

Exhibit No: Various Schedules
Issues: and Adjustments
Witness: Ann L. Stichler
Type of Exhibit: Direct Testimony
Sponsoring Party: Aquila
Case No:
Date Testimony To Be Filed: August 1, 2003

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. _____

FILED³

JUN 21 2004

DIRECT TESTIMONY

OF

ANN L. STICHLER

**Missouri Public
Service Commission**

ON BEHALF OF

**AQUILA, INC.
d/b/a
AQUILA NETWORKS – MPS
and
AQUILA NETWORKS – L&P**

**Omaha, Nebraska
August, 2003**

Exhibit No. 22
Date 3/31/04 Case No. GR0004007
Reporter KS

State of Nebraska)
) ss
County of Douglas)

AFFIDAVIT OF ANN L. STICHLER

Ann L. Stichler, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony and schedules entitled "Direct Testimony of Ann L. Stichler"; that said testimony was prepared by her and/or 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.

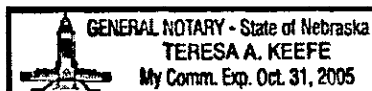
Ann L. Stichler

Subscribed and sworn to before me this 17th day of July, 2003.

Teresa A. Keefe
Notary Public

My Commission expires:

October 31, 2005



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DIRECT TESTIMONY OF ANN L. STICHLER

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Ann L. Stichler and my business address is 1815 Capitol Avenue,
3 Omaha, Nebraska.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

7 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS A**
8 **SENIOR REGULATORY ANALYST FOR AQUILA.**

9 A. I am responsible for the preparation of financial and other statistical data in
10 connection with filings before regulatory bodies having jurisdiction over Aquila's
11 operations.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **EXPERIENCE.**

14 A. I attended Wayne State College in Wayne, Nebraska from 1979 to 1982 where I
15 received an Associates Degree in Secretarial Science. In 1992, I received with
16 distinction a Bachelor of General Studies Degree with emphasis in accounting and
17 psychology from the University of Nebraska - Omaha. I have continued my
18 education with various courses in computer science through Iowa Western
19 Community College in Council Bluffs, Iowa.

1 In 1983, I joined InterNorth in the Peoples Natural Gas Division where I held
2 numerous positions in Sales Accounting and Gas Measurement. In 1985, while I
3 held the position of Measurement Information Specialist, Peoples Natural Gas was
4 sold by InterNorth to UtiliCorp United Inc. (now known as Aquila, Inc.) From 1988-
5 1989, I held the position of Report Analyst in the General Accounting Department of
6 UtiliCorp. From 1989-1993, I held the position of Regulatory Accounting Analyst. I
7 was promoted to Senior Regulatory Analyst in 1993 and am presently in that
8 position.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

10 A. The purpose of my testimony is to describe and support various rate base and
11 working capital items, as well as cost of service accounting adjustments made to
12 the Aquila Networks – MPS ("MPS") and Aquila Networks – L&P ("L&P") rate case
13 filings.

14 **Q. PLEASE IDENTIFY THE SCHEDULES AND ANY ADJUSTMENTS THAT YOU**
15 **ARE SPONSORING.**

16 A. I am sponsoring the following items:

17 (A) Cost of Service:

- 18 • CS – 5 Payroll Annualization Adjustment (MPS & L&P)

19 (B) Working Capital:

- 20 • WC – 10 Materials and Supplies (MPS & L&P)
- 21 • WC – 60 Gas Storage (MPS & L&P)

22 (C) Rate Base Offsets:

- 23 • RBO – 10 Customer Deposits (MPS & L&P)

- 1 • RBO – 20 Customer Advances (MPS)
- 2 • RBO – 30 Accumulated Deferred Income Taxes (MPS & L&P)

3

4 **(A) COST OF SERVICE:**

5 **Payroll Annualization Adjustment (CS – 5)**

6 **Q. PLEASE EXPLAIN THE PAYROLL ANNUALIZATION ADJUSTMENTS.**

7 A. The payroll annualization adjustments include employee headcount and annualized
8 wage levels through the known and measurable period.

9 **Q. PLEASE EXPLAIN HOW THE ADJUSTMENTS WERE CALCULATED.**

10 A. Base salaries and wages, as of January 30, 2003, were obtained for all
11 departments directly charging MPS and L&P and departments that are allocated to
12 MPS and L&P. The base salaries and wages represent annual salaries of all
13 applicable full-time and part-time employees.

14 **Q. WHY WAS JANUARY 30, 2003 EMPLOYEE SALARY AND WAGE LEVELS
15 SELECTED TO ANNUALIZE PAYROLL COSTS?**

16 A. In order to allow for proper analysis and preparation of the payroll annualization
17 adjustment, data was required to be selected from a period in advance of the actual
18 rate case filing. Employee data from January 30, 2003 was the most current
19 available at the time of the analysis.

20 **Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF THE PAYROLL
21 ANNUALIZATION ADJUSTMENTS.**

22 A. Base salaries and wages were added to "Other Than Standard" earnings that were
23 actually paid during the test period January 1, 2002 to December 31, 2002.

1 Q. WHAT ARE EXAMPLES OF "OTHER THAN STANDARD" EARNINGS?

2 A. "Other Than Standard" earnings categorize labor costs that are above an
3 employee's standard pay. Examples include overtime, stand-by and call-out pay.

4 Q. PLEASE CONTINUE WITH YOUR EXPLANATION.

5 A. Employee base salaries and wages and "Other Than Standard" earnings totals by
6 department were directly assigned to MPS and L&P operations where possible.
7 When it was not possible to directly assign these costs, cost assignments were
8 made based upon January 2003 corporate cost allocation factors. Please see the
9 direct testimony of Aquila witness Beverlee Agut for the explanation of corporate
10 cost allocations. The resulting amounts, either directly charged or allocated by
11 department, were multiplied by scheduled pay increases during the known and
12 measurable timeframe to arrive at a total payroll annualization amount for MPS and
13 L&P. The total payroll annualization amounts for MPS and L&P were then
14 compared to MPS and L&P test year, per book amounts as of December 31, 2002
15 to obtain the overall payroll annualization adjustments. The payroll annualization
16 adjustments were then spread to Federal Energy Regulatory Commission ("FERC")
17 accounts based on the percentage of test year, per book payroll dollars by FERC
18 account to total payroll dollars.

19 Q. EXPLAIN HOW THE TOTAL PAYROLL ANNUALIZATION ADJUSTMENTS
20 FOR OPERATION AND MAINTENANCE EXPENSES WERE DETERMINED.

21 A. Total utility operations and maintenance expenses were determined through the
22 allocation of the payroll annualization adjustments to FERC accounts. The amounts

1 were then allocated to electric, gas and steam (L&P only) utilities using product
2 allocations based on FERC account.

3 **Q. IN REGARD TO ANNUAL WAGE INCREASES, WHAT PERCENTAGE OF**
4 **INCREASE WAS USED FOR UNION AND NON-UNION EMPLOYEES?**

5 A. **MPS:** For union employees, a 5.0% wage increase was used. This represented a
6 retroactive estimated increase of 2.5% applicable to October 2002, as well as a
7 2.5% increase applicable to October 2003. The retroactive amount is due to
8 contract negotiations that are not finalized at the time of this writing. For non-union,
9 non-exempt employees, a 2.3% increase was used. For non-union, exempt
10 employees, no wage increase was included.

11 **L&P:** For union employees, a 3.5% wage increase was used. This represents a
12 scheduled increase on August 1, 2003 per the union contract currently in effect. For
13 non-union, non-exempt employees, a 2.3% increase was used. For non-union,
14 exempt employees, no wage increase was included.

15 **Q. HOW WERE THE PERCENTAGES OF WAGE INCREASES DETERMINED?**

16 A. The percentages for Aquila employees were obtained from the Aquila Human
17 Resources Department. Union employees' wage increases were obtained from
18 historical union pay increases from union contracts. Non-union employees'
19 increases were based on an average of actual pay increases to be paid.

20 **Q. WHEN ARE PAY INCREASES NORMALLY EFFECTIVE?**

21 A. Pay increases for union and non-union employees will be effective during the known
22 and measurable timeframe. Non-union pay increases were effective in March (MPS

1 and L&P). Union pay increases are scheduled annually in October for MPS
2 employees and August for L&P employees.

3 **Q. WHAT WERE THE GAS PAYROLL ANNUALIZATION ADJUSTMENTS FOR**
4 **MPS AND L&P?**

5 A. The MPS gas payroll annualization adjustment was a total increase of \$36,536
6 spread among operation and maintenance expenses. The L&P gas payroll
7 annualization adjustment was a total decrease of \$20,939 spread among operation
8 and maintenance expenses.

9
10 **(B) WORKING CAPITAL:**

11 **Materials & Supplies (WC-10)**

12 **Q. WHY ARE MATERIALS AND SUPPLIES ("M&S") INVENTORIES INCLUDED**
13 **IN RATE BASE?**

14 A. M&S is considered working capital; working capital represents an investment in
15 supplies and other assets that are required to enable MPS and L&P to operate
16 economically and efficiently.

17 **Q. PLEASE EXPLAIN THE COMPUTATION OF MATERIALS AND SUPPLIES.**

18 A. A thirteen-month average is used for most working capital items. For MPS, the
19 month-end balances of FERC Accounts 154 (Materials and Supplies) and 163
20 (Stores Expense) were averaged for the months of December 2001 through
21 December 2002. By their general ledger product code, they were designated by
22 utility (electric, gas, common or non-regulated). For L&P, the month-end balances
23 of FERC Accounts 154 and 163 were also averaged for the same time period, but

1 designation by utility (electric, gas or steam) was determined through location and
2 an allocation process based on direct O&M and allocated plant.

3 **Q. PLEASE EXPLAIN WHY A THIRTEEN-MONTH AVERAGE CALCULATION**
4 **WAS SELECTED.**

5 A. The use of a thirteen-month average is a better measure than the investment at any
6 single month since monthly amounts fluctuate, and no single month is
7 representative. The application of 13-month averaging has been utilized in previous
8 cases by MPS/L&P and the Missouri Public Service Commission Staff ("Staff").

9 **Gas Storage (WC-60)**

10 **Q. PLEASE EXPLAIN WHY GAS STORAGE INVENTORIES ARE INCLUDED IN**
11 **WORKING CAPITAL.**

12 A. Gas storage inventories are considered an allowance includable in the working
13 capital computation. A utility must carry the appropriate level of gas storage
14 inventory to ensure that customers' service is not interrupted.

15 **Q. PLEASE EXPLAIN HOW GAS STORAGE IS COMPUTED.**

16 A. A 13-month average of FERC Account 164 was calculated using only the storage
17 applicable to MPS and L&P operations. The months averaged were from
18 December 2001 through December 2002, which coincides with the rate case test
19 period.

20
21 **(C) RATE BASE OFFSETS:**

22 **Q. PLEASE EXPLAIN THE RATE BASE OFFSETS THAT YOU ARE**
23 **SPONSORING IN THIS PROCEEDING.**

1 A. I am sponsoring three rate base offsets: Customer Deposits (RBO-10), Customer
2 Advances (RBO-20) and Accumulated Deferred Income Taxes (RBO-30). All three
3 represent a source of cost-free capital and are used to finance plant investment.
4 Customer Deposits, Customer Advances and Accumulated Deferred Income Taxes
5 are negative adjustments to rate base to ensure that a return is not earned on its
6 customer-financed assets.

7 **Customer Deposits (RBO-10)**

8 **Q. HOW WERE CUSTOMER DEPOSITS COMPUTED?**

9 A. A 13-month average of balances in FERC Account 235 was computed. The
10 months used were December 2001 through December 2002, which coincides with
11 the test year ending December 31, 2002. The charge department was used to
12 differentiate between electric, gas, and common. Amounts in common departments
13 were allocated based on the direct electric and gas customer deposit totals.

14 **Customer Advances (RBO-20)**

15 **Q. HOW WERE CUSTOMER ADVANCES COMPUTED?**

16 A. Similar to Customer Deposits, a thirteen-month average was used to compute
17 Customer Advances. The monthly balances averaged for FERC Account 252 were
18 for the months of December 2001 through December 2002. The 13-month average
19 balances were then separated by utility (electric and gas) based on charge
20 department.

21 **Accumulated Deferred Income Tax Adjustment (RBO – 30)**

1 Q. PLEASE DESCRIBE THE ACCUMULATED DEFERRED INCOME TAX
2 OFFSET TO RATE BASE.

3 A. The Accumulated Deferred Tax offset to rate base includes the accumulation of tax-
4 effected timing differences between the general ledger and tax accounting records.
5 These items are known as schedule M's in the company's annual tax return. The
6 majority of timing differences included in this filing are from general ledger accounts
7 that include timing differences associated with plant activity. They include both MPS
8 and L&P directly-assigned timing differences, as well as corporate timing
9 differences which are common to all Aquila jurisdictions.

10 Q. WHAT TIME PERIOD WAS USED FOR ACCUMULATED DEFERRED
11 INCOME TAXES?

12 A. Accumulated deferred income taxes are based on actual timing differences through
13 December 31, 2002.

14 Q. PLEASE EXPLAIN HOW THE ACCUMULATED DEFERRED INCOME TAX
15 AMOUNT WAS COMPUTED.

16 A. The accumulated deferred income tax amounts include the following components:
17 • Accumulated deferred income taxes include timing differences recorded in
18 MPS and L&P FERC Accounts 190 and 282. Balances in FERC Account 190
19 and 282 at December 31, 2002 include timing differences based on actual tax
20 return filings through December 31, 2001 and estimates for the period ending
21 December 31, 2002. The estimates for the period ending December 31, 2002
22 were updated based on the actual tax return filed for the period ending

1 December 31, 2002. Certain timing differences not recoverable in rates were
2 removed from the account balances.

3 • Accumulated deferred income taxes include MPS and L&P allocable share of
4 balances recorded in corporate FERC Account 282. As described above,
5 FERC Account 282 at December 31, 2002 includes timing differences based
6 on actual tax return filings through December 31, 2001 and estimates for the
7 period ending December 31, 2002. Estimates for the period ending
8 December 31, 2002 were updated with actual tax return filed amounts. Certain
9 timing differences not recoverable in rates were removed from the account
10 balance.

11 • Accumulated deferred income taxes for MPS includes an adjustment for the
12 Eastern System. Please see the direct testimony of Company witness Joe
13 Bahr for a description of the Eastern System adjustment.

14 **Q. HOW WERE ACCUMULATED DEFERRED INCOME TAXES ALLOCATED**
15 **BETWEEN ELECTRIC, GAS AND STEAM (L&P ONLY) UTILITIES?**

16 A. The majority of the tax-effected timing differences residing in the accumulated
17 deferred income tax balance are associated with different depreciation methods.
18 As such, plant utility allocation factors were applied to the accumulated deferred
19 income tax balances to allocate between the utilities.

20 **Q. WHAT IS THE TOTAL GAS ACCUMULATED DEFERRED INCOME TAX RATE**
21 **BASE OFFSET FOR MPS AND L&P?**

1 A. The MPS gas Accumulated Deferred Income Tax rate base offset totals
2 \$4,645,543. The L&P gas Accumulated Deferred Income Tax rate base offset
3 totals \$590,233.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes.