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**Missouri Public
Service Commission**

Exhibit No:
Issues:

Cost of Service
Adjustments
Jeffrey O. Thomas
Direct Testimony
Aquila

Witness:
Type of Exhibit:
Sponsoring Party:

Case No:
Date Testimony to be filed:

August 1, 2003

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. _____

DIRECT TESTIMONY

OF

Jeffrey O. Thomas

ON BEHALF OF

AQUILA, INC.

d/b/a

AQUILA NETWORKS – MPS

and

AQUILA NETWORKS – L&P

**Omaha, Nebraska
August, 2003**

Exhibit No. 26
Date 3/31/04 Case No. GR-2004-0072
Reporter XF

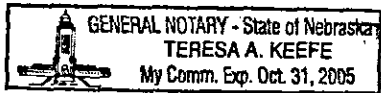
State of Nebraska)
) ss
County of Douglas)

AFFIDAVIT OF JEFFREY O. THOMAS

Jeffrey O. Thomas, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony and schedules entitled "Direct Testimony of Jeffrey O. Thomas"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Jeffrey O. Thomas

Subscribed and sworn to before me this 2 day of July, 2003.



Teresa A. Keefe
Notary Public

My Commission expires:

October 31, 2005

DIRECT TESTIMONY OF JEFFREY O. THOMAS

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeffrey O. Thomas and my business address is 1815 Capitol Avenue, Omaha, Nebraska.

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

A. I am employed by Aquila, Inc. ("Aquila" or "Company"), as a Senior Regulatory Analyst.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. In 1984, I received a Bachelor of Arts Degree in Business Administration from Buena Vista University of Iowa-Council Bluffs Center. I have been employed by Aquila since 1979. In 1985, I joined the regulatory accounting group. Since 1985, I have held various positions in the regulatory accounting group. I have been in my current position of Senior Regulatory Analyst since June of 1998.

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

A. The purpose of my testimony is to describe certain accounting adjustments made to the Aquila Networks – MPS ("MPS") and Aquila Networks – L&P ("L&P") cost of service filing.

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

A. I am sponsoring the following cost of service (operational) adjustments:

- CS – 10 Restructuring Adjustment (MPS & L&P);

- 1 • CS – 30 Injuries and Damages Adjustment (L&P); and
- 2 • CS – 83 Write-off of Pre-2002 Miscellaneous Expenses Adjustment (MPS &
- 3 L&P);

4 **Restructuring Adjustment (CS – 10)**

5 **Q. PLEASE EXPLAIN THE RESTRUCTURING ADJUSTMENTS.**

6 A. In November 2001, Aquila began implementing a restructuring plan to move from a
7 functional organizational structure to a state-based organizational structure. One
8 reason this initiative was enacted was to cut costs throughout the Aquila Networks
9 organization. The majority of the restructuring was completed by September 2002.
10 It resulted in the reduction of staff levels spreading across many departmental
11 functions. One cost of making such a significant company restructuring included
12 severance payments made to employees that were terminated. The restructuring
13 adjustment quantifies all restructuring related severance payments and associated
14 benefit and payroll taxes and amortizes the costs over a three-year period for both
15 MPS and L&P.

16 **Q. HOW WERE COSTS FOR THE RESTRUCTURING ADJUSTMENT**
17 **OBTAINED?**

18 A. All restructuring costs for MPS and L&P were obtained from a separate
19 restructuring account (401900) in which all costs associated with the restructuring
20 were segregated. These included severance costs for employees who were either
21 directly assigned to MPS or L&P or who were allocated to MPS or L&P. The
22 severance payments, including the associated payroll taxes, benefits and

1 outplacement services, were identified and assigned to the appropriate state
2 jurisdiction.

3 **Q. WERE THESE COSTS AMORTIZED?**

4 A. Total gas restructuring costs directly assigned and allocated to MPS and L&P were
5 identified and amortized over a three-year period. The resulting annual amortization
6 of gas restructuring costs was compared to total gas restructuring costs recorded
7 during the test year ending December 31, 2002. The difference was multiplied by
8 the appropriate jurisdictional factor to obtain the gas jurisdictional restructuring
9 adjustment recorded in various expense Federal Regulatory Energy Commission
10 ("FERC") accounts.

11 **Q. WHY WAS A THREE-YEAR PERIOD SELECTED TO AMORTIZE
12 RESTRUCTURING COSTS?**

13 A. The restructuring costs are a one-time charge that occurred during the test period.
14 The restructuring activities will provide benefits (i.e. cost savings) over future
15 periods. The associated severance costs are being amortized over this period to
16 associate the costs with periods it will benefit.

17 **Q. WHAT WERE THE GAS RESTRUCTURING ADJUSTMENTS FOR MPS AND
18 L&P?**

19 A. The net MPS gas restructuring adjustment was a total decrease of \$217,336
20 spread among various FERC expense accounts. The net L&P gas restructuring
21 adjustment was a total decrease of \$23,206 spread among various FERC expense
22 accounts.

1 **Injuries and Damages Adjustment (CS – 30)**

2 **Q. PLEASE EXPLAIN THE INJURIES AND DAMAGES ADJUSTMENT**
3 **COMPLETED FOR L&P.**

4 A. During the month of October 2002, a reversal of injuries and damages costs was
5 incorrectly recorded to the gas utility instead of the electric utility for L&P in Account
6 925 Injuries and Damages. A reclassification adjustment was required to
7 appropriately reflect injuries and damages costs associated with the electric and
8 gas utilities. This adjustment totaled \$527,284 and reduces L&P electric injuries
9 and damages costs and increases the gas injuries and damages costs recorded in
10 Account 925 for the test period.

11 **Write-Off of Pre-2002 Miscellaneous Expense Adjustment (CS – 83)**

12 **Q. PLEASE EXPLAIN THE WRITE-OFF OF PRE-2002 MISCELLANEOUS**
13 **EXPENSES ADJUSTMENT.**

14 A. During the test period ending December 31, 2002, various costs sitting in liability
15 and asset clearing accounts associated with payroll withholdings, employee
16 expense advances and miscellaneous expenses were written off. The costs were
17 allocated to MPS and L&P and recorded in Account 921 Office Supplies and
18 Expense. This adjustment removes the write-off of these amounts from the test year
19 since they are not costs associated with ongoing levels of operation and are
20 associated with periods prior to the test period ending December 2002.

1 Q. WHAT IS THE IMPACT OF THESE ADJUSTMENTS ON MPS AND L&P
2 JURISDICTIONS?

3 A. The MPS gas jurisdictional adjustment reduced Account 921 by \$179,771. The
4 L&P jurisdictional adjustment reduced Account 921 by \$27,906.

5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

6 A. Yes.