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**Missouri Public
Service Commission**

Exhibit No.: 1033

Issues: Cash Working Capital

Witness: Lesley R. Preston

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: ER-2004-0034

Date Testimony Prepared: February 13, 2004 as modified February 27, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

LESLEY R. PRESTON

AQUILA, INC.,

d/b/a AQUILA NETWORKS - MPS (Electric

CASE NO. ER-2004-0034

Exhibit No. 1033

Case No(s) ER-2004-0034

Date 3-1-04 Rptr M

*Jefferson City, Missouri
February 2004*

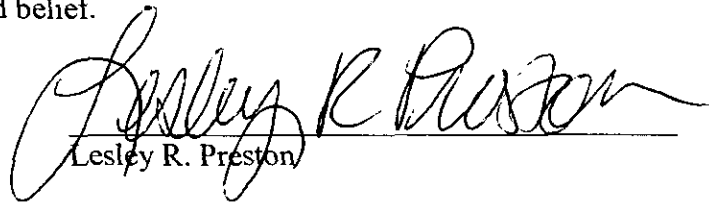
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks)
L&P and Aquila Networks MPS to implement a) Case No. ER-2004-0034
general rate increase in electricity.)

AFFIDAVIT OF LESLEY R. PRESTON


STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

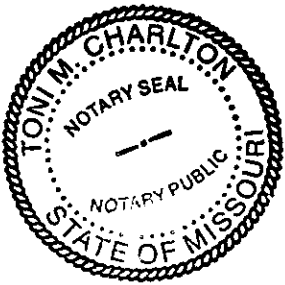
Lesley R. Preston, of lawful age, on her oath states: that she has participated in the preparation of the following surrebuttal testimony as modified on February 27, 2004, in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following surrebuttal testimony as modified on February 27, 2004, were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Lesley R. Preston

Subscribed and sworn to before me this 27 day of February 2004.





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

Surrebuttal Testimony of
Lesley R. Preston

1 Q. Does an account receivable program exist?

2 A. No, not at this time.

3 Q. Please explain why the Staff has included the Program.

4 A. As addressed in my direct testimony, the Staff has included the Program in
5 order to isolate the customer from costs associated with Aquila's non-regulated financial
6 problems.

7 Q. On page 7 of Mr. Williams's rebuttal testimony he states "Aquila has no
8 accounts receivable program in place and no plans to reinstate it." Do you have any
9 comments on this statement?

10 A. Yes. His statement appears to be contrary to a data request response. In Data
11 Request No. 421, answered by Richard O. Clayburn, Jr., the Staff asked for "a description of
12 Aquila's expectation about using the AR Program in the future." Aquila's response was
13 "Aquila is in the early stages of negotiations and expects to have a new program with a
14 different provider in place by year-end 2003 and its use would be dependent upon the terms of
15 the facility and the Company's need for liquidity."

16 Q. Mr. Williams states, on pages 8 and 9 of his rebuttal testimony that the Staff
17 has never imputed an accounts receivable sales program for the other regulated utilities in
18 Missouri. Can you explain why the Staff has never imputed an accounts receivable sales
19 program?

20 A. Yes. Staff has never imputed a Program for any other regulated utility because
21 no other utility has participated in such a Program to the Staff's knowledge. The Staff's
22 examination has been focused on Aquila and its activities, not other regulated utilities in
23 Missouri.

Surrebuttal Testimony of
Lesley R. Preston

1 Q. Mr. Williams states on page 9 of his rebuttal testimony that it “only makes
2 sense to set rates based upon existing, traditional activities.” In past rate cases, did the
3 Company include the costs associated with the sale of the accounts receivable in its cost of
4 service?

5 A. Yes. The Program has been in place since the late 1980s, and had become an
6 traditional source of funding at Aquila, until the Company’s credit rating fell below
7 investment grade, terminating the Program.

8 Q. On page 8 of Mr. Williams’s rebuttal testimony he states that an account
9 receivable program is a “non-traditional funding mechanism.” Do you agree with this
10 statement?

11 A. No. Mr. Williams argues that the Program is non-traditional because other
12 regulated companies do not use such financing. An accounts receivable program may be a
13 unique, non-traditional form of financing for other companies, but is traditional for Aquila.

14 Mr. Rick Dobson, Senior Vice President and Chief Financial Officer, in his direct
15 testimony, from Case No. EF-2003-0465, on page 2, discusses Aquila, (then UtiliCorp
16 United, Inc) and the strategy of “domestic utility” expansion occurring from 1984-1993. It is
17 during this same time period that the accounts receivable program was implemented at the
18 corporate level, while the focus was still on domestic utility operations and acquisitions.

19 While the Program may be a non-traditional form of financing to other companies, it is
20 traditional to Aquila because it has been used for not only a long period of time, but also when
21 Aquila’s strategy was on domestic utility operations.

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Lesley R. Preston

1 Q. Mr. Williams, on page 9 of his rebuttal testimony, states "all parties appear to
2 agree that customers should be insulated from Aquila's past non-traditional activities, it only
3 makes sense to set rates based upon existing, traditional activities." Please comment.

4 A. The Staff has attempted to isolate costs associated with the financial condition
5 arising from Aquila's non-regulated ventures. Several Company witnesses in the current case
6 and in Case No. EF-2003-0465 have also asserted that the Company would attempt to isolate
7 the impact of Aquila's financial condition. Mr. Keith G. Stamm, Aquila Vice President and
8 Chief Operating Officer, states on page 2 line 19 through page 3 line 3 of his direct testimony:

9 ...There is likely to be a presumption on the part of some of our
10 constituents that this is an attempt to take advantage of our customers
11 and restore financial viability that has been threatened as a result of
12 our investments outside of the utility sector.

13 However, this is simply not the case. This request for rate relief stands
14 on the merits of the need of Missouri regulated operations alone,
15 isolated and insulated from the impacts of our non-regulated activities.

16 Mr. Dobson, in his direct testimony in Case No. EF-2003-0465, states "First, we had
17 to continue to maintain a focus on providing service to our utility customers, and ensure that
18 the steps we take to restore Aquila's financial stability would not have any adverse impact on
19 the utility business or its customers."

20 In addition to this statement, Mr. Jon R. Empson, Senior Vice President of Regulated
21 Operations, in his rebuttal testimony for the current case posed the following question and
22 answer:

23 Q. When Aquila prepared the rate cases that were filed with the
24 Commission, what guidance did you give the regulatory team?

25 A. There were two basic principles that we made a concerted
26 effort to apply to a review of our rate case filing.

27 First, our utility customers should not bear any of the costs associated
28 with Aquila's exiting or winding down of our non-regulated and
29 international businesses. In other words, as stated by Aquila witness
30 Beverlee Agut in her direct testimony, our intention and desire was to

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Lesley R. Preston

1 insulate the customer from these activities and not include these costs
2 in the cost of service in this case...

3 Mr. Empson has also made similar comments in Case No. EF-2003-0465, when he
4 states, "However, while Aquila accepts full responsibility for its past strategy, Aquila is also
5 taking full responsibility for restoring financial stability without adversely impacting the
6 customer."

7 Since the late 1980's Aquila has sold the utility accounts receivable for financial
8 purposes and reaped the benefits of having access to the funds more rapidly than if the
9 account receivables were processed internally. Due to the recent financial troubles the
10 Company is experiencing, it can no longer sell the accounts receivable. In the past, the Staff
11 took a portion of the benefits and passed those benefits onto ratepayers through the reduction
12 to the collection lag. Now that Aquila is in financial distress and can no longer sell the
13 receivables and receive the corporate benefit, the Company wants to pass the increased costs
14 of financing back to the ratepayer. This is detrimental to the ratepayers; the same ratepayers
15 the Company witnesses have sworn would be protected from the Company's financial
16 downturn.

17 The accounts receivable program is unique in its nature. Both the Company and
18 ratepayer have been able to receive the benefit of the Program for over 10 years. The
19 ratepayer should not have to bear the cost associated with the discontinued Program. Since
20 the ratepayer has been able to benefit for over 10 years, to stop the Program ultimately results
21 in an increased cost that will have to be borne by the ratepayer.

22 Line 1 of the schedule below lists the impact that the shorter collection lag has on the
23 electric divisions. Line 2 is the revenue requirement impact of the interest expense calculated
24 and included that is associated with the Program. The net effect of Line 1 and Line 2 is

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1 illustrated in Line 3. The number of customers in Line 4 includes the annualized customer
2 levels included in this case, and Line 5 demonstrates the cost impact per customer if the
3 Program was not in place.

		MPS
4		
5	1 Revenue Requirement Impact of CWC	(\$2,914,147)
6	2 Program Interest Expense	<u>\$ 686,495</u>
7	3 Net Affect	(\$2,227,652)
8	4 Number of Customers	<u>223,702</u>
9	5 Cost Per Year Per Customer	\$ 9.96

10 Q. Does this conclude your surrebuttal testimony?

11 A. Yes, it does.