

Exhibit No.:

Issues: Policy

Witness: Keith G. Stamm

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-2004-0034 &
HR-2004-0024
(Consolidated)

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Before the Public Service Commission
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Missouri Public
Service Commission

Surrebuttal Testimony

of

Keith G. Stamm

Exhibit No. 3
Case No(s) ER-2004-0034
Date 2/23/04 Rptr xf

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SURREBUTTAL TESTIMONY OF
KEITH G. STAMM
AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
AND AQUILA NETWORKS-L&P
CASE NOS. ER-2004-0034 AND HR-2004-0024
(CONSOLIDATED)**

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF KEITH G. STAMM
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)**

1 Q. Please state your name and business address.

2 A. My name is Keith Stamm. My business address is 20 West Ninth Street, Kansas City,
3 Missouri 64105.

4 Q. Are you the same Keith Stamm who previously filed direct and rebuttal testimony on
5 behalf of Aquila in this proceeding before the Missouri Public Service Commission
6 (“Commission”) on behalf of Aquila, Inc (“Aquila” or “Company”)?

7 A. Yes, I am.

8 Q. What is the purpose of your surrebuttal testimony?

9 A. I will respond to the rebuttal testimony of Commission Staff (“Staff”) witnesses Mark
10 Oligschlaeger and Cary Featherstone regarding their testimony on the Aries Purchased
11 Power Agreement (“PPA”), and to the rebuttal testimony of Staff witness Phillip
12 Williams regarding comparisons of rates and certain cost statistics.

13 **ARIES PURCHASED POWER AGREEMENT**

14 Q. Please explain your understanding of the Staff’s position in regards to the Aries PPA as
15 explained in Mr. Oligschlaeger’s rebuttal testimony.

16 A. Mr. Oligschlaeger and Mr. Featherstone suggest that because Aquila wanted to earn
17 higher profits, (which they also refer to as greater profits, higher returns, higher
18 profitability, greater profit levels, realizing inadequate returns on equity levels, and
19 wanting to charge higher prices to affiliates), it entered into a Purchased Power

1 Agreement ("PPA") with an affiliated Electric Wholesale Generator ("EWG") that
2 resulted in overstating Aquila's capacity purchase costs relating to the Aries capacity
3 agreement.

4 Q. Do you agree with any of these claims found in the Staff rebuttal testimony?

5 A. No.

6 Q. Does the Staff position appear to be based on the "public interest"??

7 A. No. The Staff's position essentially assesses a penalty on Aquila because it did not build
8 a power plant as a regulated "rate-based" unit and allegedly built Aries as an EWG to
9 make higher profits. The Staff has ignored information provided to it in responses to
10 numerous data requests in this case concerning the structure of the financing of Aries; the
11 actual capital costs, the equity invested in Aries, the sales made from Aries and the actual
12 operating costs of the unit. The Staff's position basically says that the Staff doesn't care
13 if the decision made by Aquila to enter into this PPA was in the public interest, benefited
14 customers and was the lowest cost option available. The Staff has indicated they want
15 Aquila to build and control its generation and, in my opinion, is proposing this penalty
16 because Aquila did not build Aries as a rate-base generating plant in the past.

17 Q. What does the Staff offer as their basis for reaching this conclusion?

18 A. On Page 31 of his rebuttal testimony, Mr. Oligschlaeger states the Staff is basing its
19 position on its interpretation of a response to a single data request in MPS's last rate case.

20 Q. What was that response?

21 A. In a response in the last case Aquila stated, "the Company believes that the current
22 regulatory climate does not warrant the business risks associated with constructing and
23 owning rate-based generating plants."

1 Mr. Oligschlaeger incorrectly “[i]nterprets this statement to mean that Aquila/UtiliCorp
2 perceived at the time of this response that current return on equity levels earned on rate
3 base investments were inadequate and that greater returns could be garnered through the
4 lease of power plants by affiliates...”

5 Q. Why do you say that the Staff’s interpretation of the Company’s response is incorrect?

6 A. It is clear that our response was speaking to the business risks of a utility constructing and
7 owning generating plants, not of garnering higher returns. Mr. Oligschlaeger has selected
8 an unambiguous response, taken it out of the context in which it was made, and then
9 ascribed an “interpretation” which is off the mark.

10 Q. Why do you say the remark was taken out of context?

11 A. As stated in Mr. Empson’s and my rebuttal testimony filed in this case, the conditions of
12 the regulated industry and concerns over loss of customer load and the resulting impacts
13 of stranded costs created significant business risks that would have been imprudent for
14 MPS to undertake. At the time the PPA was negotiated and executed, the Company, the
15 Staff, the OPC, the Commission, the FERC, the state legislature, and the total industry all
16 believed the electric utility industry was at the threshold of change toward a deregulated
17 market, especially for the generation segment. For a utility to build additional rate-based
18 generation during the period of 1997-2000 would go against all indications of where the
19 industry was going and would have done nothing to mitigate the possible level of
20 stranded costs the utility may be facing. It would not have been responsible for the utility
21 to invest hundreds of millions of dollars in a rate based, regulated generation plant at that
22 point in time. The prevailing expectation was that large customers would soon have the
23 opportunity to choose their supplier, and a plant whose rates could not be altered without

1 a rate proceeding would not be in position to compete. At the time, this Commission and
2 other parties were clearly signaling to utilities that they should avoid stranded investment
3 to the extent possible. Constructing a large combined cycle, regulated power plant would
4 have been the anathema to stranded cost avoidance.

5 Now, in hindsight and with a vastly different utility environment, the Staff chooses to
6 ignore the events, including its own positions, during this period. Instead, it is easier to
7 point the finger at Aquila now and say, Aquila you erred and we believe you should pay
8 a penalty.

9 Q. Has the Staff, in its rebuttal testimony, made any other statements you believe need to be
10 clarified?

11 A. Yes. To add support to the 'higher profit' position, Mr. Oligschlaeger in his rebuttal
12 testimony (page 30) gives the impression that MPS is leasing the Greenwood generating
13 units at a higher lease rate than it was previously paying under long-term leases. The
14 Staff is aware Aquila exercised its options under those leases and purchased the units
15 which are now in the rate base of MPS. The Staff and Aquila have both included these
16 units in the rate base value filed in this case.

17 Q. Has the Staff presented Aquila with any evidence or calculation that supports its position
18 that building the Aries unit, as a rate-based unit will be a lower cost for the customers of
19 Aquila?

20 A. No, only conjecture.

21 Q. Has the Staff presented any evidence that suggests Aquila's customers suffered any
22 detriment as a result of the utility's decision not to build a combined cycle plant in 1999?

1 A. No. To the contrary, our customers have benefited in a number of ways from that
2 decision?

3 Q. Please explain.

4 A. Max Sherman's rebuttal testimony clearly showed that the PPA was at a lower cost to our
5 customers than if we had built the unit. Mr. DeBacker, in his surrebuttal testimony
6 testifies that the cost of the Aries PPA was considerably lower in price than the Ameren
7 contract it was replacing. Therefore, our customers have benefited from five years of
8 lower costs. Finally, given the current high cost and volatility of gas, it is doubtful today
9 that a gas-fired combined cycle plant would be the first choice for supplying our base
10 load needs. Supply flexibility has been retained at no cost to our customers.

11 Q. Would it have been appropriate or allowable for MPS to have owned and operated an
12 EWG and then when the environment changed to have transferred the EWG back into
13 rate base?

14 A. No, this was not an option that could have been carried out. The Public Utility Holding
15 Company Act (PUHCA), as amended to allow for EWGs, does not allow a public utility
16 to own an EWG except in a separate subsidiary. The public utility cannot even jointly
17 own or jointly operate an affiliated EWG without violating the provisions of PUCHA.

18 Q. How would you summarize the Staff actions and Aquila's position?

19 A. The Staff in this case is looking back at a decision made by Aquila in 1999 and
20 essentially saying Aquila could have built the Aries generating station and included it in
21 rate base at that time. They propose that construction of this plant by MPS would
22 somehow have met the needs of our customers at a lower cost. Finally, Staff surmises

1 that Aquila did not do so because of corporate greed. Mr. Oligschlaeger provides no
2 factual evidence to support his contention. In reality, the facts prove otherwise.
3 I believe the decision Aquila made to enter into the PPA was and is the best and lowest
4 cost option for our customer and all the costs related to that PPA should be included in
5 the revenue requirement developed in this case. The Staff's proposed penalty for not
6 building a rate-based generating plant should be rejected.

7 **RATE AND COST STRUCTURE**

8 Q. To what aspects of Staff witness Williams' rebuttal testimony do you want to respond?

9 A. Mr. Williams indicated in his rebuttal testimony that for the 2002 calendar year, MPS
10 existing rates were the second lowest electric rates in the state and that L&P electric rates
11 were the lowest in Missouri. He also states that if the Company's full request for rate
12 relief were granted, MPS rates would be the highest in the state. Mr. Williams, however,
13 does not point out that this latter characterization could be applied to almost every utility
14 rate case that has been filed in the state over the last several years. Rate cases are by
15 nature cyclical and not all electric utilities file a rate case at the same time. Thus, it
16 makes sense that at the time of implementing a rate increase, the average rate per kWh
17 will be at or near the high in the state. As other utilities file their own requests for rate
18 increases, the comparative ranking of MPS and L&P rates will decline. This is
19 demonstrated by Mr. Williams' own schedule wherein he shows that over the past eight
20 years MPS rates have varied from the highest to the second lowest in the state. On the
21 other hand, L&P rates have varied but have remained among the lowest in the state.

22 Q. Is it appropriate to compare rates among utilities?

1 A. Not in isolation. The operating characteristics of a utility service territory greatly impact
2 the cost incurred that must be recovered through rates. As I pointed out in my direct
3 testimony, MPS serves an extended service territory that is largely rural and residential in
4 nature. It has a needle peak in summer due to air conditioning load and a very low
5 capacity factor. The L&P service territory has some of these same characteristics but
6 serves a more concentrated geographical area and has a somewhat higher capacity factor.
7 I am extremely proud of the fact that in recent years we have been able to maintain our
8 rates at among the lowest in the state despite the challenges of our customer mix, load
9 factors, and service territory. Mr. Glenn Keefe, our Missouri electric operating vice-
10 president, will provide greater detail in his surrebuttal testimony regarding a more
11 appropriate view of the performance measures and cost effectiveness of our Missouri
12 electric operations.

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Case No. ER-2004-0034

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

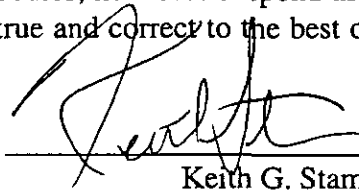
Case No. HR-2004-0024

County of Jackson)
State of Missouri)

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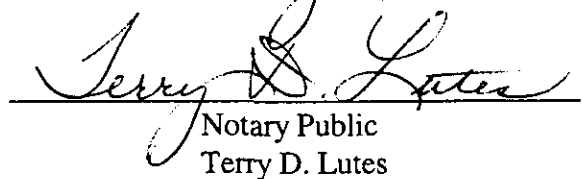
AFFIDAVIT OF KEITH G. STAMM

Keith G. Stamm, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Keith G. Stamm;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.



Keith G. Stamm

Subscribed and sworn to before me this 13th day of February, 2004.



Notary Public
Terry D. Lutes

My Commission expires:

8-20-2004

