

Exhibit No. _____
Issues: Overview, Accounting
Witness: Larry J. Stoll
Sponsoring Party: St. Joseph Light & Power Co.
Case No. EO-2000-845
Date Prepared: September, 12 2000

MISSOURI PUBLIC SERVICE COMMISSION
Case No. EO-00-845

Direct Testimony

of

Larry J. Stoll

JEFFERSON CITY, MISSOURI

Exhibit No. 1
Date 10-26-00 Case No. EO-2000-845
Reporter Yu

1 ST. JOSEPH LIGHT & POWER COMPANY

2 CASE NO.: EO-2000-845

3 DIRECT TESTIMONY OF LARRY J. STOLL

4 ISSUES: OVERVIEW, ACCOUNTING

5 Q. Please state your name and business address.

6 A. Larry J. Stoll, 520 Francis Street, St. Joseph, Missouri.

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

8 A. I am employed by St. Joseph Light & Power Company ("SJLP"
9 or "the Company") as Vice President-Finance, Treasurer and
10 Assistant Secretary.

11 Q. Please briefly describe your educational background and
12 prior business experience.

13 A. I have a Bachelor of Science Degree in Business
14 Administration from Missouri Western State College and an M.B.A.
15 degree from Northwest Missouri State University. Upon graduation
16 from college in 1975, I accepted a position as an accountant with
17 the Company. In October 1977, I was promoted to the position of
18 Accounting Supervisor. In May 1979, I was elected to the position
19 of Assistant Secretary and Assistant Treasurer. In April 1980, I
20 was elected to the position of Treasurer and Assistant Secretary
21 and in May of 1986 I was elected to my present position.

22 Q. Have you had any additional training or experience which
23 relates to the issues addressed in this testimony?

1 A. Yes. I have completed a number of professional courses
2 related to utility regulation, taxes and finance.

3 Q. Have you previously testified before the Missouri Public
4 Service Commission ("the Commission")?

5 A. Yes, on several occasions.

6 Q. What is the purpose of your direct testimony in this case?

7 A. The purpose of my testimony is to provide an overview of
8 the Company's request for an Accounting Authority Order (AAO)
9 related to a recent incident involving the Company's Lake Road
10 Turbine #4 and to discuss the accounting for these incremental
11 costs. I am also sponsoring Schedule LJS-1, which was prepared
12 under my direction and supervision.

13
14 Overview

15 Q. Please describe the events surrounding the incident and
16 resulting outage of Lake Road Turbine #4.

17 A. On June 7, 2000, the turbine failed and a fire erupted at
18 SJLP's Lake Road Power Plant which resulted in the unplanned
19 shutdown of the Turbine 4/Boiler 6 unit ("the Unit" or "Unit 4/6").

20 Q. How long was the Unit out of service?

21 A. Unit 4/6 was out of service until August 8, 2000, or about
22 two months.

23 Q. What impact did the incident have on the Company's
24 operations?

1 A. The impact was extraordinary and material. Unit 4/6 is one
2 of the Company's base load units and provides more than 25% of
3 SJLP's electric system requirements. Because the incident occurred
4 in the summer when customer energy requirements are at their
5 highest point of the year, the additional costs incurred were
6 higher than they would have been at other times of the year.

7 Q. How was SJLP able to meet its customer energy requirements
8 without Unit 4/6 in service?

9 A. The Company purchased a significant portion of its
10 customers' energy requirements from other sources at prices
11 considerably in excess of the energy cost that would have been
12 experienced had the Unit been available. Additionally, SJLP
13 increased generation on its Lake Road gas-fired and oil-fired units
14 which are considerably more expensive to operate than Unit 4/6.
15 Company witness Steve Ferry discusses the replacement energy issue
16 in more detail.

17 Q. Did SJLP incur other incremental costs related to the
18 incident?

19 A. Yes. The Company incurred significant costs to repair the
20 unit. However, all costs excluding the deductible, \$150,000, will
21 be reimbursed by the Company's insurance company. Additionally,
22 while the Unit was being repaired the Company performed other
23 maintenance activities and made certain improvements and
24 betterments. The costs will be expensed or capitalized, as

1 appropriate, and not deferred. Company witness Dwight Svuba
2 discusses the repair of Unit 4/6 in more detail.

3 Q. Please summarize the total cost incurred by SJLP.

4 A. The current estimate of the cost of incremental
5 replacement energy above the energy cost of Unit 4/6 and repair
6 cost, net of insurance proceeds, is approximately \$3.4 million.

7 Q. Have you prepared a summary of these costs?

8 A. Yes, these costs are summarized on Schedule LJS-1.

9 Q. Please briefly explain this schedule.

10 A. This schedule itemizes the specific cost categories
11 related to the incident, including replacement energy and related
12 transmission costs and repairs. Also shown are the insurance
13 proceeds received relative to each cost component.

14 Q. Is the \$3.4 million estimate less than the Company's
15 original estimate?

16 A. Yes. The Company's original estimate included in its AAO
17 application was \$7.1 million.

18 Q. How have the costs been reduced?

19 A. The costs have been reduced because the Company was able
20 to place the Unit back in service about three weeks earlier than
21 originally expected. An added factor was the generally cooler
22 weather during the outage that resulted in lower replacement power
23 costs than anticipated, as more fully discussed by Company witness
24 Steve Ferry.

1 Q. Why was the Company able to place the Unit back in service
2 earlier than anticipated?

3 A. The Unit was placed in service earlier than anticipated
4 because of excellent vendor support and very hard work by SJLP
5 employees, as more fully discussed by Company witness Dwight Svuba.

6 Q. Did the Company have insurance which covered a portion of
7 the costs incurred related to the incident?

8 A. Yes, the Company had insurance for the cost of repair and
9 for certain incremental costs of replacement power. As shown on
10 Schedule LJS-1, total repair costs are expected to be approximately
11 \$2.5 million, of which approximately \$500,000 represents
12 maintenance and improvements not directly related to the incident.
13 Of the remaining \$2.0 million, the Company will receive insurance
14 proceeds for all except the deductible, or \$150,000. In addition,
15 SJLP had replacement power insurance (business interruption
16 insurance) which covered a portion (\$552,000) of the incremental
17 power expense.

18
19 Accounting

20 Q. How does the Company propose to account for the
21 incremental costs associated with the Unit 4/6 incident?

22 A. SJLP proposes that these costs be deferred in Federal
23 Energy Regulatory Commission (FERC) account 182.3, Other Regulatory

1 Assets, and that such costs be considered for amortization in
2 future rate proceedings.

3 Q. What requirements does the FERC specify for use of account
4 182.3?

5 A. The FERC states that "this account shall include the
6 amounts of regulatory-created assets,....., resulting from the
7 actions of regulatory agencies."

8 Q. What action of the Commission is necessary in order to
9 record the incremental Unit 4/6 costs in FERC account 182.3?

10 A. The Commission needs to approve an AAO allowing deferral
11 of these costs.

12 Q. Is it necessary for the Commission to determine specific
13 ratemaking treatment at this time?

14 A. No. The ratemaking treatment can be decided in a future
15 rate proceeding.

16 Q. Has the Commission granted such requests for deferral in
17 the past?

18 A. Yes, the Commission has approved AAOs for SJLP as well as
19 for many other Missouri utilities.

20 Q. Please cite specific recent SJLP cases.

21 A. The Commission granted AAOs in SJLP cases EO-94-35 and EO-
22 95-193, involving a flood and an ice storm, respectively.

23 Q. What criteria for approval has the Commission used in the
24 past?

1 A. The Commission order in Case EO-95-193 stated that
2 "deferral of costs from one period for recovery in rates in a later
3 rate case is only allowed when events occur which are extraordinary
4 and nonrecurring (and) result in extraordinary losses or expenses."

5 Q. Would the Unit 4/6 incident be considered an extraordinary
6 event?

7 A. Yes, failure of a major generating unit which results in
8 an extended outage is certainly not ordinary.

9 Q. Would the resulting incremental costs be considered
10 extraordinary and material?

11 A. Yes, a \$3.4 million cost is definitely material to SJLP's
12 financial condition. For example, this amount, net of income taxes,
13 represents about 25% of the Company's 1999 earnings, excluding
14 merger-related expenses. If the AAO request is denied SJLP would
15 expense these costs in 2000 and thereby significantly affect
16 financial results. The writeoff would represent about 75% of the
17 Company's 2000 year-to-date net income through July 31.

18 Q. Does the accounting profession specify a given percentage
19 as being "material" or "extraordinary?"

20 A. While the accounting profession does not set a specific
21 percentage, 5% of net income is often used as a guide. The Federal
22 Energy Regulatory Commission specifies in its Uniform System of
23 Accounts that 5% is considered "extraordinary."

1 Q. Were the amounts in SJLP's two previous AAOs deemed
2 "extraordinary" and "material?"

3 A. Yes. The Commission in its orders for those two incidents
4 specifically stated that the amounts were "extraordinary and
5 material."

6 Q. Were the amounts involved in those two incidents as
7 significant as the amount in the Unit 4/6 incident?

8 A. No. The amounts in the two prior AAOs were not nearly as
9 significant. Incremental flood costs were approximately \$1.1
10 million and incremental ice storm costs were approximately \$1.3
11 million, as compared to approximately \$3.4 million in this case.

12 Q. Should the types of costs incurred or the nature of the
13 extraordinary event impact the decision as to whether an AAO
14 application is granted?

15 A. No. The only criteria that should be used is the financial
16 impact on operations, consistent with past Commission orders.
17 However, the type of costs in the Unit 4/6 incident are identical
18 to those incurred in the 1993 flood, that is, incremental
19 replacement power costs. While the event is different, a mechanical
20 failure as opposed to a flood, the end result is similar.

21 Q. Are the costs incurred as a result of the incident both
22 known and measurable?

23 A. Yes. The final amounts may vary from the amounts shown on
24 Schedule LJS-1; however, any such changes should be minor.

1 Q. What costs shown on this schedule might change?

2 A. SJLP will probably not finalize its incremental energy and
3 transmission costs until late September.

4 Q. Why will the energy and transmission costs not be
5 finalized until late September?

6 A. We will not receive invoices from the suppliers until
7 then.

8 Q. Is it possible that repair costs will vary from those
9 shown on the schedule, and that the associated insurance proceeds
10 might also vary?

11 A. Both are possibilities, but neither would impact the
12 deferred charge. As final vendor invoices and insurance settlements
13 are received, the Company may make minor changes to the amounts
14 reflected in Schedule LJS-1. However, the repair costs charged to
15 the deferred balance will only consist of the \$150,000 deductible.

16 Q. Please explain the nature of the \$500,000 of "other work
17 performed" on Schedule LJS-1 and why an estimate of these costs is
18 acceptable at this time.

19 A. The Company decided to perform various maintenance
20 activities and make certain improvements and betterments to Unit
21 4/6 during the outage. It made sense economically to perform this
22 work at this time since the Unit was already "opened." These costs
23 will not be charged to the deferred account but rather will be
24 expensed or capitalized, as appropriate. It is not necessary to

1 know the exact amount of these costs at this time, nor is it
2 necessary to determine the classification (expense vs. capital),
3 because only the \$150,000 deductible will be recorded in the
4 deferred account.

5 Q. Is it necessary for purposes of ruling on the AAO request
6 to determine the exact cause of the incident?

7 A. No. The charges incurred are extraordinary and material
8 and this is the criteria that should be used, and has been used in
9 the past, to determine whether an AAO application should be
10 granted. Details as to the cause and rate recovery should be left
11 to future rate proceedings.

12 Q. Is it possible that some portion of these costs will be
13 written off even if the AAO is granted?

14 A. Yes. If the Commission grants the merger request in Case
15 EM-2000-292 with the regulatory plan proposed by the joint
16 applicants, the rate moratorium in place would result in the
17 Company writing off the deferred balance at that time.

18 Q. When does the Company propose beginning the amortization
19 of deferred costs of the Unit 4/6 incident?

20 A. SJLP believes the amortization should begin as of the
21 effective date of a report and order authorizing amortization of
22 these costs.

23 Q. Why does the Company believe that amortization should
24 begin at that time?

1 A. SJLP believes such timing would provide proper matching of
2 the expense (amortization) with the associated revenue stream
3 (revised rates).
4

5 Conclusion

6 Q. Please summarize the Company's position in this case.

7 A. The event, the June 7 incident, was an extraordinary
8 event. The incremental costs incurred, about \$3.4 million, are
9 obviously material to a utility the size of SJLP. Under the
10 Commission's past practice, the criteria for AAO approval have been
11 met. The Company simply requests the Commission at this time to
12 approve the AAO allowing deferral of these costs. The ratemaking
13 considerations, including the amortization of such costs over a
14 period of years, should be decided in the next SJLP rate
15 proceeding. This may not be necessary if the merger application is
16 approved, depending on the conditions of the merger.

17 Q. Does this conclude your direct testimony?

18 A. Yes it does.

St. Joseph Light & Power Company
Estimated Incremental Costs of Unit 4/6 Incident

Incremental energy	3,459,000
Incremental transmission	282,000
Business interruption insurance	(552,000)
Net incremental energy	<u>3,189,000</u>
Repairs- directly related to incident	2,000,000
other work performed	500,000
	<u>2,500,000</u>
Less- insurance coverage	(1,850,000)
amounts to be expensed/captitalized	<u>(500,000)</u>
Repairs chargeable to deferred account (insurance deductible)	<u>150,000</u>
Total to be charged to deferred account	<u><u>3,339,000</u></u>

In the Matter of the Application of)
St. Joseph Light & Power Company for)
the issuance of an accounting order) Case No. EM-2000-845
relating to its electrical operations.)

AFFIDAVIT OF Larry J. Stoll

L. J. Stoll

Subscribed and sworn before me this 8th day of September, 2000.

Mary Ann McCarthy
Notary Public

My Commission expires:
MARY ANN MCCARTHY, NOTARY PUBLIC
STATE OF MISSOURI, BUCHANAN COUNTY
MY COMMISSION EXPIRES NOV. 6, 2002