

Exhibit No.:
Issues: Accounting Authority Order
Witness: V. William Harris
Sponsoring Party: MoPSC Staff
Type of Exhibit: Revised Rebuttal Testimony
Case Nos.: EO-2000-845

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REVISED REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS

ST. JOSEPH LIGHT & POWER COMPANY

CASE NO. EO-2000-845

Jefferson City, Missouri
October, 2000

Exhibit No. 12
Date 10-26-00 Case No. EO-2000-
Reporter MR 845

****Denotes Highly Confidential Information****

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TABLE OF CONTENTS
OF REVISED REBUTTAL TESTIMONY OF
V. WILLIAM HARRIS, CPA, CIA
ST. JOSEPH LIGHT & POWER COMPANY
CASE NO. EO-2000-845

Discussion of Accounting Authority Orders (AAOs).....3
Past Commission policy on the approval of AAO's.....4
Current Staff position on the approval of AAO's.....5
The Incident at Lake Road.....9
Criterion (1) Extraordinary and Material Event..... 10
Criterion (2) Inadequacy of Current Rates..... 17
Criterion (3) Nature or Type of Event 19
Criterion (4) Immediate Amortization or Deferral to Future Rate Case.....28
Summary and Conclusion.....30

Regulatory Commission in Washington, DC. Prior to that, I was an Internal Auditor and Training Supervisor with Volume Shoe Corporation (d/b/a Payless ShoeSource).

Q. What are your responsibilities with the Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of regulated utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have. A list of cases in which I have filed testimony is shown on Schedule VWH-1 of this rebuttal testimony.

Purpose of Testimony

Q. With reference to Case No. EO-2000-845, have you examined and studied the books and records of St. Joseph Light & Power Company (SJLP or Company) in conjunction with SJLP's application for the issuance of an Accounting Authority Order (AAO) relating to its electrical operations?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony in this proceeding is to present the Staff's current position regarding the Commission's issuance of AAOs and how it specifically relates to the issuance of an AAO to defer certain costs relating to SJLP's electrical operations at its Lake Road Power Plant. In doing so, I will also address the direct testimonies of SJLP witnesses Dwight V. Svuba and Larry J. Stoll.

Discussion of Accounting Authority Orders (AAOs)

Q. What is an Accounting Authority Order (AAO)?

A. An AAO is a Commission order granting a utility the authority to depart from normal accounting treatment by deferring recognition of extraordinary costs that under normal circumstances would require immediate expense recognition.

Q. Does a utility benefit from the deferred cost recognition provided by an AAO?

A. Yes. A regulated utility's rates are established based on the recovery of its normal cost of providing service to its customers. The benefit to a utility of deferring the cost recognition of extraordinary events can be summarized as follows:

(1) The deferred cost recognition of an extraordinary event provides an opportunity for a utility to earn a higher rate of return as a result of not recognizing the immediate cost impact of a significant, extraordinary event or the expenses related to an extraordinary capital project.

(2) The deferred cost recognition for depreciation expense, related property tax expense, and carrying costs (allowance for funds used during construction) associated with an extraordinary capital project or event under an AAO enhances cash flow if the utility is allowed to recover these costs in its next rate case.

Q. Is the Commission's policy regarding deferred cost recognition under an AAO intended to protect shareholders from "all" risks that result from the extraordinary expenses incurred due to an extraordinary event and/or extraordinary capital project?

A. No. On page 10 of its Report and Order in Case No. EO-91-358, made in resolution of an application by Missouri Public Service for the issuance of an accounting authority order relating to its electrical operations, the Commission clearly stated, "It is not

reasonable to defer costs to insulate shareholders from any risks.” The Staff believes that this policy continues to be appropriate today.

Q. How has the Commission addressed the risk between ratepayers and shareholders in prior cases that provided for deferred cost recognition under an AAO?

A. The Commission orders a specific amortization period, which determines the amount of the deferred balance to be recognized as expense on an annual basis. As an example, deferred costs resulting from a flood or ice storm have generally been amortized over a five-year period. The annual amounts amortized to expense have generally been included in the utility’s cost of service in rate cases resulting in rate recovery of the deferred amounts. However, the unamortized balance has generally not been afforded rate base treatment. Thus, the shareholders are responsible for the carrying costs (rate of return) on the unamortized balance during the amortization period.

Past Commission policy on the approval of AAO’s

Q. What has been the Commission’s policy regarding the approval of deferred cost recognition under an AAO?

A. The Commission has approved deferred cost recognition if the costs were extraordinary and were not included in the normal cost of service assumptions used in determining a utility’s existing rates. On page 7 of its aforementioned Report and Order in Case No. EO-91-358, the Commission stated in part, “Deferral of costs from one period to a subsequent rate case ... should be allowed only on a limited basis. This limited basis is when events occur during a period which are extraordinary, unusual and unique, and not recurring.”

1 Additionally, with the exception of extraordinary capital projects (such as the gas
2 service line replacement programs approved for Missouri Gas Energy and Laclede Gas
3 Company), the Commission has generally ordered a specific amortization period when
4 approving an AAO. In two previous AAO approvals for SJLP, Case No. EO-94-35
5 regarding the deferral of extraordinary costs resulting from a major flood and Case No.
6 EO-95-193 regarding extraordinary costs resulting from a major ice storm, the Commission
7 ordered a specific amortization period beginning immediately following the approval.

8 Q. Has the Commission had any other requirements regarding its approval of the
9 deferred cost recognition associated with an AAO?

10 A. No. The Commission's only requirement has been that the expenses were
11 extraordinary. The Commission has deferred all other ratemaking implications, including
12 the amount and the prudence of the costs, and the rate base treatment, to the utility's next
13 rate case. With regard specifically to AAO approval for major capital projects such as the
14 gas service line replacement projects (Laclede Gas Company and Missouri Gas Energy) and
15 the Sibley 3 rebuild (Missouri Public Service) the Commission also specified a future date
16 for the filing of the Company's next rate case as a condition of approval.

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18 **Current Staff position on the approval of AAO's**

19 Q. Is the Staff recommending, in this Case No. EO-2000-845, that the
20 Commission expand its requirements regarding the approval of deferred cost recognition
21 under an AAO?

22 A. Yes. Continuation of the policy requiring only that expenses be
23 extraordinary for the approval of an AAO may subject the Commission to AAO requests

that do not reasonably merit consideration. SJLP's application for the issuance of an AAO in this case is an example of such a request.

SJLP witness Larry J. Stoll makes it quite clear in his direct testimony (on page 11, lines 5 through 11) that SJLP does not want the Commission to consider what caused the incident. While the Staff readily agrees that the costs SJLP are seeking to defer are indeed extraordinary, the Commission should deny SJLP's request for reasons I will outline later in this testimony.

Q. What does Staff recommend be required from an AAO filing before the Commission should consider granting an AAO?

A. The Staff recommends requiring that the application meet the following conditions before the Commission should consider granting an AAO:

For an AAO request with no amortization period, i.e., amortization is to be deferred until the effective date of rates for a future rate case.

(1) The event must be extraordinary and material. The Staff is recommending that the costs, subject to deferral, represent at least 5% of the utility's regulated Missouri net income, computed before extraordinary items. This percentage should be applied to the company's twelve months of earnings prior to the event. This requirement is consistent with the materiality requirement for deferring costs in Account 182.3 of the Uniform System of Accounts (USOA) as defined in the seventh General Instruction, "Extraordinary Items," Subchapter C, Part 101 of the Code of Federal Regulations, Title 18. The USOA was established by the Federal Power Act and is the prescribed method used by the Federal Energy Regulatory Commission (FERC) and adopted by the Commission for book keeping purposes pursuant to 4 CSR 240-20.030. (It should be noted, however, that 4 CSR

240-20.030(4) states in part that "the Commission does not commit itself to the approval or acceptance of any item set out in any account for the purpose of fixing rates...").

(2) The utility's current rates must be inadequate to cover the event. If it can be determined, by examining surveillance reports and other information provided by the utility, that existing rates appear sufficient to cover the extraordinary cost and still provide the utility with a reasonable expectation of earning its authorized rate of return, then the AAO request should be rejected.

(3) The extraordinary expenses that the utility is seeking to defer must result from either:

(a) an extraordinary capital addition, such as the gas service line replacement program, that is required to insure the continuation of safe and adequate service, in which unique conditions preclude recovery of these costs through a rate case filing, or

(b) an extraordinary event that is beyond the control of the utility's management. Examples include a major flood or ice storm.

(4) The utility must file a rate case within 90 days of the AAO approval. If the utility intends to seek rate recovery and defer amortization of the AAO balance until the effective date of rates for a future rate case, the utility should be required to file a rate case soon after approval of the AAO. The Commission stated on pages 8 and 9 of its Report and Order in Case No. EO-91-358, "The Commission finds that a time limitation on deferrals is reasonable since deferrals cannot be allowed to continue indefinitely. The Commission finds that a rate case must be filed within a reasonable time after the deferral period for recovery of the deferral to be

considered.” It is the Staff’s position that if the impact of an extraordinary event is so significant as to require rate recovery, then the only logical justification for delaying the filing of the rate case is that the extraordinary event is on-going, such as a gas service line replacement program. Normal construction projects should not be afforded special AAO deferral treatment.

For an AAO request with a prescribed amortization period commencing upon the conclusion of the specified event or the Commission’s approval date for the AAO request.

Requirements (1), (2) and (3) as discussed above, and

(4) The event or project is one that is traditionally amortized over several years in rate cases or there are benefits in future periods that will be better matched through the deferral of these costs. A five-year amortization of major flood or ice storm costs are two examples. The prescribed amortization will begin immediately upon either:

(a) completion of the event or project associated with the deferred costs, or

(b) the effective date of the order granting the AAO.

Q. Why should a utility immediately begin to amortize an expense deferred pursuant to an AAO, or else file a rate case shortly after the deferral is granted?

A. Either an immediate amortization or the filing of a rate case soon after approval of the AAO is appropriate because deferred costs should not be “suspended” on a company’s books and records for a long period of time. To leave an item, normally charged to expense, in a deferral account on the balance sheet for an extended period of time would represent a distortion of both normal ratemaking and financial reporting principles and

practices. Both the ordering of an immediate amortization to expense and the ordering of an immediate rate case filing would prevent that distortion from occurring.

The Incident at Lake Road

Q. Please describe the generating facilities at the Lake Road Power Plant.

A. The Lake Road Power Plant consists of four steam-turbine generators, three combustion turbines, six steam boilers and one heat recovery steam generator. The station's generating units have a combined net electric generating capability of 256 megawatts (MW). The station consists of three separate systems: a 900-pound system, a 1,800-pound system and a combustion turbine (CT) system. The 900-pound system also supplies industrial steam to six customers.

Q. Briefly describe the 1,800-pound system.

A. The system is so named because it operates at 1,800 pounds per square inch of steam pressure. The 1,800-pound system is a single generating unit consisting of Turbine-Generator Number 4 and Boiler Number 6 (collectively referred to as Unit 4/6). Unit 4/6 uses coal as the primary fuel and natural gas as the start-up fuel or as an alternative fuel. The unit operates at a full-load capacity of 97 MW and was expected to supply over 25% of SJLP's system energy requirements for the months of June, July, and August 2000.

Q. Briefly describe the incident at the Lake Road plant on June 7, 2000 that has become the basis for SJLP's application for an AAO in this case.

A. A new turbine-generator control system, the Mark V, and a new static generator excitation system (EX2000) were installed by General Electric (GE) during the scheduled spring outage that took place from May 2 through June 2, 2000. The new Mark V control system tripped Unit 4/6 off-line on June 7, 2000 due to high vibrations. The

unit's emergency direct current (DC) oil pump failed to start automatically when Unit 4/6 was forced off-line.

As a result, five bearings overheated and suffered mechanical damage. The loss of oil pressure allowed hydrogen to escape from the generator which in turn resulted in explosions and fires. The bearing damage resulted in additional damage to the unit.

The reason provided by the Company for the DC oil pump not coming on automatically was that the operator failed to set the emergency pump in the automatic mode. (Svuba direct, page 7 - lines 2 through 13.)

Criterion (1) Extraordinary and Material Event

Q. Explain the nature of the costs SJLP considers extraordinary and included in its AAO request.

A. The nature of the costs resulting from the forced outage of Unit 4/6 that SJLP considers extraordinary are summarized in Schedule LJS - 1 attached to the prefiled direct testimony of SJLP witness Larry J. Stoll:

Incremental energy and transmission costs	\$3,184,000
Insurance deductible for repair costs	<u>\$ 150,000</u>
Total costs subject to deferral	\$3,339,000

Q. Have the amounts in Schedule LJS-1 changed since SJLP filed its direct testimony?

A. Yes, ~~per SJLP's updated response to Staff Data Request No. 7 based upon~~ Mr. Stoll's Surrebuttal testimony, the amounts should be reflected as follows:

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1 A. Yes, initially it would appear to meet the materiality requirement. The after-
2 tax impact of the ~~**\$3.9 3.3 million**~~ in incremental costs resulting from the outage
3 exceeds 5% of SJLP's electric net income using SJLP's surveillance report for the twelve
4 months ended July 31, 2000. However, in this instance, the ~~**\$3.9 million**~~ AAO deferral,
5 if approved, should be ~~**reduced by \$800,000**~~ based upon an analysis of SJLP's current
6 earnings for its electric operations. [Note: This information was published in this case in
7 the pre-filed testimony of SJLP witness Larry J. Stoll without designation as "highly
8 confidential" or "proprietary" and, therefore, the Staff has removed such designations in
9 these replacement pages.]

10 Q. Please explain what you mean by stating it would initially appear to meet the
11 materiality requirement.

12 A. Apparently a dispute has arisen between UtiliCorp and SJLP regarding the
13 fire and outage at Unit 4/6. On September 21, 2000, each company issued a statement
14 indicating this potential dispute (See Schedule VWH-2, provided by UtiliCorp, and
15 Schedule VWH-3, provided by SJLP, of this rebuttal testimony.). The SJLP News Release
16 states in part:

17 "St. Joseph, Missouri – St. Joseph Light & Power Company (SJLP) (NYSE-
18 SAJ) announced today that UtiliCorp has completed a preliminary investigation of
19 the impact and projected costs of the previously reported fire that occurred at SJLP's
20 Lake Road power plant on June 7, 2000, and that, in the opinion of UtiliCorp, such
21 impact is material."

22 "UtiliCorp's letter states that '[t]his letter does not represent the termination
23 notice' contemplated by the Agreement, but constitutes a request for SJLP 'to
24 confirm whether it views the damage caused by the fire as material.'"

1 "Following a meeting of its board of directors held on Wednesday,
2 September 20, 2000, to review the UtiliCorp request, SJLP advised UtiliCorp that
3 the impact and projected costs of the Lake Road Plant fire are not 'material' for
4 purposes of the Merger Agreement . . ."

5 The statement issued by UtiliCorp states in part:

6 ". . . [A] very serious issue awaits resolution involving the financial and
7 operational implications of a June 7, 2000 fire that damaged a unit at the Lake Road
8 power plant operated by St. Joseph. UtiliCorp has asked St. Joseph to provide a
9 detailed explanation regarding the materiality of this incident, and remains hopeful
10 that a satisfactory response will be forthcoming."

11 Q. Does the Staff consider this apparent dispute to be relevant to SJLP's
12 Application for an AAO?

13 A. Most definitely. SJLP has stated that UtiliCorp has (a) made a preliminary
14 investigation of the materiality of the incident, (b) determined that the incident is material
15 and (c) asked that SJLP confirm that the incident is material. SJLP also has asserted that
16 "the impact and projected costs of the Lake Road Plant fire are not 'material' for purposes
17 of the Merger Agreement . . ." UtiliCorp has publicly stated that it has requested a detailed
18 explanation as to the materiality of the incident. There appears to be a significant
19 inconsistency between SJLP and UtiliCorp regarding the materiality of the fire and outage at
20 Lake Road Unit 4/6.

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Revised Rebuttal Testimony of
V. William Harris

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Q. What, if anything, has the Staff done in regards to these statements from
SJLP and UtiliCorp?

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A. The Staff has submitted data requests to both UtiliCorp and SJLP. Initially,
the data requests to SJLP were submitted in the merger case, Case No. EM-2000-292,
through UtiliCorp, according to the procedures established with SJLP and UtiliCorp in that
proceeding.

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Q. Has the Staff received any responses to these data requests?

A. To date, the Staff has only received the following objections from
SJLP's Vice President, General Counsel and Secretary and its local counsel in Case No.
EM-2000-292:

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Staff Data Request No. 317:

"1. Please provide the workpapers/documents relied upon by Saint
Joseph Light & Power in determining 'that the impact and projected costs of the
Lake Road plant fire are not 'material' for purposes of the Merger Agreement.'

1 Objection: The data request is not reasonably calculated to lead to the
2 discovery of admissible evidence. Furthermore, it is vague in
3 that the origin of the quoted material is not identified, and is
4 irrelevant. Any response to this data request will be without
5 waiver of this objection.
6

7 2. Please identify all reasons why St. Joseph Light & Power believes the
8 June 7, 2000 fire at Lake Road plant is not material to the merger between UtiliCorp
9 and St. Joseph.

10 Objection: The data request is not reasonably calculated to lead to the
11 discovery of admissible evidence. The data request is
12 1) irrelevant; 2) seeks legal conclusions related to the
13 interpretation of the merger agreement between UtiliCorp and
14 SJLP, and 3) seeks the work product of SJLP's attorneys,
15 which is privileged matter."
16

17 Q. Has SJLP made a commitment to respond to rebuttal testimony on these
18 matters?

19 A. Yes. On October 4, 2000, SJLP replied to the September 29, 2000 Staff
20 Motion For Commission Order Directing The Filing Of Supplemental Direct And Rebuttal
21 Testimony And Directing Expedited Treatment. In the October 4 Response Of SJLP To
22 Staff Motion, local counsel for SJLP in the instant AAO case stated as follows:

23 "... [the Staff] can say in its prepared rebuttal testimony whatever it wants to
24 about the exchange of correspondence between UtiliCorp United Inc. and SJLP.
25 SJLP and other parties can then file surrebuttal per the established schedule on
26 October 17. . . ."

27 Response Of SJLP To Staff Motion, pp. 1-2.

28 "... As stated previously, if the Staff thinks there is an inconsistency, it can
29 file prepared testimony on the topic and SJLP will address the allegations or facts in
30 prepared surrebuttal testimony. . . ."

1 “. . . On a more practical note, SJLP at the present time does not have
2 anything to say in 'supplemental direct testimony' on this topic. It stands ready,
3 however, to respond to the prepared rebuttal testimony of Staff and any others with
4 prepared surrebuttal on October 17 in accordance with the previously established
5 procedural schedule.”

6 Response Of SJLP To Staff Motion, p. 2.

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8 **Criterion (2) Inadequacy of Current Rates**

9 Q. Referring back to the Staff's recommended criteria for AAO approval, please
10 provide the Staff's position regarding SJLP's AAO request in reference to Staff's second
11 recommended criterion for AAO approval.

12 A. Staff's recommended second criterion states that an AAO deferral request
13 should be rejected if evidence shows that existing rates are sufficient to cover the impact of
14 the extraordinary event in question. ~~Attached as Schedule VWH-6 to my testimony is a~~
15 ~~comparison of SJLP's actual earned return on equity for its electric operations, for the year~~
16 ~~ending July 31, 2000, to the recommended midpoint return on equity (ROE) sponsored by~~
17 ~~Staff witness David P. Broadwater, of the Commission's Financial Analysis Department.~~
18 ~~(Please refer to Mr. Broadwater's rebuttal testimony.). Line 8 reflects SJLP's actual ROE of~~
19 ~~**_____** for a 12-month period ending July 31, 2000. Line 9 reflects the midpoint ROE~~
20 ~~recommendation for SJLP sponsored by Staff witness Broadwater. Line 16 reflects **the~~
21 ~~excess of SJLP's actual ROE over the Staff's recommended ROE midpoint of SJLP to be~~
22 ~~approximately \$800,000 in excess revenue** for SJLP's electric operations as of July 31,~~
23 ~~2000. [Note: This information was published in this case in the pre-filed testimony of SJLP~~

1 witness Larry J. Stoll without designation as "highly confidential" or "proprietary" and,
2 therefore, the Staff has removed such designations in these replacement pages.]

3 Q. ~~How should the ****\$800,000 in excess revenue**** reflected on Schedule~~
4 ~~VWH-6 and explained in your previous answer be reflected in the context of SJLP's AAO~~
5 ~~request in this case?—[Note: This information was published in this case in the pre-filed~~
6 ~~testimony of SJLP witness Larry J. Stoll without designation as "highly confidential" or~~
7 ~~"proprietary" and, therefore, the Staff has removed such designations in these replacement~~
8 ~~pages.]~~

9 A. ~~AAO requests should only be approved when existing rates are insufficient to~~
10 ~~absorb the impact of an extraordinary event. In this instance, SJLP's unadjusted financial~~
11 ~~results for the 12-month period ending July 31, 2000 do not indicate an excess earnings~~
12 ~~condition. The Staff's recommendation of not approving SJLP's AAO request is not~~
13 ~~premised on an excess earnings argument. The Staff's recommendation for not approving~~
14 ~~SJLP's AAO request is based on the failure to meet the requirements for criterion (3)~~
15 ~~discussed below in my rebuttal testimony. ****excess revenue of approximately \$800,000.****~~
16 ~~The Staff's primary recommendation concerning SJLP's request is that an AAO should not~~
17 ~~be approved on the basis that the cause of the incident, operator error and inadequate~~
18 ~~training, were under the control of management. Only extraordinary events outside the~~
19 ~~control of management (including an extraordinary capital project required for safe and~~
20 ~~adequate service) should be afforded AAO deferral treatment.~~

21 However, if the Commission disagrees with the Staff's recommendation to reject the
22 AAO request, the Staff would recommend that the Commission ~~****reduce SJLP's requested**~~
23 ~~**\$3.9 million deferral amount by the \$800,000 in excess earnings****~~ for SJLP's electric
24 operations as of July 31, 2000. ~~[Note: This information was published in this case in the~~

pre-filed testimony of SJLP witness Larry J. Stoll without designation as "highly confidential" or "proprietary" and, therefore, the Staff has removed such designations in these replacement pages.]

Criterion (3) Nature or Type of Event

Q. Does SJLP's requested AAO in this case meet the Staff's recommended requirement under part (a) of the third criterion that the extraordinary expenses SJLP is seeking to defer result from an extraordinary capital addition?

A. No, it does not.

Q. Does SJLP's requested AAO in this case meet the Staff's recommended requirement under part (b) of the third criterion that the extraordinary expenses SJLP is seeking to defer result from an extraordinary event that was beyond the control of SJLP's management?

A. No, it does not.

Q. Please explain why the forced outage at Lake Road Unit 4/6 does not meet the "beyond the control of management" criterion recommended by the Staff for AAO approval.

A. As stated on page 7, lines 2 through 13, of SJLP witness Svuba's direct testimony, the plant operator failed to realize that the emergency DC oil pump control did not return to the automatic mode after a stop command. The failure of the operator to insure that the DC oil pump was on caused the damage to the unit that resulted in the forced outage and subsequent ~~**\$3.9~~ 3.3million in incremental energy costs.

It is the Staff's position that it is SJLP management's responsibility to insure that its operators are adequately trained. The failure of SJLP management to insure the operator received adequate training resulted in the operator error that caused the ~~**\$3.9~~ 3.3 million

1 in incremental costs to SJLP. SJLP's shareholders should bear the risk of an extraordinary
2 event when its cause is within the control of management. To do otherwise shifts "all" risk
3 to ratepayers from extraordinary events, both within and outside the control of management.
4 [Note: This information was published in this case in the pre-filed testimony of SJLP
5 witness Larry J. Stoll without designation as "highly confidential" or "proprietary" and,
6 therefore, the Staff has removed such designations in these replacement pages.]

7 Q. Are there specific references in Mr. Svuba's direct testimony for the Staff
8 concluding that the extraordinary event at the Lake Road plant on June 7 resulted from
9 operator error that was within the control of management?

10 A. Yes. On page 7 of Mr. Svuba's direct testimony, he makes the following
11 statement on lines 9 through 13:

12 "Due to control changes that were completed during the GE turbine control
13 replacement project, the operators failed to realize that the pump control did not
14 return to the automatic mode. We believe that the pump control was in the 'local'
15 mode at the time of the incident, i.e. the pump would not automatically start."
16 (Emphasis added).

17 On page 8, lines 9 through 15 of Mr. Svuba's direct testimony he makes
18 additional comments regarding the lack of understanding by SJLP personnel regarding the
19 existing SEGA control system controlling the DC oil pump:

20 "It was generally believed by plant personnel (not only operators, but also
21 engineers and supervisors) that the DC oil pump control in the DCS returned to the
22 automatic mode after the pump was stopped by the operator. It was not discovered
23 that the pump did not 'return-to-auto' until the investigation after the June 7th
24 incident. Since the pump control did not return-to-auto (as the manual switch had

done), it was necessary for the operator to make a second control action to place the pump in automatic mode after stopping it." (Emphasis added).

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Revised Rebuttal Testimony of
V. William Harris

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Q. Does the SJLP response to OPC Data Request No. 6 provide additional
evidence regarding the ** _____

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Q. Does the new Mark V control system control the operation of the emergency DC oil pump, which was responsible for the damage to Lake Road Unit 4/6?

A. No. The computer software system, which controls the emergency DC oil pump, is an original system installed by SEGA in 1995. However, GE/SJLP made

1 modifications to the existing SEGA control system when installing the Mark V control
2 system during the Spring 2000 scheduled outage at Lake Road which ended on June 2,
3 2000.

4 Q. Did the modifications which were made to the existing control system
5 contribute to the failure of the emergency DC oil pump?

6 A. Yes. The existing control system included a computer software system and a
7 manual switch. GE/SJLP removed the manual switch in connection with the installation of
8 the Mark V control system. Removing the manual switch would force SJLP operators to
9 rely on the computer software system. However, the operators, engineers and supervisors at
10 the Lake Road plant had been relying on the manual switch since the installation of the
11 SEGA system in 1995. They were not adequately trained on the SEGA software system,
12 and therefore, did not understand how it controlled the emergency DC oil pump. This lack
13 of training falls squarely on SJLP.

14 Q. If the new Mark V control system did not control the DC oil pump, then why
15 is the ** _____ ** relevant to this AAO case?

16 A. ** _____
17 _____ ** failed to train its personnel
18 regarding operating changes required with the use of SEGA computer software system
19 which, as a result of the removal of the manual switch, became the only control available.

20 SJLP management should not have removed, nor permitted the removal of, the
21 manual switch on the existing control system without a complete understanding of the
22 system's operation, including the computer software system, and the impact that removing
23 the manual switch would have on SJLP operators and their operation of the SEGA control
24 system that controlled the emergency DC oil pump.

1 It is clear from ** _____ ** and Mr. Svuba's direct
2 testimony, that from June 2 to the June 7 forced outage at Lake Road, the plant was being
3 operated by personnel who were not properly trained on the existing SEGA system ** _____
4 _____
5 _____ ** A failure did occur because the operator was not
6 properly trained on the SEGA system controlling the DC oil pump.

7 Q. Is granting AAO approval for an extraordinary event, resulting from operator
8 error due to inadequate training, consistent with the Commission's stated policy in its
9 Report and Order in Case No. EO-91-358?

10 A. No. On page 10 of the Report and Order, the Commission made it clear that
11 granting an AAO was not intended to protect shareholders from all risk by stating, "It is not
12 reasonable to defer costs to insulate shareholders from any risks." To allow deferred
13 accounting treatment for both:

14 (1) extraordinary events beyond the control of management (e.g., major
15 floods or ice storms), and
16 (2) extraordinary events that are within the control of management
17 (e.g., operator error arising from inadequate training or any other
18 unreasonable and/or imprudent conduct)
19 essentially protects shareholders from "any" risk from extraordinary events and shifts all
20 risk to ratepayers.

21 Q. Is there evidence of other possible operator error?

22 A. Yes. SJLP's response to Staff Data Request No. 4102 in Case No.
23 ES-2001-28, the Staff's investigation of the June 7 incident, includes a document dated
24 July 13, 2000 that contains the heading "Turbine Generator 4 June 7, 2000 Incident Possible

Contributing Factors". I have attached it as Schedule VWH 9-1. This document which was marked as Exhibit 11 in the deposition of John Modlin contains several entries that concern Staff. This document was revised and a copy was marked as Exhibit JM-12 in the deposition of John Modlin. This document is attached as Schedule VWH 9-2. This revision contains several entries that concern Staff. A partial list of the individual items set out in Schedule VWH 9-2 follows:

- Mark V Installation Engineering (Feb – May 2000)
 - Manual switch removed in design without sufficient review
 - Installation drawings delivered to SJLP after outage was underway
 - Limited time for Company review.
- Mark V Training (May 2000)
 - Poor GE training, not specific to Lake Road Plant
 - Change in DC pump control not explicitly pointed out to operators.
- Operation (May 25 – June 7, 2000)
 - DC pump availability and operation not checked during start-up on 6/2/00.
 - Weekly oil pump test not performed on 6/5/00.
 - Pump readiness less apparent to operators due to removal of manual switch.

(Emphasis added).

This list indicates there were various things, one would reasonably expect to be under management's control, that contributed to or caused the June 7 incident.

Q. Are you aware of any other evidence that supports the information attached as Schedule VWH-9?

A. Yes. In response to OPC Data Request No. 5001, SJLP provided an 8-page document titled "SJLP Lake Road Turbine Generator 4 June 7, 2000 Incident Investigation Notes." This document supports many of the entries listed above and expands upon others. I have attached it as Schedule VWH-10. A copy of this document was marked as Exhibit JM-10 in the deposition of John Modlin.

Q. Does the Staff have any other concerns regarding SJLP's position that ratepayers should bear the cost of the forced outage at the Lake Road plant?

A. **

\$3.9 3.3 million

_____. ** [Note: This information was published in
this case in the pre-filed testimony of SJLP witness Larry J. Stoll without designation as
"highly confidential" or "proprietary" and, therefore, the Staff has removed such
designations in these replacement pages.]

Criterion (4) Immediate Amortization or Deferral to Future Rate Case

Q. Does SJLP's AAO request meet the Staff's fourth recommended criterion regarding AAO requests with a prescribed amortization period?

A. No. The Staff's fourth recommended criterion for an AAO with a prescribed amortization period requires amortization to begin either (a) upon completion of the event, or (b) the effective date of the order granting the AAO. With reference to SJLP witness Larry J. Stoll's direct testimony (page 6, line 22 through page 7, line 2, and again on page 11, line 18 through page 12, line 3), SJLP is requesting that the amortization period for this AAO not take effect until the effective date of rates established in a future rate case.

Q. Does SJLP's AAO request meet the Staff's fourth recommended criterion regarding AAO requests without a prescribed amortization period?

A. No. The Staff's fourth recommended criterion for AAO requests without a prescribed amortization period requires the utility to file a rate case within 90 days of the AAO approval. Mr. Stoll has provided no indication as to when SJLP would file this rate case. In fact, Mr. Stoll's testimony suggests that SJLP may never file a rate case seeking recovery of these costs at all. On page 11, lines 14 through 17, Mr. Stoll states, "If the Commission grants the merger request in Case EM-2000-292 with the regulatory plan proposed by the joint applicants, the rate moratorium in place would result in the Company writing off the deferred balance at that time." The Staff refuted in Case No. EM-2000-292 SJLP's assertion that, but for the proposed moratorium of the SJLP/UtiliCorp merger regulatory plan, SJLP would file two rate cases in the next five years. ~~In fact, as discussed above, SJLP is presently ****in an excess earning situation.****~~ [Note: This information was published in this case in the pre-filed testimony of SJLP witness Larry J. Stoll without

1 designation as "highly confidential" or "proprietary" and, therefore, the Staff has removed
2 such designations in these replacement pages.]

3 Q. What is SJLP's requested deferral period in this case?

4 A. Mr. Stoll's references to these uncertain events suggest that SJLP is seeking
5 to defer these costs indefinitely. As I stated earlier in this testimony (page 7, lines 19
6 through 24), the Commission clearly stated, in its Report and Order in Case No. EO-91-358,
7 "The Commission finds that a time limitation on deferrals is reasonable since deferrals
8 cannot be allowed to continue indefinitely. The Commission finds that a rate case must be
9 filed within a reasonable time after the deferral period for recovery of the deferral to be
10 considered." (Emphasis added).

11 Q. ~~What is SJLP's requested deferral period in this case?~~

12 A. ~~The deferral period in this case is essentially the period of the extraordinary~~
13 ~~event itself. It began on the day of the incident (June 7, 2000) and effectively ended on the~~
14 ~~day the Lake Road Unit 4/6 was returned to service (August 8, 2000).~~

15 Q. Is the amortization period SJLP is requesting for its deferrals in this case
16 consistent with those that were granted in prior AAO requests approved for SJLP?

17 A. No. SJLP has had two prior AAOs approved, which it views as being of a
18 similar nature to this application. The extraordinary costs resulting from a major flood and
19 major ice storm were granted AAO deferral treatment in Case Nos. EO-94-35 and
20 EO-95-193, respectively. In both cases, an amortization period was ordered to begin
21 immediately following the Commission's approval of the request.

22 SJLP should be required to file a rate case within 90 days of the Commission's
23 approval or begin an amortization of the deferred costs immediately upon the Commission's
24 approval of its AAO request.

Summary and Conclusion

Q. Please summarize the Staff's recommendation regarding SJLP's ~~**\$3.9 3.3 million**~~ request for AAO deferral treatment in this case. [Note: This information was published in this case in the pre-filed testimony of SJLP witness Larry J. Stoll without designation as "highly confidential" or "proprietary" and, therefore, the Staff has removed such designations in these replacement pages.]

A. The Staff is recommending that the Commission expand its policy regarding the approval of AAO deferral treatment based on the following criteria:

For an AAO request with no amortization period, i.e., amortization is to be deferred until the effective date of rates for a future rate case.

(1) The event must be extraordinary and material. The amount to be deferred must be at least 5% of the utility's regulated Missouri net income for the 12-month period prior to the event.

(2) The utility's existing rates must be inadequate to cover the event.

(3) The extraordinary costs must be either related to:

(a) an extraordinary capital project, such as a gas service line replacement program, that is required to insure the continuation of safe and adequate service and that, because of unique circumstances, cannot be recovered in a normal rate case filing, or

(b) an extraordinary event that is beyond the control of management. Examples would include a major flood or ice storm.

(4) The utility must file a rate case within 90 days of the AAO approval.

1 For an AAO request with a prescribed amortization period commencing upon the
2 conclusion of the specified event or the Commission's approval date for the AAO
3 request.

4 Requirements (1), (2) and (3) as stated above, and

5 (4) The event or project is one that is traditionally amortized over several
6 years in rate cases or there are benefits in future periods that will be better matched
7 through the deferral of these costs. A specific amortization period should be
8 included in the AAO application. A five-year amortization of major flood or ice
9 storm costs are two examples. The prescribed amortization will begin immediately
10 upon either:

11 (a) completion of the event or project associate with the deferred costs, or

12 (b) the effective date of this order granting the AAO

13 With regard to SJLP's request in this case, the Staff is recommending that the AAO
14 request be denied because the underlying cause of the event, operator error arising from
15 inadequate training, was within the control of management.

16 SJLP management should not have removed, nor permitted the removal of, the
17 manual switch on the existing control system without a complete understanding of the
18 system's operation, including the computer software system, and the impact that removing
19 the manual switch would have on SJLP operators and their operation of the SEGA control
20 system that controlled the emergency DC oil pump. Also, once the manual SEGA switch
21 had been removed, SJLP should have provided, or arranged for the provision of, adequate
22 training for its operators on the operating changes necessary to be followed for the
23 continued operation of the DC oil pump. In both instances, it was the responsibility of
24 SJLP's management to insure that the proper steps were taken in the modifications of the

1 control system and that its operators were properly trained on the functions and use of the
2 replacement equipment.

3 Shareholders should not be protected from "all" risks resulting from an extraordinary
4 event, especially those that occur within the direct control of its management. SJLP's
5 management should be expected to make prudent and reasonable decisions regarding its
6 personnel and operations, particularly those that are paramount in terms of reliability and
7 safety and just and reasonable rates.

8 Q. If the Commission decides not to accept the Staff's recommendation to deny
9 the AAO request, even though the extraordinary event was within the direct control of SJLP
10 management, what conditions should the Commission impose for approving the AAO cost
11 deferral?

12 A. SJLP's request does not include a prescribed amortization period. SJLP
13 should be required to file a rate case within 90 days of the Commission's approval of the
14 AAO or be ordered to use a prescribed amortization period beginning immediately upon the
15 Commission's approval of the AAO. An AAO should not be deferred for an indefinite
16 period of time. Additionally, the ~~**\$3.9 million deferral amount should be reduced by~~
17 ~~\$800,000 to reflect excess earnings of SJLP's electric operations**~~ as of July 31, 2000 based
18 ~~upon surveillance information that SJLP supplied to the Staff and the Staff has analyzed.~~
19 [Note: This information was published in this case in the pre-filed testimony of SJLP
20 witness Larry J. Stoll without designation as "highly confidential" or "proprietary" and,
21 therefore, the Staff has removed such designations in these replacement pages.]

22 Q. Does this conclude your rebuttal testimony?

23 A. Yes, it does.