for hearing in this case – the appropriate depreciation deduction to be used in calculating current and deferred income tax expense.

A. Having been the Staff witness on this issue in MPS's last rate case, Case No. ER-97-394 and being the Staff witness on this issue in this current case, No. ER-2001-272, I don't accept Mr. McKinney's assertion that UtiliCorp was confused as of January 8, 2002, regarding the Staff's position on the treatment of depreciation expense, as it relates to the calculation of current and deferred income tax expense or the Staff's calculation of income tax expense in general. I provided complete answers to five of the six data requests issued by Mr. McKinney, on January 3, 2002, five days prior to the filing of his rebuttal testimony.

As previously stated in this surrebuttal testimony, there have been numerous discussions with MPS representatives, including Mr. McKinney, on this issue. The responses to data requests provided to Mr. McKinney on January 3, 2002, provided copies of Staff testimony and Commission orders in nine other cases, five days prior to the filing of his rebuttal testimony on January 8, 2002.

The Staff takes exception to the implication in Mr. McKinney's rebuttal testimony that the Staff has failed to adequately explain its position or provide timely answers to data requests.

<u>Income Tax Expense - Compliance with IRC Normalization Requirements</u>

Q. You stated previously in your surrebuttal testimony that MPS raised the issue in its last case, No. ER-97-394, regarding whether Staff's method for computing straight-line tax depreciation violated the IRC normalization requirements for regulated utilities, did you not?

A. Yes. As previously discussed, prior to the hearings in MPS's last case, No. ER-97-394, the Staff, MPS and MPS's tax expert employed by Arthur Anderson--Mr. A.C. Hagemann, met. Mr. Hagemann indicated that in his opinion, the Staff's method for calculating straight-line tax depreciation did <u>not</u> violate the IRC normalization requirements for a regulated utility. Subsequently, MPS chose not to pursue this issue in Case No. ER-97-394. The Staff's method was used in setting rates for MPS in Case No. ER-97-394.

Q. Has Mr. McKinney stated a belief in his rebuttal testimony in this case, No. ER-2001-672, that the Staff's method for computing straight-line tax depreciation results in a violation if the IRC tax normalization requirements for a regulated utility?

A. Yes, he does. Beginning on page 26, line 18 through 22 and continuing on page 27, lines 1 through 9, Mr. McKinney correctly describes the difference between tax depreciation used in calculating a regulated utilities current income tax liability to the IRS and the depreciation deduction permitted for ratemaking purposes for a regulated utility.

Mr. McKinney explains that the IRS allows "all public utilities to depreciate assets for tax purposes at a faster rate normally than public utilities are allowed to depreciate those same assets for ratemaking purposes." He goes on to state in lines 4 and 5 of page 27, that "within the regulatory process, public utilities provide deferred taxes to allow for these differences."

Finally on lines 7-9, Mr. McKinney states that Staff's methodology fails to provide deferred taxes required by the IRS.

> The Staff's tax calculation deducts a fictitious straight-line tax depreciation amount within the Staff's current tax calculation and disallows any provision for any deferred taxes except the flow back of deferred taxes in prior years.

Q. Do you agree with Mr. McKinney's description of the IRC tax normalization requirements for a regulated utility?

A. Yes. The increase in cash flow resulting from the use of an accelerated depreciation method was protected by Congress for a regulated utility by requiring that the timing difference for accelerated recognition of depreciation expense for federal income tax purposes be "normalized" for purposes of setting rates for a regulated utility.

Q. Do you agree with Mr. McKinney's allegation that the Staff's tax calculation fails to comply with the IRS tax normalization requirements for a regulated utility?

A. No, I do not.

Q. Define the term "normalization" as it relates to tax timing differences including the difference between tax depreciation (using an accelerated method) and straight-line tax depreciation allowed for ratemaking purposes for a regulated utility.

A. Normalizing the tax timing difference for the difference between tax depreciation and straight-line tax depreciation, requires that the tax deduction for depreciation expense not be reflected in rates faster than the period used in determining book depreciation included in pre-tax operating income.

To explain this concept, assume a depreciable asset with a five-year life under an IRC allowed accelerated depreciation method and a ten-year life for book depreciation.

Under the IRC tax normalization requirements, state regulatory bodies are precluded from recognizing the depreciation deduction in calculating income tax expense over any period, less than ten years. In this example, if the Missouri Commission depreciated this asset (with an expected book depreciation life of ten years) over a seven-year period in calculating income tax for ratemaking purposes, it would violate the IRC tax normalization requirements.

Q. Please provide an example of how the tax timing difference related to depreciation expense is actually accounted for on the books of the utility company.

A. The example below is base upon the following assumptions:

Asset Cost:	$1000
Tax Depreciation Rate based on Five-Year Life:	20%
Straight-Line Depreciation Rate based on Ten-Year Life:	10%

Year	Tax Deprec.	Straight Line Deprec.	Difference	Tax Rate	Deferred Tax	Accumulated Deferred Tax Reserve
	(A)	(B)	(C)	(D)	(E)	(F)
1	200	100	100	40%	40	40
2	200	100	100	40%	40	80
3	200	100	100	40%	40	120
4	200	100	100	40%	40	160
5	200	100	100	40%	40	200
6	0	100	(100)	40%	(40)	160
7	0	100	(100)	40%	(40)	120
8	0	100	(100)	40%	(40)	80
9	0	100	(100)	40%	(40)	40
10	0	100	(100)	40%	(40)	0
Total	1000	1000	0		0	0

Column A reflects the annual tax depreciation deduction used in computing the current income tax liability to the IRS ($1000/5 years = $200 per year). Column B reflects the straight-line tax depreciation deduction used in calculating income tax expense for ratemaking purposes. Column B assumes that the estimated and actual life of this asset are both ten years.

The issue between MPS and the Staff in calculating straight-line tax depreciation is related to situations when the <u>actual</u> life of the asset exceeds the <u>estimated</u> life that is used in determining the straight-line depreciation <u>rate</u>. This will be addressed later in my testimony.

Column C reflects the annual difference between tax depreciation on the federal tax return and straight-line tax depreciation used in setting rates for a regulated utility. This amount must be normalized which means that deferred taxes are calculated and included in rates to avoid recognition of the additional depreciation deduction in years 1-5 resulting from the accelerated methods intended by Congress to generate additional cash flow to the utility.

Column D reflects an effective tax rate of 40% for simplification. The deferred tax expense included in cost of service is reflected in Column E.

Column F reflects the accumulated deferred tax reserve, which is the same accumulated tax reserve used as a reduction to rate base in setting rates.

Note that both depreciation methods in Column A and B reflect recognition of depreciation expense equal to the cost of the asset of $1000. During the first five years the utility receives an annual cash flow benefit of $40 a year for a total of $200 at the end of year five. Beginning in year six, ratepayers receive the benefit of the continuation of the $40 annual reduction in deferred tax expense in Column E.

Q. You mentioned previously that Mr. McKinney asserts in his rebuttal testimony that the Staff's method for calculating straight-line tax depreciation fails to normalize (provide deferred taxes) for the difference between tax depreciation allowed by the IRC and straight-line tax depreciation allowed for ratemaking purposes for a regulated utility.

A. Yes. On page 27, line 7 through 9, Mr. McKinney makes the following statement:

> The Staff tax calculation deducts a fictitious straight-line tax depreciation amount within the Staff's current tax calculation and

> disallows any provision for any deferred taxes except the flow back of deferred taxes provided in prior years.

If this statement were factually correct, Mr. McKinney's allegation of a violation of the IRC Normalization Requirements would be correct. However the fact of the matter is that the Staff's <u>total</u> income tax expense included in cost of service does provide the appropriate amount of <u>current</u> and <u>deferred</u> income tax expense for setting rates.

Q. What is your understanding of the basis for Mr. McKinney's assertion that the Staff's calculation, in its direct filing, incorporates a "fictitious" amount for straight-line tax depreciation in computing current income tax and <u>fails</u> to provide <u>deferred</u> <u>taxes</u> for the difference between <u>tax</u> depreciation and <u>straight-line</u> <u>tax</u> depreciation?

A. Mr. McKinney is attempting to support his allegation by referencing the Staff's decision, in its direct filing, to use a simplified method for computing <u>total</u> income tax (current and deferred combined) as opposed to the method used by MPS, which separates the amounts for current and deferred income tax.

I will later demonstrate with an example using Staff's income tax calculation in its <u>direct</u> filing, that the two calculations yield the same <u>total</u> level of income tax expense to be included in rates. However, I will first provide some simple examples to demonstrate the validity of the method used to calculate total income in the Staff's direct filing.

Q. Would you please explain the examples that illustrate that the two methods used to calculate income tax expense by the Staff and MPS in their direct filings provide the same result for income tax included in cost of service for setting rates?

A. Yes. My Schedules SMT-8 and SMT-9 illustrate:

1) That the different method of calculation used by the Staff and MPS in calculating total income tax expense (current and deferred) produce the same result.

2) The amount used in the calculation for a tax timing difference, which is normalized for ratemaking purposes, such as the tax depreciation deduction, has no impact on total income tax expense or revenue requirement.

The issue between MPS and the Staff has nothing to do with the different methods used to calculate <u>total</u> income tax. The issue, which I will explain in detail in the next section of my testimony is related solely to whether book depreciation on <u>fully depreciated</u> assets, should have a corresponding tax deduction for setting rates (straight-line tax depreciation deduction).

Q. Please explain Schedule SMT-8 attached to this testimony.

A. Schedule SMT-8 reflects the two calculation methods used by the Staff and MPS to calculate total income tax in their respective direct filings, related to the tax deduction for depreciation. Line 17 on Schedule SMT-8 illustrates that both calculations yield the same amount of total income tax expense, $200,000.

The calculation used by MPS in the first column titled "MPS," separates total income tax between its two components, <u>current</u> income tax on line 10 and <u>deferred</u> income tax on line 16. The method used by MPS reflects <u>current</u> income tax in the amount of $196,000 and <u>deferred</u> income tax in the amount of $4,000, for a <u>total</u> of $200,000 reflected on line 17.

The calculation used by the Staff in its direct filing simplified the calculation by combining current and deferred income tax into one amount on line 10, current income tax, $200,000.

The key point is that both calculations yield the same result, $200,000 in total income taxes. Mr. McKinney's rebuttal testimony suggests that the Staff's method fails to provide deferred income taxes for the difference between tax depreciation used in calculating current income tax paid to the IRS and straight-line tax depreciation used in setting rates for a regulated utility. Mr. McKinney's comments appearing on page 26 and 27 of his rebuttal testimony are as follows:

> Q. Is the level of depreciation different from book depreciation and tax depreciation and if so, would you please explain the difference?
>
> A. There is a difference between the two methods of depreciation. Generally, the value of the assets (the basis; book basis or tax basis) is the same today; there are some differences in the General Plant accounts. However, the rate of depreciation is considerably higher for tax purposes as the Internal Revenue Service ("IRS") allows all public utilities to depreciate assets for tax purposes at a faster rate normally than public utilities are allowed to depreciate those same assets for ratemaking purposes. Within the regulatory process, public utilities provide deferred taxes to allow for these differences.
>
> Q. Does the Staff's calculation allow for this?
>
> A. No. The Staff's tax calculation deducts a fictitious straight-line tax depreciation amount within the Staff's current tax calculation and disallows any provision for any deferred taxes except the flow back of deferred taxes provided in prior years.

Q. Does a tax timing difference which is normalized for ratemaking purposes have any impact on the total income tax included in cost of service for rate recovery?

A. No. When the tax timing difference is normalized (deferred and not reflected) in calculating income tax expense, the timing difference impacts current and deferred income tax in opposite directions with no impact on total income tax, the amount on which rates are set for a regulated utility. This is why the Staff's simplified method, which did not separate current and deferred income tax, still results in the correct amount of total income tax expense.

Q. Have you illustrated the point you made in your last answer?

A. Yes, please refer to Schedule SMT-8 attached to this testimony. Line 5, Column A on Schedule SMT-8 reflects the assumed amount for straight-line tax depreciation deduction, $20,000. Line 6 reflects the additional depreciation deduction allowed by the IRS in computing current income tax expense. Line 7 reflects the total tax depreciation deduction allowed by the IRS, using an accelerated method, in computing current income tax expense, $30,000.

Compliance with the IRC normalization requirements requires that the timing difference between tax depreciation $30,000 and straight-line tax depreciation $20,000 be normalized (not reflected in computing the total income tax included for rate recovery for the utility).

MPS's method in Column B reflected the tax depreciation deduction of $30,000 in computing current income tax of $196,000 on line 10. Staff's method in Column C reflected only the straight-line tax depreciation deduction of $20,000 resulting in a current income tax amount of $200,000 on line 10.

MPS's calculation of deferred income tax expense is reflected on lines 11 through 16. Because MPS reflected tax depreciation in calculating current income tax, a deferred income tax calculation is required to defer (normalize) the difference between tax depreciation $30,000 (line 12, Column B) and straight-line tax depreciation, $20,000 (line 13, Column B).

Deferred income tax expense, related to the $10,000 timing difference multiplied by the assumed tax rate of 40%, is reflected on line 16 of Column B.

Total income tax of $200,000 is the same as the Staff's method in Column E. The only difference between the two calculations is that MPS's calculation separated total income tax between its current and deferred components. Staff's method combined current and deferred income tax into one amount, $200,000.

Mr. McKinney is alleging in his rebuttal testimony that because the calculation used by the Staff, in its direct filing, did not identify the deferred tax component related to the difference between tax depreciation and straight-line tax deprecation, no deferred taxes were provided in the Staff's calculation of income tax expense. Schedule SMT-8 clearly illustrates that Mr. McKinney has misstated the facts because both calculations produce the same total income tax of $200,000 to be used in setting rates.

Q. If you were to change the tax depreciation amount of $30,000 on line 7 of Schedule SMT-8 to $1,000,000, would there be any impact on total income tax?

A. No. I prepared Schedule SMT-9 and attached it to this testimony to illustrate this point.

Q. Please explain Schedule SMT-9.

A. The only difference in assumptions on Schedule SMT-9 as opposed to Schedule SMT-8 is the amount of tax depreciation used in calculating the current income tax liability to the IRS on line 7. The tax depreciation assumption was increased from $30,000 on Schedule SMT-8 to $1,000,000 on Schedule SMT-9 under Column B, which reflects MPS's calculation. The Staff' s calculation in Column C was not changed because, again, the method used in the Staff's direct filing used only the straight-line tax depreciation deduction to calculate total income tax expense.

Q. Did changing the assumption for tax depreciation used in calculating the current income tax liability to the IRS made for purposes of creating Schedule SMT-8 to the assumption made for purposes of creating Schedule SMT-9 have any impact on the total income tax?

A. No. Increasing the tax depreciation deduction from $30,000 to $1,000,000 reduced current income tax from $196,000 on Schedule SMT-8 to ($192,000) on Schedule SMT-9, line 10.

The deferred income tax calculation required to normalize the timing difference required by the IRC is reflected again on Schedule SMT-9 on lines 11 through 16, in Column B. The new timing difference, $980,000 on line 14, results in deferred tax expense of $392,000, compared to $4,000 on Schedule SMT-8.

However, the key point is that total income tax for ratemaking purposes was not impacted by increasing the tax depreciation deduction from $30,000 on Schedule SMT-8 to $1,000,000 in Schedule SMT-9. Total income tax on line 17 of Schedule SMT-9 remained unchanged at $200,000.

Mr. McKinney's allegation that the Staff's filed method for determining income tax expense failed to provide the proper level of deferred tax expense resulting in the violation of the IRC tax normalization requirements is again a misstatement of the facts. The only thing the Staff's filed method failed to do was separate the current and deferred income tax components of total income tax expense.

Q. Have you prepared a schedule to reflect the Staff's current and deferred income tax in its direct filing using MPS's method in order to demonstrate that both methods produce the same result?

A. Yes. Schedule SMT-10 attached to this testimony reflects the Staff's filed calculation of total income tax in Column A and Mr. McKinney's recommended method in Column B. This schedule demonstrates with numbers taken from this case that Mr. McKinney's allegation that the Staff's filed method for calculating income tax expense failed to provide deferred taxes required by IRC rules is factually incorrect.

Q. Please explain Schedule SMT-10.

A. Column A is a duplicate of the Staff's income tax calculation reflected on Accounting Schedules 11-1 and 11-2. The only difference is the use of a combined effective federal and state tax rate of 38.39% used to simplify Schedule SMT-10.

The 38.39% effective tax rate is the same rate assumed in Accounting Schedules 11-1 and 11-2.

Referring to Staff Accounting Schedule 11-2 in Staff's direct filing, line 37 reflects total income tax expense of $30,703,081.

Referring to Schedule SMT-10, Column A, line 25 reflects the same total income tax amount $30,703,081, using the same method of calculation reflected in the Staff's Accounting Schedules 11-1 and 11-2.

Q. What assumption changes did you make in Column B of Schedule SMT 10 to reflect MPS's method of calculating income tax expense?

A. There are three tax timing differences in MPS's income tax calculation which were normalized in MPS's updated income tax calculation. They are as follows:

Contributions in Aid of Construction	$508,116
Advances for Construction	$60,196
Tax Depreciation in excess of Straight-Line Depreciation	$2,191,775

The tax depreciation amount of $32,849,203, reflected in Column B by adding lines 10 and 11 of Schedule SMT-10, is the same amount used in MPS's updated income tax calculation provided to the Staff.

Lines 4 and 5 in Column B reflect the timing differences for contributions in aid of construction, $508,116, and advances for construction, $60,196.

Q. Please summarize the results reflected on Schedule SMT-10.

A. Mr. McKinney's criticism of the Staff's filed method of calculating income tax was that it failed to provide for any deferred income tax expense.

Column B reflects the Staff's calculation of income tax based on amounts in Staff's direct filing on Accounting Schedules 11-1 and 11-2 with the <u>addition</u> of all the tax timing differences used in MPS's updated income tax calculation which are normalized resulting in a deferred tax expense.

The deferred income tax expense for all three tax timing differences identified previously is reflected in Column B, line 24 to be $623,225. Adding this amount to the current income tax amount, calculated using MPS's method, on line 15 in Column B results in the same <u>total</u> income tax expense in Staff's filed Accounting Schedules 11-1 and 11-2 of $30,703,081.

This result clearly indicates that the issue between the Staff and MPS is related to something other than Mr. McKinney's allegation that the Staff failed to provide deferred income expense in its income tax calculation. The real issue between MPS and the Staff will be addressed in the next section of my surrebuttal testimony.

Q. What must occur in order for the Staff's method of computing straight-line tax depreciation to result in a violation of the IRC tax normalization requirements for a regulated utility?

A. The method used to calculate the straight-line tax depreciation deduction must result in a faster recognition of depreciation than the time frame used in recognizing book depreciation in determining pre-tax operating income to result in a violation of the IRC tax normalization requirements.

Referring back to my example on page 12 and 13 of this surrebuttal testimony, a five-year life was assumed for an accelerated method allowed by the IRS, resulting in 20% depreciation deduction for five-years in calculating the current income tax liability to the IRS.

The assumption for the straight-line tax depreciation deduction was a ten-year life used for calculating book depreciation, resulting in a 10% depreciation deduction for setting rates for a regulated utility.

A violation of the IRC tax normalization requirements would occur if the rate used for calculating straight-line tax depreciation exceeded 10%. For example, a 15% rate would depreciate the asset for ratemaking purposes over 6.7 years instead of the ten-year period used in recognizing book depreciation.

Q. Please explain why the Staff's method for calculating straight-line tax depreciation does <u>not</u> result in faster recognition of the income tax deduction for depreciation than the period used for recognizing book depreciation.

A. The Staff's calculation of straight-line tax depreciation is made by applying a 96.85% ratio times annualized book depreciation. The calculation below was used in the Staff's direct filing.

Depreciation Expense – Accounting Schedule 9-3	$31,649,654
Ratio of Tax Basis to Book Basis of Property	96.865%
Straight-Line Tax Depreciation Deduction	$30,657,428

Since the starting point for the Staff's calculation is the Staff's annualized book depreciation expense, it is a mathematical certainty that the same life assumption used in determining the Staff's recommended depreciation rates are assumed in the Staff's calculation of straight-line tax depreciation. Therefore, it is not possible for the Staff's methodology to violate the IRC normalization requirements by recognizing the tax deduction for depreciation over a shorter period (faster) than the period used for book depreciation.

In summary, it is a mathematical impossibility to violate the IRC tax normalization requirements using the Staff's method of computing straight-line tax depreciation expense.

Q. Why does the Staff's method reflected in your last answer reduce book depreciation by 3.135% in calculating the straight-line tax depreciation deduction?

A. The rationale for using the tax basis/book basis ratio is to avoid reflecting the portion of book depreciation on pre-1986 assets taken as a deduction prior to the 1986 Tax Reform Act. My direct testimony explains this assumption in more detail on pages 29 and 30.

Q. On page 28 and 29 of his rebuttal testimony, Mr. McKinney quotes testimony from Staff witness Cary G. Featherstone filed in the Empire rate case, No. ER-2001-299. What is your understanding of Mr. McKinney's rationale for quoting Mr. Featherstone's testimony in Case No. ER-2001-299?

A. Mr. McKinney states on page 29, lines 4 through 7, that the income tax calculation used in this case for MPS is inconsistent with tax normalization requirements as described in Mr. Featherstone's testimony in Case No. ER-2001-299.

Q. How do you respond to Mr. McKinney's allegation that the Staff's method for computing income tax in this case, No. ER-2001-672 is inconsistent with the method and guidelines described in Mr. Featherstone's testimony in the Empire case, No. ER-2001-299?

A. In the previous 14 pages of this surrebuttal testimony, beginning on page 10, I have provided a detailed explanation as to why neither the Staff's method of calculating total income tax or the method used in calculating straight-line tax depreciation results in a violation of the IRC tax normalization requirements for a regulated utility.

With regard to Mr. Featherstone's testimony in the Empire case, No. ER-2001-299, I can state with certainty that the income tax calculation and calculation of straight-line tax depreciation is consistent with the Staff's recommendations in this case for MPS. I was directly involved with Mr. Featherstone in the income tax calculation and straight-line tax depreciation calculation in the Empire case, No. ER-2001-299.

Empire's existing rates, resulting from the Commission order in Case No. ER-2001-299, were set based upon the same income tax and straight-line tax depreciation methods proposed for MPS in this case, No. ER-2001-672.

Additionally no Empire witness made a claim in that case that the Staff's methodology resulted in a violation of the IRC tax normalization requirements for a regulated utility as Mr. McKinney has alleged in his rebuttal testimony in this case, No. ER-2001-672.

Income Tax Expense - Validity of Staff's Straight-Line Tax Depreciation Methodology for Ratemaking Purposes

Q. In the previous section of your surrebuttal testimony you have addressed Mr. McKinney's allegations regarding whether the Staff's income tax calculation failed to provide deferred taxes in violation of the IRC tax normalization requirements for a regulated utility. What is the real issue between MPS and the Staff?

A. The issue between the Staff and MPS is the method to be used to calculate the straight-line tax depreciation deduction. This issue represents a $7.6 million annual revenue requirement difference between the Staff and MPS in this case.

As previously explained in this testimony, the tax depreciation deduction used in determining a utility's current income tax liability to the IRS has no impact on total income tax or revenue requirement because the timing difference between tax depreciation and straight-line tax depreciation is normalized (not reflected) in accordance with IRC tax normalization requirements.

Straight-line tax depreciation on the other hand is the deduction used for setting rates for a regulated utility.

Under the Staff's methodology, book depreciation expense included in cost of service for setting rates should have a corresponding assumption for tax deductibility (with the exception of amounts already deducted prior to the 1986 Tax Reform Act – 3.135% of book depreciation in this case). The Staff's method provides a fair matching of the book depreciation included in rates with the depreciation tax deduction used in setting rates.

Under the method proposed by MPS, straight-line tax depreciation is discontinued when the straight-line tax reserve (accumulated straight-line tax depreciation) equals the tax basis (cost) of the property. The inequity to the ratepayer from this approach is that MPS is permitted to continue collecting book depreciation expense on fully depreciated assets without a corresponding straight-line tax depreciation deduction. Instead of paying the utility $1 for every $1 of book depreciation included in cost of service, the ratepayer pays the utility $1.62 for every $1 of book depreciation included in cost of service with no corresponding straight-line tax depreciation deduction.

The additional $0.62 recovered from ratepayers as a result of this methodology can only be fairly characterized as a cash windfall to the utility.

Q. How is a regulated utility permitted to recover book depreciation on fully depreciated assets?

A. The mass asset accounting method is used for recognizing book depreciation expense under Federal Energy Regulatory Commission (FERC) rules. This method simplifies the accounting process by not requiring that accumulated depreciation expense on individual assets be tracked. Accumulated depreciation expense is tracked only for the entire FERC account. Depreciation recognition continues for all assets in the account as long as the total plant account balance exceeds the accumulated depreciation reserve balance.

For electric utilities like MPS, the production plant accounts, for one example, include significant investment in generating units which are fully depreciated, but still in service. Because the assets in the FERC accounts, which include the original cost of these assets, are not fully depreciated on a total account basis, MPS continues to recover book depreciation in rates.

Q. Can you provide a specific example of how MPS is currently recovering book depreciation on fully depreciated assets?

A. Yes. In response to Staff Data Request No. 573, MPS provided the following data regarding MPS's three coal generating units located at Sibley, Missouri, referred to as Sibley 1, 2 and 3.

In-service date

Book Depreciation rate by year to date

Original cost of each unit

This information allowed me to determine the approximate estimated life used in computing the book depreciation rates since the in-service dates of the units.

Using the book depreciation rates by year, I was able to calculate a weighted average depreciation rate for the period from the in-service date of the units through December 31, 2001.

The estimated life of the units assumed in the weighted average book depreciation rate could then be computed by dividing 100% by the weighted average rate for the period between the in-service date and December 31, 2001. The results of this analysis indicated that the original cost of MPS's investment in the Sibley 1, 2, and 3 units was fully depreciated by the dates reflected below.

Sibley 1	1990
Sibley 2	1992
Sibley 3	1999

MPS is continuing to recover book depreciation expense on the amount of the original cost of Sibley 1, 2, and 3 which are still in service. Since all three of these units are still in service, a significant amount of their original cost is still in plant in-service accounts subject to recovery of annual book depreciation expense.

Q. Is the recovery of additional depreciation expense on fully depreciated assets unique to a regulated utility?

A. Yes. The mass asset accounting method used under FERC rules for a regulated utility is unique to the regulated utility industry. For a non-regulated firm, book depreciation expense for financial reporting would have ceased for the Sibley generating units when they were fully depreciated.

Q. Does the mass accounting method for recognizing book depreciation for a regulated utility result in a cash flow advantage which does not exist for a non-regulated entity?

A. Yes. Neither the Staff or MPS is recommending in this case an elimination of the mass accounting method used for recognizing book depreciation in rates.

Therefore both parties have included annual book depreciation expense in cost of service for the Sibley 1, 2 and 3 generating units. A non-regulated firm would not recognize any additional book depreciation expense on fully depreciated assets.

Q. If the issue between the Staff and MPS is not related to the continued use of the mass accounting method for recognition of book depreciation in setting rates, what is the exact issue between the Staff and MPS that has an annual value impact of $7.6 million?

A. The assumption difference in calculating the straight-line tax depreciation deduction related to book depreciation on fully depreciated assets is the issue worth $7.6 million annually if MPS's methodology is adopted by the Commission.

MPS's straight-line tax depreciation calculation assumes no straight-line tax deduction for <u>any</u> asset, still in service, with an in-service date prior to 1970. All investment in production and distribution plant installed prior to 1970 and still in-service receives <u>no</u> assumption for a straight-line tax depreciation deduction on the rationale that this property is fully depreciated for <u>tax</u> purposes.

Q. How does MPS's position that these pre-1970 assets should receive <u>no</u> straight-line tax depreciation deduction, in setting rates, reconcile with the recovery of additional book depreciation in rates on these fully depreciated assets?

A. It does not reconcile. The inconsistent treatment of recovering book depreciation in rates on fully depreciated assets without a corresponding assumption for a straight-line tax depreciation deduction results in significant cash windfall to MPS of approximately $0.62 for every dollar of book depreciation treated in this fashion.

Q. Would it be fair to characterize MPS's position on this issue as wanting to be treated as a regulated utility regarding the <u>recovery</u> of book depreciation in rates, but treated as a non-regulated entity regarding the <u>depreciation deduction</u> used for calculating income tax expense?

A. Yes, that is a fair characterization.

Q. Have you prepared a schedule which illustrates the inconsistency in MPS's methodology related to its original cost in the Sibley generating units?

A. Yes. Schedule SMT-12, attached to this testimony, is an illustration of the straight-line tax depreciation issue between the Staff and MPS using MPS's original cost in its Sibley generating units as an example. The original cost amounts for the Sibley generating units were provided in response to Staff Data Request No. 573 which is attached to this testimony as Schedule SMT-11.

Q. Please describe Schedule SMT-12.

A. Line 6, Column A reflects MPS's original investment in it's Sibley generating units, $74,357,561. Column B reflects the currently approved depreciation rates for the plant accounts listed. Column C reflects the annual book depreciation expense for recovery in rates under the mass asset accounting method used under FERC accounting rules. Total annual book depreciation expense included in cost of service by both the Staff and MPS is the $3,898,678 found on line 6, Column C.

The income tax issue between the Staff and MPS in this case is reflected on lines 7 and 8 in Column C.

Under MPS's methodology, since the original cost of the Sibley units is fully depreciated for federal income tax purposes, no assumption is made for a straight-line tax depreciation deduction related to the additional $3.9 million of book depreciation recovered in rates.

The total revenue requirement under MPS's methodology is reflected in Column C, line 9 to be $6.3 million annually. Not only does MPS desire the cash flow benefit of receiving $3.9 million in book depreciation, on fully depreciated assets, it also wants an additional $2.4 million which is nothing more than a cash windfall included in rates by MPS's proposal.

The Staff matches the recovery of the additional $3.9 million in book depreciation with an equitable assumption for a straight-line tax depreciation deduction in computing income tax expense in setting rates.

Staff's methodology allows an approximately $3.8 million straight-line tax depreciation deduction related to the additional $3.9 million in book depreciation expense recovered in rates.

Under the Staff's methodology, MPS still receives the case flow benefit of recovering $3.9 million in depreciation expense on fully depreciated assets, but it does not receive the additional $2.4 million cash windfall which results from MPS's proposed method of calculating straight-line tax depreciation.

Q. Mr. McKinney, on page 27, line 7 of his rebuttal testimony describes the Staff's straight-line tax depreciation deduction as a "fictitious" amount. Is this description accurate?

A. Certainly not. The Staff's straight-line tax depreciation deduction is no more "fictitious" than the book depreciation expense included in the Staff's case for rate recovery. Staff's straight-line tax depreciation method is tied directly to the amount of book depreciation included in cost of service for rate recovery.

Additionally, if Mr. McKinney's position on this issue is adopted by the Commission for setting rates, the $7.6 million increase in revenue requirement won't be fictitious to MPS's ratepayers, either.

Q. Does this conclude your surrebuttal testimony on this issue?

A. Yes it does.

<u>Elimination of Interchange Sales to an Affiliate – Jeffrey Shares</u>

Q. What is the purpose of this section of your surrebuttal testimony?

A. My surrebuttal testimony in this section will address the proposed adjustment by MPS witness, Stephen L. Ferry, (pages 12 through 16 in his rebuttal testimony) to eliminate 100% of the revenue in the test year 2000 resulting from Interchange Sales to MPS's affiliate, West Plains Energy-Kansas (WPEK). This proposal has been referred to by Mr. Ferry as the "Jeffrey Shares" adjustment.

Q. Did Mr. Ferry or any other MPS witness propose a Jeffrey Shares adjustment in MPS's direct filing in this case, No. ER-2001-672?

A. No. A Jeffrey Shares adjustment was not reflected in MPS's Accounting Schedules or addressed in the direct testimony of any MPS witness filed in MPS's direct filing. This proposed adjustment appeared for the first time in Mr. Ferry's <u>rebuttal</u> testimony filed in this case.

Q. Is the Jeffrey Shares adjustment similar to any adjustment proposed by MPS in prior cases, such that the Company's failure to present this issue in its direct testimony in the instant case could be fairly characterized as an oversight?

A. Certainly not. Not only has MPS never proposed an adjustment similar to the Jeffrey Shares adjustment in a prior case, I have personally never seen any electric utility propose an adjustment similar to the Jeffrey Shares adjustment in my entire career.

Q. What are the Jeffrey Shares?

A. The Company has identified interchange sales transaction occuring between UtiliCorp affiliates, MPS and WPEK, as "Jeffrey Shares." These interchange transactions are "sales" from MPS to WPEK from the Jeffrey Energy Center (Jeffrey), owned and operated by Western Resources, Inc. MPS and WPEK each have an eight percent ownership share of Jeffrey.

Q. What makes this Jeffrey Shares proposal so unique?

A. This is the first time that I have seen a utility argue that it routinely engages in Interchange Sales at <u>no</u> profit. This proposal contradicts accepted regulatory theory. The pricing of interchanges sales can be understood in terms of the following to scenarios:

(1) The only time that it makes economic sense to make an interchange sale, without a profit, is in off peak hours when the minimum operating capacity of the unit exceeds the utility's native load requirements, in which case the excess power is lost if it can't be sold at cost.

(2) The majority of interchange sales to other utility companies are made on supply and demand basis, where the selling utility has excess capacity at a price that is economic for the buying utility. The margin (profit) on these sales is rarely below 10%.

The Jeffrey Shares interchange, as described by Mr. Ferry, does not match the scenario described in (1) above, where Jeffrey generating units are operating at minimum load with excess capacity which would justify selling the excess power at cost. Therefore the Jeffrey Shares interchange sales should fall under the other scenario described in (2) above, in which the selling utility has capacity, exceeding its native load requirements, available for sale at a price which covers its cost plus a profit (margin).

The Jeffrey Shares interchange sales to its affiliate, WPEK, is purportedly being done on a cost basis with no margin (profit) to MPS from the sale. Making an interchange sale to an affiliate company at no margin denies the ratepayer the reduction in cost of service that would have occurred if MPS had made the sale to a non-affiliated company.

Q. Is there any question as to whether the power generated for the Jeffrey Shares sales to WPEK came from MPS's 8% share of the Jeffrey generating units?

A. No. The interconnection point for this Jeffrey Share transaction is the Jeffrey generating station in which MPS and WPEK both have an 8% ownership share.

Because the Jeffrey units are coal units with a favorable generating cost, second only to MPS's Sibley units, any interchange sale made from the Jeffrey units should be made at a profit. It makes no economic sense whatsoever to make interchange sales at no profit. To deny the ratepayer the normal profit that would have occurred if the sales had been made to a non-affiliated utility is to exploit MPS's relationship with its affiliate at the expense of MPS's ratepayers..

Q. Is it Mr. Ferry's position that because these interchange sales by MPS to WPEK result in no additional cost to MPS, no detriment occurs to MPS's ratepayers?

A. Yes. On page 14, lines 13 and 14, Mr. Ferry states that, "since Jeffrey Shares are provided at cost, both MPS and WPEK customers are able to receive energy at cost and therefore avoid paying margin on the exchange."

The fact of the matter is that we are only addressing the sales by MPS to WPEK in the Jeffrey Shares issue in this case, Case No. ER-2001-672. MPS is proposing to eliminate $4.7 million in revenue from the sale of 157,507 MWH's to its affiliate, WPEK, on the rationale that no margin was made on these sales and therefore MPS's ratepayers are unharmed by the elimination of the revenue and cost related to the sales.

Q. Please summarize why the Staff takes issue with Mr. Ferry's position that MPS's Missouri ratepayers are unharmed by the Jeffrey Shares interchange arrangement with MPS's affiliate, WPEK.

A. Because ratepayers have responsibility for providing MPS a return on its investment in generating facilities, including the Jeffrey units, and a return of its investment (depreciation), the ratepayers have a right to profits that occur when interchange sales are made on the interchange market to other utility companies. MPS's failure to make a profit on the sale made to its affiliate, WPEK, improperly denies Missouri ratepayers the reduction in cost of service that would have occurred if the sales had been made to a non-affiliated utility. To put this issue in perspective, MPS's margin made on sales to non-affiliates in 2000 was approximately 60%.

Q. How has the Staff treated MPS's interchange sales to WPEK during the test year 2000?

A. The Staff has included the $4.7 million in revenue in cost of service with a corresponding fuel cost to provide these sales, which results in a fair net margin (profit) reflected in cost of service. This treatment results in approximately the same net margin on the sales to MPS's affiliate, WPEK, that MPS realized on sales to non-affiliates in 2000.

Q. You mentioned previously that the Jeffrey Shares adjustment was not proposed by MPS in its direct filing in this case, did you not?

A. Yes. This issue was raised by Mr. Ferry for the first time in his rebuttal testimony. In addition, no direct testimony filed by the Staff addressed this issue.

Q. How did MPS treat the interchange revenue from the Jeffrey Shares sales in its direct filing?

A. The revenue from the Jeffrey Shares sales was treated like all other interchange revenue and included at 50% under MPS's sharing proposal. In contrast Mr. Ferry's rebuttal position is based upon eliminating 100% of the Jeffrey Shares revenue. This change in position increases the shareholders' portion of the revenue from the Jeffrey Shares sales from 50% to 100%.

Q. Does MPS's position on the Jeffrey Shares issue represent a violation of the intent of the Commission's affiliated transactions rule?

A. Yes it does. The intent of the Commission's affiliated transactions rule is to ensure that a regulated utility's transactions with an affiliate have no detrimental impact on Missouri ratepayers. Making interchange sales to its affiliate, WPEK, at no profit denies Missouri ratepayers the reduction in their cost of service that would have occurred had the sales been made to a non-affiliated utility.

Q. Does this conclude your surrebuttal 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 STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Steve M. Traxler, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 37 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

Steve M. Traxler

Subscribed and sworn to before me this 22nd day of January 2002.

D Suzie Mankin

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

Date: October 31, 2001

From: Steve Traxler

To: Gary Clemens

Subject: Estimated value of issue – Straight Line Tax Depreciation and Insufficient response to DR 291

Based upon our discussion yesterday, October 30 with your tax department representative, Becky Streeter, I am informing you that we have the same issue on the calculation of straight line tax depreciation, for ratemaking purposes, that existed in your last electric rate case, ER 97-394. Attached is a calculation of the issue value based upon MPS's annualized depreciation expense and approximate Tax Basis / Book Basis ratio used in Case No. ER 97394. Our position will be that your updated revenue requirement is overstated approximately $ 6.7 million. I haven't had time to review all of your vintage balances and calculations to see which ones account for the difference. You may also want to check whether or not your straight-line tax depreciation amount of $ 32.8 million includes the additional book depreciation from including MPS's allocated share of UCU's corporate assets in the depreciation calculation. In summary I don't know all the reasons yet as to why your S/L number is to low. I am confident that the issue is worth $ 6.8 million based upon the Tax/Book basis ratio in your last case. If anything I expect the issue to be worth more than $ 6.8 million because the Tax / Book Basis ratio increases over time as post 1986 assets impact the calculation.

Data Request 291 requested a reconciliation of the Book to Tax basis as of December 31, 2000 and June 30, 2001. The answer provided a reconciliation of the year 2000 vintage only. We need a reconciliation of all vintages as of December 31, 2000. Due to the delay in getting your tax workpapers, we will eliminate the June 30, 2001 reconciliation in order to save time. Additionally, please provide the total book and tax basis of MPS's depreciable property even if reconciliation for the timing differences in total does not exist. Please provide this information as soon as possible. Staff Data Request 291 was issued on September 11, 2001 and has been outstanding 40 days to date.

Surrebuttal
Schedule SMT-1

Missouri Public Service Company

Case No. ER 2001-672

Estimated Value of Straight Line Tax Issue

Annualized Book Depreciation - MPS upadted Tax W/P Sch 8	$45,900,441
Tax Basis to Book Basis Ratio - Case ER 97-394	95.00%
Annualized S/L Tax Depreciation - Staff methodology	$43,605,419
Straight Line Depreciation - MPS's updated tax workpapers W/P Sch. 8	$32,849,203
Difference in S/L Tax Depreciation	$10,756,216
Effective Tax Rate	38.39%
Net Income Impact	$4,129,311
Tax Conversion Factor	1.62
Revenue Requirement Impact	**$6,689,484**

Surrebuttal
Schedule SMT-1

MPS
Income Tax - Schedule 8
TYE 12/31/00

Line #	Line Description (A)	Tax Rate	(ELEC-JURIS) Per Books 6/30/00 (B)	Adjusted with 9.406% Return (C)	
1	Net Income Before Taxes (Sch 7)		53,153,692	32,880,943	
	Add to Net Income Before Taxes:				
2	Book Depreciation Expense		45,900,441	45,900,441	
3	Transportation Depreciation		605,180	605,180	
4	Contribution in Aid of Construction		508,116	508,116	
5	Advances for Construction		60,196	60,196	
6	Sibley Outage		0	0	
7	50% Meals & Entertainment		169,850	169,850	
8	Total		47,243,783	47,243,783	
	Subtract from Net Income Before Taxes:				
9	Interest Expense		21,106,335	21,106,335	
10	Tax Depreciation		32,849,203	32,849,203	
11	Cost of Removal		1,444,549	1,444,549	
12	Tax Depreciation over S/L Tax		0	0	
13	**Total**		55,400,088	55,400,088	
14	**Net Taxable Income**		44,997,387	24,724,638	
	Provision for Federal Income Tax:				
15	Net Taxable Income		44,997,387	24,724,638	
16	Deduct Missouri Income Tax @ 100.0%	6.25%	(2,295,075)	1,288,962	
17	Deduct City Income Tax		0	0	
18	Federal Taxable Income		47,292,462	23,435,676	
19	**Total Federal Tax**	35.00%	16,552,362	8,202,487	0.3500
	Provision for Missouri Income Tax:				
20	Net Taxable Income		44,997,387	24,724,638	
21	Deduct Federal Income Tax @ 50.0%	17.50%	8,276,181	4,101,244	
22	Deduct City Income Tax		0	0	
23	Missouri Taxable Income		36,721,206	20,623,394	
24	**Total Missouri Tax**	6.25%	2,295,075	1,288,962	
	Provision for City Income Tax:				
25	Net Taxable Income		44,997,387	24,724,638	
26	Deduct Federal Income Tax		16,552,362	8,202,487	
27	Deduct Missouri Income Tax		(2,295,075)	1,288,962	
28	City Taxable Income		30,740,100	15,233,189	
29	**Total City Tax**		0	0	
	Summary of Provision for Income Tax:				
30	Federal Income Tax		16,552,362	8,202,487	
31	Missouri Income Tax		(2,295,075)	1,288,962	
32	City Income Tax		0	0	
33	**Total Provision for Income Tax**		14,257,287	9,491,449	
				38.388627%	
	Deferred Income Taxes:				
34	Deferred Investment Tax Credit		0	0	
35	Deferred Income Tax Expense		(1,621,372)	(1,621,372)	
36	Amort of prior normalization		(187,924)	(187,924)	
37	**Total Deferred Income Tax Expense**		(1,809,295)	(1,809,295)	
38	**Total Income Tax**		12,447,992	7,682,154	

Computation of Line 35:

Surrebuttal Schedule SMT-1

MPS
Income Tax - Schedule 8
TYE 12/31/00

Line #	Line Description (A)	Tax Rate	(ELEC-JURIS) Per Books 6/30/00 (B)	Adjusted with 9.406% Return (C)	
	Deferred Tax Expense			(1,839,547)	A
	Schedule M's:				
	Plus: Customer Advances			60,196	
	Contributions in Aid of Construction			508,116	
	Cost of Removal			0	
	50% Meals and Entertainment			0	
	Sibley Outage			0	
	Staff Deferred Tax Adjustment			0	
	Total			568,312	
	Combined Tax Rate			38.39%	
	Deferred Taxes on Schedule M's			218,175	B
	Deferred Income Tax Expense (Line 35)			(1,621,372)	A + B
	Less: Amortization of Deferred Taxes			187,924	C
	Net Deferred Taxes			(1,809,295)	A + B - C

Missouri Public Service
Deferred Tax Amortization

Source: Becky Streeter

Description	Juris Factor	Total Electric	Electric Utility Factor	Juris Factor	Total Elec-Juris
Pollution Control	1	27,000	100.000%	96.720%	26,030
Pension & Taxes Capitalized	2	17,400	86.947%	98.154%	16,752
Repair Allowance	2	70,200	100.000%	98.154%	68,787
Pre 1969 Excess Depreciation	2	-	100.000%	98.154%	-
JEC Interest and Taxes	1	79,200	100.000%	96.720%	76,355
Total		193,800			187,924

1 Demand Factor
2 Plant Factor

Interest Expense Proof:

Total Rate Base (Sch. 2)	577,717,617
X Wtd Cost of Debt	3.653%
Interest Exp @ 6/30/00	21,106,335
Less: Interest Expense from Line 9	#REF!
Difference	#REF!

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPS-001

DATE OF REQUEST: December 26, 2001

REQUESTOR: John McKinney

QUESTION:
On page 29, line 12 of Steve Traxler's direct testimony a ratio to calculate straight line tax depreciation is shown. In a meeting with UCU on December 26, 2001 when UCU provided Staff with corrected numbers for this ratio, Mr. Traxler indicated that the new ratio could not be correct and there was no other company in the state with a ratio that low. Please provide all information from all other utilities in the State of Missouri that Mr. Traxler was using when making this statement.

ATTACHMENTS:

ANSWERED BY: Steve Traxler

After reviewing the calculation provided, it is a mathematical certainty that the ratio of Straight Line Tax depreciation to Book depreciation is too low as a result of not considering vintages prior to 1970. Annualized book depreciation in your example includes depreciation on all pre-1970 vintage property still in service and subject to annual depreciation recovery in rates. The Straight Line Tax depreciation amount in your example does not include any S/L depreciation on pre-1970 property still in service. This mismatch is precisely the issue we will present to the Commission.

The Staff's method of annualizing Straight Line Tax depreciation is currently in use for the following utilities in Missouri:

Missouri Gas Energy
Empire Electric Company
Laclede Gas Company
Utilicorp United Inc. – Missouri Public Service & St. Joseph Light & Power Divisions

The Straight Line to Book ratio under the Staff's method is between 95 % and 100 % for all companies listed above.

I have included Utilicorp's Missouri Public Service Division because I was the witness in MPS's last rate case, ER 97-394 and have knowledge of the fact that MPS adopted the Staff's position on S/L Tax Depreciation in total in that case. MPS did not agree to continue to use Staff's method in any future case, however existing rates were set based upon Staff's methodology for calculating S/L Tax Depreciation. Staff member Cary Featherstone is also aware of the historical events involving this issue in Case No. ER 97-394.

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPS-002

DATE OF REQUEST: December 26, 2001

REQUESTOR: John McKinney

QUESTION:
Does the Staff method regarding the tax timing differences relating to depreciation provide for any negative or positive deferred taxes? If so, please indicate which Accounting Schedule the amount can be located.

ATTACHMENTS:

ANSWERED BY: Steve Traxler

Staff Accounting Schedule 9-4 reflects amounts for the Amortization of Excess Deferred Taxes and an amortization of the Investment Tax Credit. No deferred taxes were identified separately for timing differences given normalization treatment. These would include Excess Tax Depreciation, Advances for Construction, Contributions in Aid of Construction and Cost of Removal (Net Salvage). For any timing difference which is normalized, there is no impact on Total Income Tax expense. Had these timing differences been reflected in calculating Current and Deferred Income Tax, the amount of change in Current Tax expense would have been offset by corresponding change in Deferred Income Tax expense. Staff's method still inherently provides for any Deferred Income Tax related to these timing differences.

The revenue requirement for Total Income Tax is not impacted by timing differences which are given normalization treatment.

Surrebuttal
Schedule SMT-3

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPS-003

DATE OF REQUEST: December 26, 2001

REQUESTOR: John McKinney

QUESTION:
Please provide copies of any and all Staff testimony in any rate case since 1990 relating to the use of Straight Line Tax Depreciation as a tax deduction for rate making purposes as recommended in this case ER-2001-672

ATTACHMENTS:

ANSWERED BY: Steve Traxler

Attached is testimony by the following Staff witnesses on Staff's method for calculating Straight Line Tax Depreciation.

Robert E. Schallenberg	St. Joseph Light & Power	Case ER 93-41
Tim L. Tunks	Laclede Gas Company	Case GR 94-220
Steve M. Traxler	St. Joseph Light & Power	Case ER 94-163
Steve M. Traxler	Missouri Public Service	Case ER 97-394
Steve M. Traxler	St. Joseph Light & Power	Case ER 99-247 Case GR 99-246 Case HR 99-247
Cary G. Featherstone	Empire Electric Company	Case ER 2001-299
Stephen M. Rackers	Union Electric Company	Case EC 2002-1
Steve M. Traxler	Missouri Public Service	Case ER 2001-672

Surrebuttal
Schedule SMT-4

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPS-004

DATE OF REQUEST: December 26, 2001

REQUESTOR: John McKinney

QUESTION:
Please provide any and all documents relied upon by the Staff and Mr. Traxler to support the position regarding the calculation of income taxes and specifically the use of Straight Line Tax Depreciation for a tax deduction in this case; ER-2001-672

ATTACHMENTS:

ANSWERED BY: Steve Traxler

See responses to DR 001 and DR 003 for testimony in prior cases and Missouri Utility companies whose current rates have been established based upon Staff's recommended method for calculating annualized Straight Line Tax depreciation. Additional support for the Staff's position is included in the following Stipulation and Agreements and Commission Orders. Attached to this response are copies of the related pages included in the documents referenced below:

St. Joseph Light & Power Company	ER 93-41	Commission Order
Laclede Gas Company	GR 94-220	Commission Order
St. Joseph Light & Power Company	ER 99-247	Filed Stipulation
St. Joseph Light & Power Company	GR 99-246	Filed Stipulation
St. Joseph Light & Power Company	HR 99-245	Filed Stipulation

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPS-005

DATE OF REQUEST: December 26, 2001

REQUESTOR: John McKinney

QUESTION:
Is it the Staff's position that deferred taxes are no longer required based upon the 1986 Tax Reform Act for tax timing differences relating to depreciation for assets placed in service prior to this Act? For assets placed into service after the Act?

ATTACHMENTS:

ANSWERED BY: Steve Traxler

No. The Staff's **Total Income Tax** calculation normalizes all required timing differences. The amounts for Current and Deferred Income Tax were not separated in the Staff's direct filing. However, Total Income Tax and resulting Revenue Requirement were not impacted by not separating Current & Deferred income tax. This can be done if the failure to separate these amounts becomes an issue.

Under the Internal Revenue Service regulations for public utilities, normalization treatment (deferred taxes) are required for the difference between tax depreciation, using an accelerated method, and straight line tax depreciation.

The 1986 Tax Reform Act requires normalization treatment for recognizing the amortization of excess deferred taxes resulting from the reduction in the Federal income tax rate for corporations using the Average Rate Assumption Method (ARAM) for all companies with vintage tax records.

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPS-006

DATE OF REQUEST: December 31, 2001

REQUESTOR: John McKinney

QUESTION:

(1) Staff witness Traxler discusses Staff adjustment S-97, S-98 and S-99 but a review of Accounting Schedule 9-4 (Income Statement) indicates the only tax Staff adjustments are S-96 and S-97. There is no posting of a Staff adjustment S-98 or S-99. Staff's Accounting Schedule 10 contains no write up or explanation of any kind for any income tax adjustments.

Please provide the missing explanation that should be contained in Accounting Schedule 10 for all Staff adjustments in the various income tax accounts.

Please clarify the numbering of the Staff adjustment and explain the difference between the direct testimony of Steve Traxler and the posting to Staff Accounting Schedule 11 and the Adjustment explanations contained in Schedule 10

ATTACHMENTS:

ANSWERED BY:

The brief explanations that normally appear in Schedule 10 for income statement adjustments S-96 and S-97 did not appear in our direct filing due to a failure on our part to list these adjustment numbers in a central file in the program.

There were no adjustments reflected on Schedule 9-4 for S-98 and S-99 because unadjusted amounts for Accounts 411.1 and 411.4 were posted in the Total Company column. Since an adjustment was not made to these balances, an explanation would not be reflected in Schedule 10. As a result of additional information provided since the Staff's direct filing, an adjustment will be made to Account 411.1 to exclude deferred taxes which should not be included in cost of service. I will address this change in my surrebuttal testimony and have previously indicated to Mr. Clemens that a change would be made.

My direct testimony explains all four income tax amounts with one correction. The question on line 14 of page 28 references only S-97. It should have referenced S-96 also. The explanation on pages 28-30 however, explains all 4 tax amounts included in the cost of service calculation.

The brief explanation for any adjustment in Schedule 10 is not intended to provide a substitute for the detailed explanation provided in the testimony of the witness. The direct testimony should always be the primary source of explanation for a Staff adjustment.

Surrebuttal
Schedule SMT-7

Missouri Public Service Company
Case No. ER 2001-672

Income Tax Methods used in Direct Filings - MPS and Staff

Line No.	**Current Income Tax**	Timing Difference	MPS		Staff	
		A	B		C	
1	Net Income Before Income Tax		$500,000		$500,000	
2	Add back to Net Income:					
3	Book Depreciation		$20,000		$20,000	
4	Subtract From Net Income:					
5	Straight Line Tax Depreciation	($20,000)		(2)	($20,000)	
6	Excess of Tax Depreciation over S/L Tax	($10,000)		(3)		
7	Total Tax Depreciation		($30,000)	(1)		
8	Taxable Income		$490,000		$500,000	
9	Effective Tax Rate (38.39 rounded to 40)		40.00%		40.00%	
10	**Current Income Tax**		**$196,000**	**(4)**	**$200,000**	**(4)**
11	**Deferred Income Tax :**					
12	Tax Depreciation	(1)	$30,000		$0	
13	Tax Straight Line Tax Depreciation	(2)	$20,000		$0	
14	Excess of Tax Depreciation over S/L Tax	(3)	$10,000		$0	
15	Effective Tax Rate (38.39 rounded to 40)		40.00%		40.00%	
16	**Deferred Income Tax**		**$4,000**	**(5)**	**0**	**(5)**
17	**Total** Income Tax included in Rates		**$200,000**	**(4)+(5)**	**$200,000**	**(4)+(5)**

Missouri Public Service Company
Case No. ER 2001-672

Income Tax Methods used in Direct Filings - MPS and Staff

Line No.	**Current Income Tax**	Timing Difference	MPS		Staff	
		A	B		C	
1	Net Income Before Income Tax		$500,000		$500,000	
2	Add back to Net Income:					
3	Book Depreciation		$20,000		$20,000	
4	Subtract From Net Income:					
5	Straight Line Tax Depreciation	($20,000)		(2)	($20,000)	
6	Excess of Tax Depreciation over S/L Tax	($980,000)		(3)		
7	Total Tax Depreciation		($1,000,000)	(1)		
8	Taxable Income		($480,000)		$500,000	
9	Effective Tax Rate (38.39 rounded to 40)		40.00%		40.00%	
10	**Current Income Tax**		**($192,000)**	**(4)**	**$200,000**	**(4)**
11	**Deferred Income Tax :**					
12	Tax Depreciation	(1)	$1,000,000		$0	
13	Tax Straight Line Tax Depreciation	(2)	$20,000		$0	
14	Excess of Tax Depreciation over S/L Tax	(3)	$980,000		$0	
15	Effective Tax Rate (38.39 rounded to 40)		40.00%		40.00%	
16	**Deferred Income Tax**		**$392,000**	**(5)**	**0**	**(5)**
17	**Total** Income Tax included in Rates		**$200,000**	**(4)+(5)**	**$200,000**	**(4)+(5)**

Missouri Public Service

Case ER 2001-672

Comparison of Deferred Income Tax - MPS vs Staff Method

Line No.	Current Income Tax		Staff Filed Method		MPS Filed Method	
			A		B	
1	Net Income Before Taxes - **Staff Direct Filing**		$ 101,478,330		$ 101,478,330	
2	Add to Net Income Before Taxes:					
3	Book Depreciation Expense		$31,649,654		$31,649,654	
4	***Contributions in Aid of Construction***		**$0**		**$508,116**	2
5	***Advances for Construction***		**$0**		**$60,196**	3
6	50 % Meals & Entertainment		$100,000		$100,000	
7	Total Add Backs		$31,749,654		$32,317,966	
8	Subtract from Net Income Before Taxes:					
9	Interest Expense		$22,590,927		$22,590,927	
10	Straight Line Tax Deprecation		$30,657,428		$30,657,428	
11	***Tax Depreciation over Straight Line Depreciation***		**$0**		**$2,191,775**	1
12	Total Subtractions		$53,248,355		$55,440,130	
13	Net Taxable Income	Line 1+ 7 - 12	$ 79,979,629	Line 1+ 7 - 12	$ 78,356,166	
14	Effective Federal & State Tax Rate		38.39%		38.39%	
15	Current Income Tax		$30,703,081		$30,079,856	
16	Deferred Income Tax:					
17	Tax Depreciation	$0		$32,849,203		
18	Straight Line Tax Deprecation	$0		$30,657,428		
19	Difference between Tax and S/L Depreciation		$0		**$2,191,775**	1
20	Contributions in Aid of Construction		$0		**($508,116)**	2
21	Advances for Construction		$0		**($60,196)**	3
22	Total Timing Differences being Normalized		$0		$1,623,463	
23	Effective Federal & State Tax Rate		38.39%		38.39%	
24	Deferred Income Tax		$0		$623,225	
25	Total Income Tax	Line 15 + 24	$30,703,081	Line 15 + 24	$30,703,081	

Source: Column A reflects the calculation of Income Tax reflected in Accounting Schedules 11-1 and 11-2 filed in the Staff's direct filing.

Surrebuttal Schedule SMT 10

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPSC-573

DATE OF REQUEST: December 28, 2001

DATE RECEIVED: December 28, 2001

DATE DUE: January 8, 2002

REQUESTOR: Steve Traxler

QUESTION:

In a meeting held with Gary Clemens and John McKinney on December 26, 2001, vintage tax records were provided for vintages from 1970 forward.

(1) Provide the same tax information for all vintages prior to 1970 which still have assets in service subject to annual accruals for depreciation expense.

(2) Indicate whether MPS's tax record policy records retirements for both FERC accounting and vintage tax accounting records. If not explain.

(3) Provide the following information for the Sibley 1, 2 and 3 units separately.

(A) In service date
(B) Original cost for each unit
(C) Depreciation rates used for Production Plant accounts since the first year identified in (A)

RESPONSE:

(1) Listed below is a work sheet which provides the tax basis of pre-1970 assets by class and vintage as of December 31, 2000. All pre-1970 property is fully depreciated for tax purposes.

Tax basis of pre-1970 assets, as of December 31, 2000

		12/31/00 Tax Basis
Electric Steam Production	1958	3,267,526
	1959	9,442
	1960	5,978,659
	1961	139,770
	1962	5,037,773
	1963	112,765
	1964	7,143
	1965	208,190
	1967	65,600
	1968	20,338
	1969	40,976,673

Surrebuttal
Schedule SMT-11

55,823,879

Electric Distribution	1965	2,439,174
	1966	4,711,076
	1967	6,938,670
	1968	4,852,606
	1969	9,626,790
		28,568,316

(2) Yes

(3) See below

SIBLEY PLANT - ORIGINAL COST BY UNIT

Account	Unit 1	Unit 2	Unit 3	Total
310	$ 376,974	$ -	$ -	$ 376,974
311	$ 2,390,180	$ 800,997	$ 9,209,798	$ 12,400,975
312	$ 3,587,250	$ 3,396,251	$ 29,782,684	$ 36,766,185
313	$ -	$ -	$ -	$ -
314	$ 3,155,522	$ 2,527,003	$ 10,656,466	$ 16,338,991
315	$ 633,369	$ 413,753	$ 7,062,275	$ 8,109,397
316	$ 2,531	$ 22,867	$ 716,615	$ 742,013
Total	$ 9,768,852	$ 7,160,871	$ 57,427,838	$ 74,357,561

NOTES:

Total cost of land is shown as Unit 1. However, the total cost applies to all units.

Sibley unit # 1 was placed in service in 1960.
Sibley unit # 2 was placed in service in 1962.
Sibley unit # 3 was placed in service in 1969.

RATES

Year	311	312	314	315	316
1960	1.75	2.75	2.80	3.00	4.00
1961	1.75	2.75	2.80	3.00	4.00
1962	1.75	2.75	2.80	3.00	4.00
1963	1.75	2.75	2.80	3.00	4.00

1964	1.75	2.75	2.80	3.00	4.00
1965	1.75	2.75	2.80	3.00	4.00
1966	1.75	2.75	2.80	3.00	4.00
1967	1.75	2.75	2.80	3.00	4.00
1968	1.75	2.75	2.80	3.00	4.00
1969	1.75	2.75	2.80	3.00	4.00
1970	3.40	3.25	3.30	3.25	3.05
1971	3.40	3.25	3.30	3.25	3.05
1972	3.40	3.25	3.30	3.25	3.05
1973	3.40	3.25	3.30	3.25	3.05
1974	3.40	3.25	3.30	3.25	3.05
1975	3.40	3.25	3.30	3.25	3.05
1976	3.40	3.25	3.30	3.25	3.05
1977	3.40	3.25	3.30	3.25	3.05
1978	3.40	3.25	3.30	3.25	3.05
1979	3.40	3.25	3.30	3.25	3.05
1980	3.40	3.25	3.30	3.25	3.05
1981	3.40	3.25	3.30	3.25	3.05
1982	3.40	3.25	3.30	3.25	3.05
1983	3.40	3.25	3.30	3.25	3.05
1984	3.40	3.25	3.30	3.25	3.05
1985	3.40	3.25	3.30	3.25	3.05
1986	3.40	3.25	3.30	3.25	3.05
1987	3.40	3.25	3.30	3.25	3.05
1988	3.40	3.25	3.30	3.25	3.05
1989	3.40	3.25	3.30	3.25	3.05
1990	2.97	2.97	2.97	2.86	3.45
1991	2.97	2.97	2.97	2.86	3.45
1992	2.97	2.97	2.97	2.86	3.45
1993	3.26	3.85	3.78	3.75	3.13
1994	3.26	3.85	3.78	3.75	3.13
1995	3.26	3.85	3.78	3.75	3.13
1996	3.26	3.85	3.78	3.75	3.13
1997	3.26	3.85	3.78	3.75	3.13
1998	4.54	4.6	4.44	4.56	4.39
1999	5.72	5.28	4.65	5.61	4.68
2000	5.72	5.28	4.65	5.61	4.68

ATTACHMENTS: None

ANSWERED BY: Becky Streeter and Larry Mulligan

Missouri Public Service Company
Case No. ER 2001-672

Recovery of Excess Depreciation on Sibley 1,2 & 3 Generating Units

Line No.	Account	Sibley 1,2,3 Plant Accounts Description	Sibley 1,2,3 Original Cost	Approved Depreciation Rate	Annual Depreciation Expense
			A	B	C
1	311	Structures & Improvements	$ 12,400,975	5.72%	$ 709,113
2	312	Boiler Plant Equipment	$ 36,766,185	5.28%	$ 1,940,593
3	314	Turbognerator Units	$ 16,338,991	4.65%	$ 759,469
4	315	Accessory Electric Equip.	$ 8,109,397	5.61%	$ 454,791
5	316	Misc. Power Plant Equip.	$ 742,013	4.68%	$ 34,713
6	Total	Original Cost of Sibley Units	$ 74,357,561		$ 3,898,678
7	Straight Line Tax Depreciation Deduction - **MPS Method**				0
8	Straight Line Tax Depreciation Deduction - **Staff Method**			96.865%	**$3,776,455**
9	Revenue Requirment for Depreciation Expense - **MPS Method**				$6,327,555
10	Revenue Requirment for Depreciation Expense - **Staff Method**				$3,974,560

Source: Response to Staff Data Request No. 573

Surrebuttal Schedule SMT-12