

**FILED<sup>4</sup>**

APR 29 2004

Missouri Public  
Service Commission

Exhibit No.:

Issues: Fuel Inventory,  
Fuel & Purchase  
Power, Gas Cost Cap  
Adjustment &  
Miscellaneous  
Adjustments

Witness: Lisa A. Starkebaum

Sponsoring Party: Aquila Networks-L&P

Case No.: HR-

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Lisa A. Starkebaum

Exhibit No. 137  
Case No(s) FR-2004-0031  
Date 2/23/04 Rptr KF

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**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-L&P  
CASE NO. HR-\_\_\_\_\_**

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 L&P ("L&P") steam operations?

1 A. The purpose of my testimony is to explain and support various rate base items and cost of  
2 service (operations) adjustments.

3 Q. Please identify the adjustments that you are sponsoring.

4 A. I am sponsoring the following rate base item.

5 • Fuel Inventories

6 In addition to the above mentioned item, I am sponsoring the following cost of service  
7 (operations) adjustments.

8 • Fuel and Purchased Power Energy

9 • Gas Cost Cap Adjustment

10 • Elimination of Trans UCU Expenses

11 **FUEL INVENTORY**

12 Q. Please explain the purpose of working capital Adjustment No. WC-30 for fuel inventory  
13 for Aquila Networks – L&P steam operations.

14 A. Fuel inventories are properly includable in the working capital computation. A utility  
15 must carry the appropriate level of fuel stock to ensure that a customers' service is not  
16 interrupted. As a result of maintaining minimum levels of fuel stock, the utility incurs  
17 carrying costs. By including fuel stock in rate base, the utility is able to earn a return on  
18 those fuel inventory levels.

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

20 A. L&P's recommendation in this case for coal inventory levels for Lake Road 1, 2 and 3 is  
21 equivalent to a 75-day burn. First, the annualized fuel price and quantity of coal burned  
22 for the annualized test period was used to calculate an annualized price per unit. Second,

1 the annualized price per ton of coal was multiplied by the 75-day supply of coal, or  
2 17,097 tons. The annualized level of coal inventory that has been included in rate base  
3 for Lake Road 1, 2 and 3 is \$445,835.

4 Q. Please explain why a 75-day supply of coal for Lake Road was chosen as the target level  
5 of coal inventory to include in rate base.

6 A. A 75-day supply was used for Lake Road coal which is representative of current day  
7 inventory levels. This quantity has proven to be adequate but not excessive for the risks  
8 assessed for the Lake Road facility to ensure that customers are protected against  
9 disruption of service.

10 Q. How was the annualized level of No. 2 oil inventory computed for inclusion in rate base?

11 A. First, the annualized level of fuel consumed in gallons was determined for the Lake Road  
12 900 lb System. Second, the number of gallons were multiplied by an annualized price per  
13 unit of \$1.10 obtained from the fuel dispatch model.

14 Q. What is the annualized level of No. 2 oil inventory that has been included in rate base for  
15 the Lake Road 900 lb System?

16 A. The annualized level of No. 2 oil inventory that has been included in rate base is  
17 \$122,572.

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

20 A. In total, L&P has included \$568,407 in fuel inventory related to its steam operations.

**FUEL AND PURCHASED POWER ENERGY**

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Q. What is the purpose of cost of service Adjustment No. FPP-10 made to Aquila Networks – L&P’s steam operations?

A. The purpose of Adjustment No. FPP-10 is to annualize fuel expense and to compare the annualized level to actual expenses for the test year ended December 31, 2002.

Q. Please explain how Adjustment No. FPP-10 was calculated for Aquila Networks – L&P’s steam operations.

A. The recommended annualized level of fuel expense for L&P’s steam operations is \$6,245,410. The annualized fuel expense was obtained from the L&P steam fuel run utilizing the Fuel and Purchased Power Dispatch Model. The inputs used in this model will be further addressed in the direct testimony of Company witness Tim Nelson.

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

A. Actual energy costs for L&P’s steam operations for the twelve months ended December 31, 2002 total \$3,827,696. Adjustment No. FPP-10 increases fuel expense by \$2,417,714.

**GAS COST CAP ADJUSTMENT**

Q. Please explain Adjustment No. FPP-40 made to Aquila Networks - L&P’s steam operations?

A. Adjustment No. FPP-40 annualizes gas costs at \$.50 above base fuel costs of \$5.14 per Mcf included in Adjustment No. FPP-10. Adjustment No. FPP-40 increases L&P’s cost of service by \$379,291. This differential relates to the gas cost recovery mechanism and is discussed further in the direct testimony of Company witness Keith Stamm.



