

Exhibit No.:

Issues: Accounting Orders,
Fuel & Purchase Power,
Joint Dispatch Savings,
Transmission Expense &
Miscellaneous
Adjustments

Witness: Lisa A. Starkebaum

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

FILED

APR 28 2004

Missouri Public
Service Commission

Direct Testimony

of

Lisa A. Starkebaum

Exhibit No. 9
Case No(s) ER-2004-0034
Date 2/23/04 Rptr XF

TABLE OF CONTENTS

ACCOUNTING AUTHORITY ORDERS.....	3
FUEL INVENTORIES.....	6
FUEL AND PURCHASED POWER ENERGY.....	10
PURCHASED POWER CAPACITY.....	11
SYNERGIES FROM JOINT DISPATCH.....	13
GAS COST CAP ADJUSTMENT.....	14
ELIMINATION OF EMISSION ALLOWANCES.....	14
ELIMINATION OF TRANS UCU EXPENSES.....	14
TRANSMISSION EXPENSE.....	15
MISO.....	16
2002 ICE STORM AAO AMORTIZATION.....	17
MISCELLANEOUS PER BOOKS ADJUSTMENT.....	17
JEC EMPLOYEE EXPENSE.....	18

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

1 Q. Please state your name and business address.

2 A. My name is Lisa A. Starkebaum and my business address is 10700 East 350 Highway,
3 Kansas City, Missouri.

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

5 A. I am employed by Aquila, Inc., ("Aquila" or "Company") as a Senior Regulatory
6 Analyst.

7 Q. Please state your educational background and experience.

8 A. I attended Northwest Missouri State University in Maryville, Missouri, where I received a
9 Bachelor of Science Degree with a major in Finance. In 1995, I began working for
10 Cerner Corporation as an Accountant in the Finance Department. In July 1997, I joined
11 Aquila, Inc., (formerly UtiliCorp United Inc.) where I worked in the Financial and
12 Regulatory Reporting group as an Accountant, until joining Regulatory Accounting
13 Services as a Regulatory Analyst in late 1999.

14 Q. Have you previously testified before any regulatory bodies?

15 A. Yes. I have testified before the Kansas Corporation Commission, the Missouri Public
16 Service Commission and the Public Utilities Commission of Colorado.

17 Q. What is the purpose of your testimony in this proceeding involving Aquila Networks –
18 MPS ("MPS") and Aquila Networks – L&P ("L&P")?

1 A. The purpose of my testimony is to present to the Missouri Public Service Commission
2 (“Commission”) certain schedules in support of the revised tariffs filed by Aquila in this
3 case as well as to explain and support various rate base items and cost of service
4 (operations) adjustments.

5 Q. Please identify the schedules and adjustments that you are sponsoring.

6 A. Attached Schedules LAS-1 through 4, generally consist of financial and other information
7 which supports MPS’s revenue requirement. I am also sponsoring the following rate base
8 items.

- 9 • Accounting Authority Orders (MPS Only)
- 10 • Fuel Inventories (MPS and L&P)

11 In addition to the above-mentioned items, I am sponsoring the following cost of service
12 (operations) adjustments.

- 13 • Fuel and Purchased Power Energy (MPS & L&P)
- 14 • Purchased Power Capacity (MPS & L&P)
- 15 • Synergies from Joint Dispatch (MPS & L&P)
- 16 • Gas Cost Cap Adjustment (MPS & L&P)
- 17 • Elimination of Emission Allowances (MPS Only)
- 18 • Elimination of Trans UCU Expenses (MPS & L&P)
- 19 • Transmission Expense (MPS & L&P)
- 20 • MISO (MPS & L&P)
- 21 • Annualization of Ice Storm AAO Amortization (MPS Only)

- 1 • Miscellaneous Per Books Adjustment (MPS & L&P)
- 2 • JEC Employee Expense (MPS Only)

3 Q. Were these schedules prepared by you or under your direct supervision?

4 A. Yes.

5 Q. Please describe Schedule LAS-1.

6 A. Schedule LAS-1 represents the revenue deficiency calculated with a return on equity of
7 12.25%.

8 Q. What information is included on Schedule LAS-2?

9 A. This Schedule depicts the detailed components of rate base. Rate base is Aquila's
10 investment to provide service to customers in the MPS service territory.

11 Q. Please describe Schedule LAS-3.

12 A. Schedule LAS-3 is the adjusted income statement which reflects the net income available
13 after all known and measurable changes have been made.

14 Q. What does Schedule LAS-4 represent?

15 A. Schedule LAS-4 gives a short description of the adjustments made to the income
16 statement in this case involving Aquila Networks – MPS.

17 Q. Are you sponsoring all of the adjustments on Schedule LAS-4?

18 A. No. There will be several other Aquila witnesses sponsoring various income statement
19 adjustments.

20 ACCOUNTING AUTHORITY ORDERS

21 Q. What is the purpose of your discussion of accounting authority orders ("AAO")?

1 A. The purpose is to explain the necessity of rate case recovery of costs deferred by the
2 AAOs issued to MPS by the Commission in Case Nos. EO-90-114, EO-91-358 and EU-
3 2002-1053, in connection with MPS' Sibley Rebuild Program, the Sibley Western Coal
4 Conversion Project and the Ice Storm Damage from 2002.

5 Q. What is an AAO and what is its purpose?

6 A. An AAO is an order issued by the Commission which permits the requesting utility to
7 defer certain costs on its books (outside of a rate case) with the opportunity to
8 subsequently recover these costs through rates as opposed to being required to expense
9 these costs in the current period. This treatment spreads the effect of an event over a
10 period of time, thereby reducing the impact on customers, and can lessen the effect of
11 regulatory lag, or the time between incurring costs and the recovery of those costs in
12 rates.

13 Q. Please discuss the AAOs issued to MPS.

14 A. In Case Nos. EO-90-114 and EO-91-358, MPS requested and was granted AAOs for the
15 previously mentioned Sibley Rebuild Program and Sibley Western Coal Conversion
16 Project.

17 Q. Please discuss these projects.

18 A. Both projects were and are critical to MPS' ability to continue to provide reliable electric
19 service to its customers at a reasonable cost. Briefly, the Sibley Rebuild Program
20 extended the life of its three generating units by 20 years. Without this rebuild program,
21 MPS would have had to find alternative sources of energy before Sibley Units 1 and 2
22 were retired from use in 1990 and Sibley Unit 3 by the mid-1990's. The Sibley Western

1 Coal Conversion Project allowed MPS to achieve significant reductions in sulfur dioxide
2 ("SO2") emissions at the Sibley Generating Station. This project allowed MPS to stay in
3 compliance with the Clean Air Act Amendments and to protect the environment.

4 Q. What costs are being deferred by MPS in rate base Adjustment No. RB-40?

5 A. MPS' AAO addition to rate base includes deferred depreciation and carrying costs
6 (interest) associated with the plant-in-service resulting from the previously discussed
7 Sibley projects at December 31, 2002. A jurisdictional factor was applied to each AAO
8 to ensure only the portion affecting MPS' electric jurisdictional operations was included
9 in rate base.

10 Q. What has been the treatment of the unamortized balance of the Sibley-related AAOs and
11 amortization expense in past rate proceedings involving MPS?

12 A. In the past four rate proceedings involving MPS, Case Nos. ER-90-101, ER-93-37, ER-
13 97-394 and ER-2001-672, MPS has been allowed recovery of both the unamortized
14 balance of AAOs and related amortization expense.

15 Q. Did MPS secure an additional AAO as a result of the 2002 Ice Storm?

16 A. Yes. In addition to the Sibley-related AAOs, Aquila filed an application for an AAO in
17 April 2002 with respect to incremental expenses incurred due to a severe ice storm in
18 January 2002. Aquila requested that the Commission grant an order authorizing it to
19 defer and record the incremental operating expenses incurred as the result of the ice
20 storm. Both the Staff of the Commission and Public Counsel agreed that the AAO should
21 be issued and the Commission granted the request, effective July 7, 2002.

1 Q. What is the total amount of operating expenses being deferred pursuant to the ice storm
2 AAO?

3 A. MPS is amortizing a total of \$8,244,893 in operating expenses related to the ice storm
4 that are being amortized over a 5-year period.

5 **FUEL INVENTORIES**

6 Q. Please explain the purpose of working capital Adjustment No. WC-30 for fuel inventory
7 for Aquila Networks – MPS and L&P.

8 A. Fuel inventories are properly includable in the working capital computation. A utility
9 must carry the appropriate level of fuel stock to ensure that customer service is not
10 interrupted. As a result of maintaining minimum levels of fuel stock, the utility incurs
11 carrying costs. By including fuel stock in rate base, the utility is able to earn a return on
12 those fuel inventory levels.

13 **MPS:**

14 Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in rate
15 base?

16 A. MPS' recommendation in this case for coal inventory levels at Sibley and the Jeffrey
17 Energy Center ("JEC") is equivalent to a 61-day and 72-day burn, respectively. These
18 duration burns are equivalent to 250,242 tons of blended coal (65% PRB, 35%
19 bituminous) at Sibley and 108,949 tons (75% Tier 1, 25% Tier 2) at JEC. First, the
20 annualized fuel price and price per ton of coal for the annualized test period were
21 obtained from the MPS fuel run for both Sibley and JEC and were used to calculate the
22 quantity of coal consumed in tons. After quantifying the tons of coal burned for the 61-

1 day and 72-day inventory levels recommended at Sibley and JEC, the quantity of coal
2 burned for the inventory levels mentioned above was multiplied by the annualized price
3 per ton of coal to arrive at the annualized amount of fuel inventory to include in rate base
4 for Sibley and JEC. The annualized level of coal inventory that has been included in rate
5 base for Sibley and JEC coal amount to \$6,075,548 and \$2,315,709, respectively.

6 Q. Please explain why a 61-day supply of coal for Sibley and a 72-day supply of coal for
7 JEC was chosen as the target level of coal inventory to include in rate base.

8 A. The 61-day and 72-day target inventory levels for Sibley and JEC was used in MPS' last
9 rate proceeding, Case No. ER-01-672 by both Aquila and the Staff.

10 Q. Has there been any policy change in the targeted levels?

11 A. No.

12 Q. How much No. 2 oil inventory is being included in rate base for the Greenwood and
13 Nevada plants?

14 A. No. 2 oil inventory has been included in rate base for Greenwood and Nevada using a
15 thirteen-month average. The monthly balances were averaged for the months of
16 December 2001 through December 2002.

17 Q. Please explain why a thirteen-month average calculation was selected.

18 A. Generally, a thirteen-month average is used to smooth out the month-to-month volatility
19 in fuel inventory balances.

20 Q. What is the annualized level of No. 2 oil inventory that has been included in rate base?

21 A. The annualized level of No. 2 oil inventory that has been included in rate base for
22 Greenwood and Nevada is \$1,088,824 and \$387,250, respectively.

1 Q. What level of fuel inventory has MPS included in rate base for purposes of this rate
2 proceeding?

3 A. In total, MPS has included \$9,867,331 in fuel inventory related to its electric operations.

4 **L&P:**

5 Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in rate
6 base?

7 A: Aquila Networks – L&P utilized the same method as MPS in determining the level of fuel
8 inventory to include in rate base for coal. L&P's recommendation in this case for coal
9 inventory levels at Iatan and Lake Road is equivalent to a 49-day and 75-day burn,
10 respectively. These duration burns are equivalent to 40,173 tons at Iatan and 71,652 tons
11 (65% PRB, 35% bituminous) at Lake Road. The level of coal inventory included in rate
12 base for Iatan and Lake Road total \$525,468 and \$1,871,537, respectively.

13 Q. Please explain why a 49-day supply of coal for Iatan and a 75-day supply of coal for Lake
14 Road was chosen as the target level of coal inventory to include in rate base.

15 A. L&P is a joint owner of Iatan. The operator, Kansas City Power & Light Company,
16 manages the coal inventory levels at the plant and has selected a 49-day supply of coal as
17 the target inventory level. A 75-day supply was used for Lake Road coal which is
18 representative of current day inventory levels. This quantity has proven to be adequate but
19 not excessive for the risks assessed for the Lake Road facility to ensure that customers are
20 protected against disruption of service.

21 Q. How much No. 2 oil inventory is being included in rate base for the Iatan and Lake Road
22 units?

1 A. Similar to the calculation for MPS, L&P employed a thirteen-month average for Iatan oil
2 resulting in No. 2 oil inventory of \$25,119. The monthly balances were averaged for the
3 months of December 2001 through December 2002. However, the method used to calculate
4 the No. 2 oil inventory for the Lake Road units differed from a thirteen-month average.
5 First, the annualized level of fuel consumed in gallons was determined for Lake Road
6 combustion turbines 5, 6 and 7 and Lake Road 900 lb System. Second, the number of
7 gallons were multiplied by an annualized price per unit of \$1.10 obtained from the fuel
8 dispatch model. This resulted in oil inventory of \$415,800 and \$122,572 for the Lake Road
9 combustion turbines and Lake Road 900 lb System, respectively.

10 Q. Please explain why a different method was used to calculate the oil inventory levels for the
11 Lake Road units.

12 A. A different method was necessary to assign the No. 2 oil inventory between Aquila
13 Networks – L&P's electric and steam operations. Since L&P has both electric and
14 industrial steam operations, allocation factors have been developed internally to determine
15 the No. 2 oil inventory attributable to electric and steam operations. Based on these
16 allocations, the first 9,000 barrels of No. 2 oil in inventory are allocated 100% to electric.
17 All barrels over 9,000 are allocated 50% to electric and 50% to steam.

18 Q. What is the rationale behind the allocation of No. 2 oil inventory described above?

19 A. Prior to December 1998, No. 2 oil inventory was 100% electric because it could only be
20 used in Units 5, 6 and 7. In the past, 9,000 barrels was the established minimum oil
21 inventory for Units 5 through 7. This level is still considered the minimum year-round level
22 required for these units. Starting in December 1998, No. 2 oil was used as an emergency

1 fuel for Boilers 1, 2 and 4. These Boilers supply steam for L&P's electric and steam
2 operations. Both electric and steam are dependent upon the remaining inventory of No. 2
3 oil, or emergency stock, in the event of natural gas curtailment at the plant. For example,
4 gas curtailment is likely during severe cold winter months, which would result in a winter
5 peak scenario for L&P's electric and steam operations. In this scenario, Boilers 1, 2 and 4
6 would be vitally important to L&P's steam operations, since these boilers provide the only
7 source of steam for its steam customers. Consequently, these Boilers would also be critical
8 to the electric system as generation would most likely be needed from Lake Road Turbines
9 1, 2 and 3 which provide the auxiliary steam necessary for the operation of Unit 4/6, a
10 critically important unit during a winter peak scenario. Therefore, the remaining barrels of
11 No. 2 oil over 9,000 barrels are allocated appropriately 50% to electric and 50% to steam.

12 Q. What level of fuel inventory has L&P included in rate base for purposes of this proceeding?

13 A. In total, L&P has included \$2,960,496 in fuel inventory related to its electric operations.

14 **FUEL AND PURCHASED POWER ENERGY**

15 Q. What is the purpose of cost of service Adjustment No. FPP-10 made to Aquila Networks –
16 MPS and L&P's electric operations?

17 A. The purpose of Adjustment No. FPP-10 is to annualize fuel and purchased power energy
18 expense, net of off-system and demand charges, and to compare the annualized level to
19 actual expenses for test year ended December 31, 2002.

20 Q. Please explain how Adjustment No. FPP-10 was calculated for both Aquila Networks –
21 MPS and L&P?

22 **MPS:**

1 A. The recommended annualized level of fuel and purchased power energy expense for MPS is
2 \$107,648,106, of which \$49,390,444 is for electric fuel and \$58,257,662 is for purchased
3 energy. The annualized level of fuel and purchased power energy expense was obtained
4 from the MPS fuel run utilizing the Fuel and Purchased Power Dispatch Model. The inputs
5 used in this model will be further addressed in the direct testimony of Company witness
6 Jerry Boehm.

7 Q. How do the annualized expenses compare to actual expenses for the test year?

8 A. Actual energy costs for MPS for the twelve months ended December 31, 2002 total
9 \$98,075,573, of which \$51,640,640 is for electric fuel and \$46,434,933 is for purchased
10 power energy. Adjustment No. FPP-10 increases fuel and purchased power energy expense
11 for MPS' electric operations by \$9,521,041.

12 **L&P:**

13 A. L&P employed the same method for calculating the annualized level of fuel and purchased
14 power energy expense as MPS. The recommended annualized level of expenses for L&P,
15 obtained from the L&P fuel run, is \$23,461,224. Of this amount, \$14,997,579 relates to
16 electric fuel and \$8,463,645 to purchased power energy.

17 Q. How do the annualized expenses compare to actual expenses for the test year?

18 A. Actual energy costs for L&P for the twelve months ended December 31, 2002 total
19 \$26,620,498, of which \$15,953,717 is electric fuel and \$10,666,780 is for purchased power
20 energy. Adjustment No. FPP-10 decreased fuel and purchased power energy expense for
21 L&P resulting in a credit adjustment of \$3,159,274.

22

PURCHASED POWER CAPACITY

1 Q. Please explain the purpose of cost of service Adjustment No. FPP-20 for both Aquila
2 Networks – MPS and L&P.

3 A. Adjustment No. FPP-20 annualizes purchased power capacity expense to reflect the known
4 and measurable changes in capacity charges in MPS' and L&P's purchased power contracts
5 commencing in contract year 2003. This adjustment is necessary to properly reflect the on-
6 going level of purchased power capacity costs used to determine the future rates of Aquila
7 Networks – MPS and L&P.

8 Q. Are the aforementioned contracts included in this filing?

9 A. No. These contracts are confidential and proprietary. They will be made available to the
10 appropriate parties to this case, pursuant to the Commission's Protective Order.

11 Q. Please explain how Adjustment No. FPP-20 was calculated for MPS and L&P?

12 MPS:

13 A. Adjustment No. FPP-20 annualizes two purchased power capacity contracts for 2003:
14 Sunflower Electric Power Corporation ("SEPC") and MEP Pleasant Hill ("MEPPH"). The
15 annualized level of capacity costs include 40 MW of capacity purchased from Sunflower,
16 effective June 2003. In addition, the MEPPH capacity contract includes purchases of 200
17 MW for base load and an additional 300 MW for peak load for months April – September,
18 effective January 1, 2003. The annualized level of expense was calculated by multiplying
19 the 2003 MW capacity purchases per month for twelve months by the contract price/KW-
20 month. In addition to the two purchased power capacity contracts mentioned above,
21 demand charges of \$120,682 were included in MPS' annualized level of capacity expense
22 for MPS' border customers. MPS' annualized capacity contracts amounting to \$34,850,169

1 was compared to actual per books expense at December 31, 2002 of \$33,216,044. This
2 results in an adjustment of \$1,625,339.

3 **L&P:**

4 A. Adjustment No. FPP-20 for Aquila Network – L&P also annualizes two purchased power
5 capacity contracts for 2003: Sunflower Electric Power Corporation (“SEPC”) and
6 Nebraska Public Power District (“NPPD”). The annualized level of capacity purchases
7 include 10 MW of capacity from Sunflower and 90 MW from NPPD, both effective June
8 2003. The same process was used for L&P as for MPS to calculate the annualized capacity
9 expense. L&P’s annualized capacity contracts in the amount of \$8,779,200 was compared
10 to per books expense at December 31, 2002 of \$7,052,000. This results in an increase to
11 expense of \$1,727,200.

12 **SYNERGIES FROM JOINT DISPATCH**

13 Q. Please explain the purpose of Adjustment No. FPP-30 made to Aquila Networks – MPS and
14 L&P’s cost of service.

15 A. Adjustment No. FPP-30 annualizes the savings created through the joint dispatch of
16 generation plants between MPS and L&P.

17 Q. Please explain how this adjustment was calculated.

18 A. The savings calculated for MPS and L&P in Adjustment No. FPP-30 represent the
19 difference between the individual standalone dispatch models for MPS and L&P in
20 comparison to the combined, or joint dispatch model. The difference between the
21 standalone dispatch models for MPS and L&P and the combined joint dispatch model total
22 \$7,973,768. Adjustment No. FPP-30 increases MPS and L&P’s cost of service by

1 \$2,914,460 and \$1,056,662, respectively which represents 50% of the total merger-created
2 savings. The merger savings and 50% sharing mechanism with customers are discussed in
3 further detail in the direct testimony provided by Company witness Vern J. Siemek.

4 **GAS COST CAP ADJUSTMENT**

5 Q. Please explain Adjustment No. FPP-40 made to Aquila Networks – MPS and L&P?

6 A. Adjustment No. FPP-40 annualizes gas costs at \$.50 above base fuel costs of \$5.14 per Mcf
7 included in Adjustment No. FPP-10 for both MPS and L&P. Adjustment No. FPP-40
8 increases MPS' and L&P's cost of service by \$4,879,660 and \$382,363, respectively. This
9 differential relates to the gas cost recovery mechanism and is discussed further in the direct
10 testimony of Company witness Keith Stamm.

11 **ELIMINATION OF EMISSION ALLOWANCES**

12 Q. What is the purpose of Adjustment No. CS-27 made to Aquila Networks – MPS' cost of
13 service?

14 A. This adjustment eliminates 100% of the emission allowances recorded to Federal Energy
15 Regulatory Commission ("FERC") account 509 during the test year. Emission allowances
16 have been annualized in the fuel model and are accounted for in Adjustment No. FPP-10
17 made to Fuel and Purchased Power Energy. Therefore, this adjustment is necessary to
18 ensure that the allowances have not been accounted for twice during this rate proceeding.

19 **ELIMINATION OF TRANS UCU EXPENSES**

20 Q. What are Trans UCU expenses?

21 A. Trans UCU expenses are an allocation of expenses to Aquila Networks divisions such as
22 MPS and L&P from Aquila Corporate. The Trans UCU department 4499 housed

1 corporate flight and other miscellaneous transportation related expenses. In addition to
2 department 4499, some Trans UCU expenses were directly charged to department 6130,
3 UED Headquarters, during the test year. Since both Aquila Networks – MPS and L&P
4 receives an allocation of the expenses charged to department 6130, this department was
5 also included in the elimination of Trans UCU expenses.

6 Q. Where were these expenses recorded during the test year?

7 A. Trans UCU expenses related to MPS' and L&P's electric operations, in the amount of
8 \$722,083 and \$219,264 respectively, were recorded during the test year in FERC
9 Account 921, office supplies and expenses.

10 Q. How were these expenses treated in this proceeding?

11 A. These expenses were eliminated in total from the test year due to the elimination of the
12 corporate aircraft as part of the overall restructuring efforts at Aquila.

13 TRANSMISSION EXPENSE

14 Q. What is the purpose of the transmission expense Adjustment No. CS-57 made to Aquila
15 Networks – MPS?

16 A. The purpose of this adjustment is to annualize the firm transmission provided by
17 Sunflower and MAPP to Aquila Networks - MPS under the purchased power contract
18 beginning June 2003.

19 Q. How was the annualized level of Sunflower and MAPP transmission expense calculated?

20 A. The annualized level of transmission expense was computed by multiplying the contract
21 price of \$1,300 per MW-month by the contract transmission capacity of 40 MW for the
22 months of June through September 2003, as outlined in the purchased power contract

1 with Sunflower. Similarly, the annualized level of MAPP transmission expense was
2 calculated by multiplying the contract price of \$110 per MW-month by the contract
3 transmission capacity of 40 MW. The annualized level of expense was then compared to
4 actual transmission expense for the test year, resulting in an adjustment of \$154,530 to
5 MPS' cost of service.

6 Q. What is the purpose of the transmission expense Adjustment No. CS-57 made to Aquila
7 Networks – L&P?

8 A. The purpose of this adjustment is to annualize the increase in MW of firm transmission
9 effective June 2003 per the terms of the purchased power capacity contract with NPPD.

10 Q. How was the annualized level of NPPD transmission expense calculated?

11 A. The annualized level of transmission expense was computed by multiplying the contract
12 price of \$1,510 per MW-month by the contract transmission capacity of 90 MW. The
13 annualized level of expense was then compared to actual transmission expense for the test
14 year, resulting in an adjustment of \$163,800 to L&P' cost of service.

15 MISO

16 Q. Please explain the purpose of Cost of Service Adjustment No. CS-76 for both Aquila
17 Networks – MPS and L&P.

18 A. Adjustment No. CS-76 involves expenses associated with the Midwest Independent
19 Transmission System Operator ("MISO"), a Regional Transmission Organization
20 ("RTO") whose main objective is to monitor the electric transmission system to ensure
21 equal access by all electric industry participants and to maintain or improve electric
22 system reliability in the Midwest region. Adjustment No. CS-76 annualizes the impact of

1 a full year of transmission membership dues as a result of joining the RTO that is
2 expected in January 2004. The membership dues in the amount of \$845,708, represents
3 the on-going level of expense that Aquila Networks – MPS will incur as a participant of
4 the RTO. Similarly, Aquila Networks – L&P's annualized level of expense as a member
5 of the RTO is \$276,084.

6 **2002 ICE STORM AAO AMORTIZATION**

7 Q. What is the purpose of Adjustment No. CS-100 made to amortization expense?

8 A. The purpose of this adjustment is to annualize a full year of amortization expense during
9 the test period for expenses incurred by Aquila Networks – MPS due to damage from the
10 2002 Missouri ice storm.

11 Q. Please explain.

12 A. Amortization of expenses directly related to the ice storm began in February 2002.
13 Therefore, only eleven months of amortization expense was recorded to test year per
14 books. As such, CS-100 adjusts amortization expense to reflect a full year of expense.
15 The adjustment amount for CS-100 totals \$139,016.

16 **MISCELLANEOUS PER BOOKS ADJUSTMENT**

17 Q. Please explain Adjustment No. CS-53 made to Aquila Networks – MPS and L&P's
18 electric operations.

19 A. Adjustment No. CS-53 made to both Aquila Networks – MPS and Aquila Networks –
20 L&P includes purchased power costs associated with inter-company sales to WestPlains
21 Kansas ("WPK"). The fuel model annualizes fuel and purchased power costs for native
22 load only, therefore pro forma Adjustment No. FPP-10 made to fuel and purchased power

1 expense did not include the purchased power costs associated with WPK sales.
2 Therefore, Adjustment No. CS-53 was made to properly match inter-company revenues
3 with inter-company purchased power expense associated with WPK, resulting in an
4 adjustment of \$5,985,199 and \$263,714 for MPS and L&P, respectively.

5 **JEC EMPLOYEE EXPENSE**

6 Q. Please explain Adjustment No. CS-82 made to Aquila Networks – MPS electric
7 operations.

8 A. Adjustment No. CS-82 annualizes 2002 employee expenses from JEC that should have
9 been recorded during the test year; however, MPS was not billed for these expenses
10 during 2002. Adjustment No. CS-82 increases MPS' cost of service by \$102,929.

11 Q. Does this conclude your direct testimony?

12 A. Yes.

**Aquila Networks - MPS
Case No. ER-
Twelve Months Ended December 31, 2002**

Revenue Requirement

Line	Low 9.486% Return	Mid 9.589% Return	High 9.725% Return
(a)	(b)	(c)	(d)
1 Net Orig Cost of Rate Base (Sch 2)	\$ 724,569,487	\$ 724,569,487	\$ 724,569,487
2 Rate of Return	9.486%	9.589%	9.725%
3 Net Operating Income Requirement	\$ 68,729,763	\$ 69,481,866	\$ 70,462,209
4 Net Income Available (Sch 7)	\$ 20,783,977	\$ 20,783,977	\$ 20,783,977
5 Additional NOIBT Needed	47,945,787	48,697,890	49,678,232
6 Additional Current Tax Required	\$ 29,874,061	\$ 30,342,681	\$ 30,953,513
7 Gross Revenue Requirement	<u>77,819,847</u>	<u>79,040,571</u>	<u>80,631,745</u>

Schedule LAS-1

Aquila Networks - MPS
Case No. ER-
Twelve Months Ended December 31, 2002

Rate Base

Line No.	Line Description (a)	Amount (b)
Total Plant :		
1	Total Plant in Service-MPS Only (Sch 3)	\$ 1,183,943,230
1a	Total Plant in Service-MPS' Share of UCU (Sch 3a)	53,358,002
	Total Plant	<u>1,237,301,231</u>
Subtract from Total Plant:		
2	Depr Reserve-MPS & UCU Share (Sch 5)	482,779,235
	Total Depreciation Reserve	<u>482,779,235</u>
3	Net Plant in Service	<u>\$ 754,521,996</u>
Add to Net Plant in Service		
4	Cash Working Capital	(2,795,426)
5	Materials and Supplies	17,043,883
6	Emission Allowances	364,301
7	Prepayments	23,345,245
8	Fuel Inventory - Oil	1,476,074
9	Fuel Inventory - Coal	8,391,257
10	Fuel Inventory - Coke	-
11	AAO Def Sibley Rebuild & Western Coal 1990	1,537,067
12	AAO Def Sibley Rebuild & Western Coal 1992	1,530,508
12	AAO Ice Storm 2002	6,734,598
Subtract from Net Plant:		
13	Customer Advances for Construction	\$ 4,136,012
14	Customer Deposits	2,777,884
15	Deferred Income Taxes	76,086,041
16	Deferred Income Taxes - AAO	3,763,054
17	Unamortized Investment Tax Credit	77,328
18	Deferred Income Taxes - Synergies to MPS	739,697
19	Total Rate Base	<u><u>\$ 724,569,487</u></u>

Aquila Networks - MPS
Case No. ER-
Twelve Months Ended December 31, 2002

Income Statement

Line No.	Description	Total Electric	Electric Non-Juris	Electric Jurisdictional	Adjustment	Jurisdictional As Adjusted
	(A)	(B)	(C)	(D)	(E)	(F)
1	Operating Revenue	344,315,231	6,669,849	337,645,382	345,312	337,990,694
2	Operating & Maintenance Expenses:					
3	Production	170,826,776	918,784	169,907,992	20,662,604	190,570,596
4	Transmission	8,980,990	48,292	8,932,698	1,016,336	9,949,034
5	Distribution	18,519,864	30,871	18,488,993	50,406	18,539,399
6	Customer Accounting	7,420,331	-	7,420,331	396,170	7,816,501
7	Customer Services	629,093	-	629,093	(54,870)	574,223
8	Sales	747,678	-	747,678	(210,455)	537,223
9	A & G Expenses	32,222,320	117,459	32,104,861	(3,066,503)	29,038,358
10	Total O & M Expenses	239,347,052	1,115,406	238,231,646	18,793,688	257,025,334
11	Depreciation Expense	34,606,362	123,742	34,482,620	11,752,954	46,235,574
12	Amortization Expense	1,763,987	6,308	1,757,679	146,701	1,904,380
13	Taxes other than Income Tax	13,091,008	47,040	13,043,968	241,619	13,285,587
14	Net Operating Income before Ta	55,506,822	5,377,353	50,129,469	(30,589,650)	19,539,819
15	Income Taxes	5,341,776	517,497	4,824,279	(7,803,570)	(2,979,291)
16	Income Taxes Deferred	(3,211,310)	(11,482)	(3,199,828)	5,747,696	2,547,868
17	Investment Tax Credit	(815,652)	(2,917)	(812,735)	-	(812,735)
18	Total Taxes	1,314,814	503,098	811,716	(2,055,874)	(1,244,158)
19	Total Net Operating Income	54,192,008	4,874,255	49,317,753	(28,533,776)	20,783,977

Schedule LAS-3

AQUILA NETWORKS - MPS
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
R-10	Customer & Weather Adj This adjusts test period revenues to reflect normal cooling and heating degree days and annualizes revenues for 2002 customer level. Operating Revenues	E. Watkins	\$ (323,163)
R-20	Eliminate Unbilled Revenues This adjusts revenues to a billed basis. Operating Revenues	R. Clayburn	\$ 668,475
FPP-10	Fuel and Purchased Power Energy This adjustment annualizes the test year fuel expense . Steam Power/Other Power Generation - Fuel Purchased Power	L. Starkebaum	\$ 9,521,042
FPP-20	Purchased Power Demand Charge This adjustment annualizes the demand component of purchased power for changes in capacity effective September 30, 2003. Purchased Power	L. Starkebaum	\$ 1,625,339
FPP-30	Synergies from Joint Dispatch This adjustment annualizes the synergies resulting from joint dispatching. Steam Power/Other Power Generation - Fuel Purchased Power	L. Starkebaum	\$ 2,914,460
FPP-40	Gas Cost Cap Adjustment This adjustment annualizes gas costs at \$.50 above the base cost of fuel included in this case. Other Power Generation - Fuel	L. Starkebaum	\$ 4,879,660
CS-5	Payroll This adjustment annualizes payroll expense for the test year. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative & General Total	R. Klote	\$ 248,718
CS-6	Incentive This adjustment annualizes incentive expenses to be paid at target levels. Production Transmission Distribution	R. Klote	\$ 533,899

AQUILA NETWORKS - MPS
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	Customer Accounting Customer Service Sales Administrative & General Total		
CS-10	Restructuring This adjustment amortizes restructuring related expenses during the test year over three years. Production Transmission Distribution Administrative & General Taxes Other Than Income Taxes Total	R. Klote	\$ (1,329,340)
CS-11	Employee Benefits This adjustment annualizes the MPS portion of employee benefits made on behalf of its employees. Administrative and General	S. Murphy	\$ 324,439
CS-16	ESF/IBU Adjustments This adjustment updates the ESF and IBU corporate allocation factors to January 2003 drivers. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative and General Total	B. Agut	\$ (1,294,164)
CS-17	O&M L&P Merger Synergies This adjustment annualizes the O&M synergies resulting from the L&P merger. Production Transmission Distribution Customer Accounting Customer Service Sales Administrative and General Total	B. Agut	\$ 1,542,160
CS-20	Greenwood Lease This adjustment eliminates 100% of Greenwood lease expense from	S. Braun	\$ (3,892,763)

AQUILA NETWORKS - MPS
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	the test year. Other Production Expenses		
CS-27	Elimination of Emission Allowances This adjustment eliminates 100% of the emission allowances from the test year. Allowances	L. Starkebaum	\$ (704,030)
CS-35	Bad Debt Expense This adjusts bad debt expense to an annualized level based on a three year average rate times annualized revenue Customer Accounting Expense	R. Erickson	\$ 882
CS-40	PSC Assessment This adjustment annualizes the PSC assessment to the most current assessment received. Administrative and General	R. Erickson	\$ (126,311)
CS-45	Customer Deposit Interest This entry annualizes the interest expense related to customer deposits. Customer Accounting Expense	R. Erickson	\$ 166,673
CS-50	Rate Case Expense This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 3 years. Administrative and General	R. Clayburn	\$ 149,146
CS-53	Miscellaneous Per Books Adjustment This adjustment includes purchased power costs associated with inter-company sales to WPK to properly match intercompany revenues with intercompany purchased power expense. Purchased Power - Off-System	L. Starkebaum	\$ 5,985,199
CS-56	Eliminate TransUCU This adjustment eliminates test year transportation related expenses allocated to MPS from TransUCU. Office Supplies and Expenses	L. Starkebaum	\$ (722,083)
CS-57	Transmission Expense This adjustment annualizes test year transmission expense per the terms of the Sunflower contract for months June through September. Transmission of Electricity by Others	L. Starkebaum	\$ 154,530
CS-60	Dues and Donations This adjustment eliminates all dues and donations except EEI and Power Pool dues.	R. Erickson	\$ (293,003)

AQUILA NETWORKS - MPS
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	Administrative and General		
CS-65	Advertising Expense This adjustment eliminates all advertising except safety and informational . Production Distribution Customer Accounts Customer Service and Informational Expense Sales Expense Administrative & General Total	R. Erickson	\$ (343,316)
CS-76	MISO This adjustment annualizes the on-going level of MISO transmission membership dues. Transmission of Electricity by Others	L. Starkebaum	\$ 845,708
CS-81	Homeland Security This adjustment annualizes Homeland Security costs not included in the test year. Office Supplies and Expenses	S. Murphy	\$ 101,595
CS-82	JEC Employee Expense This adjustment annualizes MPS' share of JEC employee expense not included in test year per books. Steam Power - Fuel Miscellaneous Steam Power Expenses Maintenance of Structures Taxes Other Than Income Taxes	L. Starkebaum	\$ 102,929
CS-83	Write-off Pre-2002 Miscellaneous Payroll Expenses This adjustment eliminates miscellaneous payroll costs written off in December 2002 associated with time periods prior to 2002 that are included in test year expenses. Office Supplies and Expenses	R. Klote	\$ (1,358,071)
CS-85	Payroll Taxes This adjustment annualizes FICA and Medicare tax expense. Taxes Other Than Income Tax	R. Klote	\$ 42,973
CS-90	Ad Valorem Taxes This adjustment annualizes Property taxes based on plant in service adjusted in this case. Taxes Other Than Income Tax	S. Murphy	\$ 113,855
CS-95	Depreciation This adjustment annualizes depreciation expense for plant additions	S. Murphy	\$ 11,605,820

AQUILA NETWORKS - MPS
DESCRIPTION OF ADJUSTMENTS TO NET OPERATING INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Adj No.	Description of Adjustment (A)	Witness	Increase (Decrease) (B)
	through the known and measurable test period September 30, 2003. Depreciation Expense		
CS-100	AAO Amortization This adjustment annualizes a full year of amortization expense relating to the 2002 Ice Storm. Amortization Expense	L. Starkebaum	\$ 139,016
TAX-10A	Current Income Taxes Expense This adjustment annualizes the current income tax based on adjusted net operating income. Income Taxes, Operating Income	R. Klote	\$ (7,803,570)
TAX-10A	Deferred Taxes This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences. Deferred Income Taxes	R. Klote	\$ 5,747,696

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Case No. ER-_____

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF LISA A. STARKEBAUM

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

Lisa A. Starkebaum
Lisa A. Starkebaum

Subscribed and sworn to before me this 26th day of June, 2003.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission expires:

8-20-2004

