

Exhibit No.:

Issues: Rate Base and Various  
O&M Adjustments

Witness: Lisa A. Starkebaum

Sponsoring Party: Missouri Public  
Service

Case No.: ER-

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Lisa A. Starkebaum

## TABLE OF CONTENTS

JEC COMMON PLANT.....	2
PREPAYMENTS.....	3
RATE BASE OFFSETS.....	4
FRANCHISE TAXES.....	5
UNBILLED REVENUE.....	6
CUSTOMER DEPOSIT INTEREST.....	6
COMMISSION ASSESSMENT.....	7
DUES AND DONATIONS.....	7
MISCELLANEOUS PER BOOK ADJUSTMENTS.....	9
ADVERTISING.....	9
RATE CASE EXPENSE.....	10
NON-JURISDICTIONAL FERC ASSESSMENT.....	10
POSTAGE EXPENSE.....	10
ITRON MAINTENANCE.....	11

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF LISA A. STARKEBAUM  
ON BEHALF OF MISSOURI PUBLIC SERVICE,  
A DIVISION OF UTILICORP UNITED INC.  
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 UtiliCorp United Inc. ("UtiliCorp") as a Regulatory Analyst.

6 Q. Please state your educational background and experience.

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

13 Q. What is the purpose of your testimony in this proceeding involving UtiliCorp's Missouri  
14 Public Service ("MPS") operating division?

15 A. The purpose of my testimony is to explain and support various adjustments made to Rate  
16 Base, Revenues and Cost of Service.

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

18 A. I am sponsoring the following items in rate base: Jeffrey Energy Center ("JEC")  
19 Common Plant adjustment made to Plant-in-Service, Prepayments, Customer Deposits

1 and Customer Advances. I am also sponsoring the following adjustments to revenue:  
2 Franchise Revenue Taxes (and the corresponding expense adjustment) and Unbilled  
3 Revenues. In addition, I am sponsoring the following adjustments to cost of service:  
4 Customer Deposits Interest, Missouri Public Service Commission ("Commission")  
5 Assessment, Dues and Donations, Miscellaneous Per Book Adjustments, Advertising,  
6 Rate Case Expense, Non-Jurisdictional Federal Energy Regulatory Commission  
7 ("FERC") Assessment, Postage Expense and ITRON Hand-Held Meter Reading  
8 Equipment Maintenance.

9 **JEC COMMON PLANT**

10 Q. Please explain the JEC Common Plant adjustment made to jurisdictional electric plant-in-  
11 service.

12 A. Adjustment RB-30 includes the balance of JEC common plant in account 101, electric  
13 plant-in-service, which is consistent with the Commission's order in Case No. ER-83-40.

14 Q. Why is this adjustment necessary?

15 A. The JEC common plant adjustment is necessary to reverse a FERC compliance audit  
16 entry recorded on MPS's books in 1984. The entry was made, subsequent to the 1983  
17 rate proceeding, after a FERC compliance audit indicated all Allowance for Funds Used  
18 During Construction ("AFUDC") and property taxes that had accumulated while the  
19 investment was in Construction Work in Progress ("CWIP") should be transferred from  
20 account 101 to account 186, miscellaneous deferred debits. The JEC common plant  
21 adjustment entry reverses the FERC compliance audit entry so that treatment of the plant  
22 is consistent with orders previously granted by the Commission.

23 Q. Was the JEC common plant adjustment made in MPS' prior electric rate cases?

1 A. Yes. Both MPS and the Commission Staff ("Staff") made this adjustment in Case No.  
2 ER-90-101, Case No. ER-93-37 and Case No. ER-97-394.

3 **PREPAYMENTS**

4 Q. What was the method used to calculate prepayments, Adjustment No. WC-20?

5 A. Prepayments have been included in rate base using a thirteen-month average.  
6 Prepayments are a normal working capital rate base allowance as they represent an  
7 investment of funds, i.e., cash outlay, made in advance of the future service period to  
8 which they apply. For example, prepaid items such as prepaid insurance and prepaid rent  
9 have been included in this calculation. The monthly balances averaged were for the  
10 months of June 1999 through June 2000. In addition, the calculation includes  
11 prepayments for MPS as well as MPS' share of common Enterprise Support Function  
12 ("ESF") prepayments. A separate thirteen-month average calculation was performed for  
13 both MPS and MPS' share of ESF.

14 Q. Please explain why a thirteen-month average calculation was used.

15 A. The computation of a thirteen-month average serves as a better measure of investment  
16 rather than the use of any one single month. Due to monthly fluctuations in the prepaid  
17 balance, no single month is representative in this situation.

18 Q. How is MPS' share of prepayments from ESF calculated?

19 A. MPS' share of ESF prepayments consists of both prepaid insurance and prepaid rents.  
20 MPS' share of prepaid insurance is calculated by applying a pre-determined percentage  
21 rate to the ESF balance based on the expertise of the Risk Management group. Unlike  
22 prepaid insurance, prepaid rents relate to corporate facilities and equipment that cannot be  
23 directly identified as expenses related to a specific business unit such as MPS. Therefore,

1 an Enterprise Support Function allocator is applied to the ESF balance of prepaid rents to  
2 determine MPS' share. The allocation procedure is explained in detail by UtiliCorp  
3 witness Beverlee Agut in her direct testimony filed in this case.

4 **RATE BASE OFFSETS**

5 Q. Please explain the rate base offsets that you are sponsoring in this proceeding.

6 A. I am sponsoring two rate base offsets, customer deposits (Adjustment No. RBO-10) and  
7 customer advances (Adjustment No. RBO-20). Both customer deposits and customer  
8 advances represent a source of cost-free capital and are used to finance plant investment.  
9 Customer deposits and customer advances are negative adjustments to rate base to ensure  
10 that a return is not earned on its customer-financed assets.

11 Q. How was customer deposits computed?

12 A. A thirteen-month average for balances in FERC Account 235 was computed. The time  
13 periods used were June 1999 through June 2000 which coincides with the test year ending  
14 June 30, 2000.

15 Q. What is the significance of using a thirteen-month average?

16 A. The use of a thirteen-month average is a better measure than the investment at any one  
17 single month since the monthly amounts fluctuate and no one month is representative.  
18 The application of thirteen-month averaging has been used by MPS and the Staff in  
19 previous cases involving MPS.

20 Q. Please continue.

21 A. A utility factor, based on residential and commercial customers, was then applied to the  
22 thirteen-month average for customer deposits to get an electric/gas split. Since customer

1 deposits are supplied from retail customers, a 100% jurisdictional factor is then applied to  
2 the allocated electric portion of customer deposits.

3 Q. Further explain the development of the utility allocator used to break out customer  
4 deposits relating to electric operations.

5 A. Similar to Staff's adjustment for customer deposits in Case No. ER-97-394, the same  
6 methodology was used by MPS in this case to obtain a split between electric and gas  
7 customer deposits. Using residential and small commercial customer classes, a  
8 percentage of electric customers to the total of electric and gas customers was calculated.

9 Q. What was the rate base treatment used to compute customer advances?

10 A. Similar to customer deposits, a thirteen-month average was also used to compute  
11 customer advances. The monthly balances averaged for FERC account 252 were for the  
12 months of June 1999 through June 2000. The thirteen-month average balance was then  
13 allocated between electric and gas by applying an electric utility factor, net plant-in-  
14 service. The net plant-in-service utility factor was selected since advances are used to  
15 finance investments in plant. As with customer deposits, advances are supplied from  
16 retail customers; therefore, a 100% jurisdictional factor was applied.

### 17 FRANCHISE TAXES

18 Q. Please explain Adjustment No. R-20 which removes franchise revenue taxes from test  
19 period revenues.

20 A. The elimination of franchise tax revenues in determining the revenue requirement is  
21 necessary since MPS is allowed to recover from its customers the local franchise taxes  
22 imposed by local taxing authorities. The inclusion of such franchise revenues over-

1 inflates revenues; therefore, an adjustment was made to exclude per books test period  
2 franchise revenues.

3 Q. Is there a corresponding expense adjustment associated with the elimination of franchise  
4 revenues?

5 A. Yes. Adjustment No. CS-75 eliminates the recorded test period franchise tax expense  
6 amount from cost of service, taxes other than income taxes.

7 **UNBILLED REVENUE**

8 Q. Please explain Adjustment No. R-30.

9 A. Adjustment No. R-30 reduces test year revenues to reflect the elimination of unbilled  
10 revenue.

11 Q. Why was an adjustment made to reverse unbilled revenue?

12 A. Unbilled revenue represent an estimate of revenues that have not yet been recognized but  
13 for which services have been rendered and costs incurred. Although this is a commonly  
14 used accounting procedure to better match revenues and expenses, customers have not  
15 been billed therefore no sale has occurred.

16 **CUSTOMER DEPOSIT INTEREST**

17 Q. How is the customer deposits interest, Adjustment No. CS-49 calculated?

18 A. Customer deposits interest is calculated by multiplying an interest percentage by the  
19 electric jurisdictional customer deposits. The calculation for customer deposits at June  
20 30, 2000 is discussed in my testimony for rate base offsets.

21 Q. What interest rate was used to determine the customer deposit interest and why was this  
22 percentage used?



1 A. An interest rate of nine and one-half percent was used. This percentage is in accordance  
2 with the current rules and regulations of MPS and approved by the Commission which  
3 state, "interest at the rate of nine and one-half percent (9.5%) per annum compounded  
4 annually shall accrue on all deposits and shall be credited to the service account of the  
5 customer on an annual basis or paid upon the return of the deposit..."

6 Q. What interest rate does MPS currently pay on its customer deposits?

7 A. Currently MPS is paying nine and one-half percent for electric customers.

8 Q. Is MPS proposing to change the interest rate currently paid on its customer deposits?

9 A. No. The interest percentage of nine and one-half percent is approximately one percentage  
10 point above the prime interest rate at the time of this filing.

11 **COMMISSION ASSESSMENT**

12 Q. Please explain the purpose of Adjustment No. CS-46.

13 A. Adjustment No. CS-46 annualizes the Commission's assessment for the fiscal year  
14 beginning July 1, 2000 through June 30, 2001.

15 Q. How was the annualized assessment computed?

16 A. The actual assessment for the fiscal year beginning July 1, 2000 was obtained from the  
17 Commission's letter of assessment notice. The total electric assessment, as stated on the  
18 letter of assessment notice, was compared to per books data for the test year ending June  
19 30, 2000. Since it is known that this cost will be incurred, an adjustment was made for  
20 the difference to account for the increase over the prior year's assessment. Current  
21 assessments are known and measurable and should be reflected in forthcoming rates.

22 **DUES AND DONATIONS**

23 Q. Please explain Adjustment No. CS-52.

1 A. This adjustment eliminates all dues and donations charged above-the-line to MPS electric  
2 operations except those industry association dues and donations that directly benefit  
3 electric operations such as Electric Power Research Institute ("EPRI"), Edison Electric  
4 Institute ("EEI"), Southwest Power Pool Inc. ("SPP") and Mid-American Power Pool  
5 Council of Reliability ("MAPPCOR"). The expenses relating to EPRI, EEI, SPP and  
6 MAPPCORR have been included in the cost of service because they provide a benefit to  
7 ratepayers.

8 Q. Do EPRI, EEI, SPP and MAPPCOR provide a direct benefit to ratepayers?

9 A. Yes.

10 Q. Please explain.

11 A. EPRI is a nonprofit organization responsible for the coordination of a research and  
12 development program for the electric utility industry. EPRI focuses on the development  
13 of more cost-effective, efficient and reliable ways of utilizing electric power in areas such  
14 as generation, distribution and transmission. EEI fosters the exchange of information on  
15 such topics as how utilities operate as well as on environmental legislation. Both SPP  
16 and MAPPCOR are powerpool organizations formed to provide regional transmission  
17 service to utility members. SPP and MAPPCOR are also responsible for managing  
18 regional transmission tariffs. As a member of the Regional Transmission Committee  
19 ("RTC"), MPS works to provide the safest, most cost-effective and reliable electricity  
20 supply to its electric retail customers.

21 Q. Have any lobbying costs associated with EEI been eliminated from this adjustment?

22 A. Yes. Percentages were obtained from EEI and used to calculate the disallowance of  
23 lobbying expenditures for the test year ended June 30, 2000. The percentages are based

1 on EEI's actual lobbying expenditures for calendar year 1999 which were identified as  
2 lobbying and political expenditures under the Lobbying Disclosure Act of 1995.

3 **MISCELLANEOUS PER BOOK ADJUSTMENTS**

4 Q. Please explain Adjustment No. CS-53.

5 A. Adjustment No. CS-53 corrects per book account balances for FERC account 924 and

6 926, Property Insurance and Employee Pensions and Benefits, respectively. An

7 adjustment to account 924 was made to decrease MPS' electric expenses by \$51,455.

8 Due to a product coding error, all property insurance expenses were recorded to MPS

9 electric operations. The adjustment amount of \$51,455 represents the allocated portion of

10 property insurance expense related to MPS' gas operations. In addition, an adjustment to

11 account 926 was made in the amount of \$3,531 to increase expenses. This amount

12 represents MPS' electric allocated portion of common distribution expenses that had not

13 been allocated among MPS electric and gas operations.

14 **ADVERTISING**

15 Q. Please explain Adjustment No. CS-54.

16 A. This adjustment eliminates all advertising expenses recorded to above-the-line accounts

17 for the test year ending June 30, 2000 except those expenses for informational and safety

18 advertisements that directly benefit MPS electric customers.

19 Q. What do the informational and safety advertisements consist of?

20 A. The informational and safety advertising expenses included in this adjustment relate to

21 customer bill inserts "Connected" as well as newspaper advertisements run twice a year

22 on "Call Before You Dig".

**RATE CASE EXPENSE**

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- Q. Please explain Adjustment No. CS-50.
- A. This adjustment is an estimate of rate case expense that MPS expects to incur during this electric rate proceeding. The estimate is based on the level of actual expenses incurred in MPS' prior case, Case No. ER-97-394. The estimated amount of \$750,000 is amortized over a three-year period, thereby reducing the annual rate case expense to \$250,000.
- Q. What amount of rate case expense did MPS experience in its prior electric rate case?
- A. MPS spent approximately \$952,000 in its last electric rate case, Case No. ER-97-394.
- Q. Why was a three-year amortization period chosen?
- A. Based on MPS' rate case history over the past ten years, a three-year average seems most indicative of future rate case proceedings.

**NON-JURISDICTIONAL FERC ASSESSMENT**

- Q. Please explain the purpose of Adjustment No. CS-51.
- A. Adjustment No. CS-51 eliminates the non-jurisdictional portion of the FERC assessment for the test period ending June 30, 2000.
- Q. How was the non-jurisdictional FERC assessment determined?
- A. A non-jurisdictional allocation factor was applied to the total FERC assessment to determine MPS' allocable share of the FERC assessment relating to electric wholesale customers. This adjustment eliminates the non-jurisdictional portion; therefore, only the FERC assessment relating to electric retail operations has been included in the cost of service.

**POSTAGE EXPENSE**

- Q. Please explain Adjustment No. CS-56.

1 A. Adjustment No. CS-56 annualizes test year postage expense to reflect the increase in  
2 postage rates which took effect in January 2001.

3 ITRON MAINTENANCE

4 Q. Please explain Adjustment No. CS-86.

5 A. Adjustment No. CS-86 annualizes ITRON maintenance expense for the test period ending  
6 June 30, 2000. An electric utility allocator was applied to determine MPS' share of  
7 ITRON maintenance expense. The ITRON equipment is only used on reading the meters  
8 for retail customers; therefore, a 100% jurisdictional factor was used.

9 Q. What is ITRON maintenance?

10 A. ITRON maintenance relates to the maintenance and general care of hand-held meter  
11 reading devices and keyboards that are utilized by MPS for meter data collection. The  
12 ITRON maintenance expense includes hardware maintenance as well as software support.

13 Q. How was the electric utility factor calculated?

14 A. The electric utility factor is based on MPS' allocable percentage of costs from the  
15 department in which the expenses are allocated. The allocable percentage is obtained  
16 from the Enterprise Support Function Cost Allocations for January 2001.

17 Q. Does this conclude your direct testimony?

18 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the matter of Missouri Public Service     )  
of Kansas City, Missouri, for authority     )  
to file tariffs increasing electric rates     )  
for service provided to customers in the     )  
Missouri Public Service 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 1st day of June, 2001.

Terry D. Lutes  
Notary Public

My Commission expires:

8/20/2004

