

Exhibit No.
Witness: Robert R. Stephens
Type of Exhibit: Direct Testimony
Sponsoring Party: Federal Executive Agencies, SIEUA and
St. Joseph Missouri Industrial Users
Subjects: Revenue Requirements: Natural Gas
Prices and Merger Savings
Date: December 9, 2003

**BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI**

In the Matter of Aquila, Inc., d/b/a Aquila Networks - L&P and Aquila Networks – MPS, to Implement a General Rate Increase in Electricity)
Case No. ER-2004-0034)
In the Matter of the Request of Aquila, Inc., d/b/a Aquila Networks - L&P, to Implement a General Rate Increase in Steam Rates)
Case No. HR-2004-0024)

Direct Testimony and Schedules of

Robert R. Stephens

On Behalf of

**Federal Executive Agencies
Sedalia Industrial Energy Users Association
St. Joseph, Missouri Industrial Energy Users**

December 9, 2003
Project 8051, 8052, 8053



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

**BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI**

In the Matter of Aquila, Inc., d/b/a Aquila Networks - L&P and Aquila Networks - MPS to implement a General Rate Increase in Electricity))))	Case No. ER-2004-0034
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In the Matter of the Request of Aquila, Inc. d/b/a Aquila Networks - L&P, to Implement a General Rate Increase in Steam Rates)))	Case No. HR-2004-0024
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Affidavit of Robert R. Stephens

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Robert R. Stephens, being first duly sworn, on his oath states:

1. My name is Robert R. Stephens. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000. We have been retained by the Federal Executive Agencies, the Sedalia Industrial Energy Users Association, and the St. Joseph, Missouri Industrial Energy Users in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in the ER-2004-0034/HR-2004-0024 Proceeding.

3. I hereby swear and affirm that my direct testimony and schedules are true and correct and show the matters and things they purport to show.

Robert R. Stephens

Robert R. Stephens

Subscribed and sworn before this 9th day of December, 2003.

CAROL SCHULZ Notary Public - Notary Seal STATE OF MISSOURI St. Louis County My Commission Expires: Feb. 26, 2004

Carol Schulz

Notary Public

My Commission expires on February 26, 2004.

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Direct Testimony of Robert R. Stephens

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

2 A Robert R. Stephens; 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000.

3 **Q WHAT IS YOUR OCCUPATION?**

4 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
5 Associates, Inc., energy, economic and regulatory consultants.

6 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

7 A This information is included in Appendix A to my testimony.

8 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

9 A I am appearing on behalf of the Federal Executive Agencies, the Sedalia Industrial
10 Energy Users Association (SIEUA), and the St. Joseph, Missouri Industrial Energy
11 Users. Members of SIEUA participating in this proceeding take service from Aquila
12 Networks - MPS (MPS). The St. Joseph, Missouri Industrial Energy Users take both

**Robert R. Stephens
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1 electric and steam service from Aquila Networks – L&P (L&P). The Federal Executive
2 Agencies take electric service from both MPS and L&P.

3 **Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

4 A I will address the natural gas price assumptions used by Aquila¹ in the fuel and
5 purchased power forecasts and the proposed treatment of savings associated with the
6 merger of the L&P and MPS Systems.

7 The fact that I have not addressed other elements of MPS' or L&P's revenue
8 requirement claim should not be construed as an endorsement of Aquila's claims or
9 positions. Moreover, the fact that I have not addressed a particular element or claim
10 does not indicate that the parties that I am appearing on behalf of in this case have no
11 interest in the issues. We expect that the Staff of the Missouri Public Service
12 Commission and Public Counsel will address many of these issues. The parties on
13 whose behalf I am appearing reserve their rights to respond to testimony of other parties
14 on all issues, and to actively participate in hearings and any potential settlement with
15 respect to any and all issues in this proceeding. Furthermore, the fact that any
16 testimony at all is offered should not be construed as any limitation on the ability of these
17 intervenors to pursue to its logical conclusion the results of the October 28, 2003
18 Decision of the Missouri Supreme Court in Ag Processing, Inc. v Public Service
19 Commission, Supreme Court Docket No. SC 85352.

20 **Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

21 A My findings and recommendations may be summarized as follows:

- 22 1. The commodity prices for natural gas that Aquila proposes to use to set rates are
23 excessive. They were established at a time when gas prices were at abnormally

¹ As used in this testimony, "Aquila" refers to MPS and L&P collectively.

- 1 high levels. They exceed the current expectations of future gas prices for the
2 period in which rates set in this case will apply by approximately \$0.43/MMBtu to
3 \$1.15/MMBtu, with a midpoint estimate of \$0.79/MMBtu.
- 4 2. The natural gas commodity prices which I recommend Aquila use in establishing
5 its revenue requirement are based on a combination of the current level of
6 NYMEX futures prices for calendar years 2004 through 2006 and the 2004
7 forecast from the Energy Information Administration. The recommended average
8 value for this period is \$4.35/MMBtu.
- 9 3. A precise indication of the system savings associated with the lower forecasted
10 gas prices would require Real-Time model dispatch runs incorporating the
11 requested natural gas commodity prices. SIEUA recently forwarded a data
12 request to Aquila requesting that it perform these runs and provide the results.
- 13 4. I have estimated the reduction in the claimed revenue requirement associated
14 with the forecasted natural gas prices at approximately \$7,219,000 for MPS
15 electric service, approximately \$728,000 for L&P electric service, and
16 approximately \$714,000 for L&P steam service. These estimates are calculated
17 by scaling up Aquila's proposed Adjustment Nos. FPP-40, which estimate the
18 impact of a \$0.50 per Mcf² increase in natural gas prices over Aquila's original
19 natural gas price estimates.
- 20 5. Aquila proposes to make adjustments to its 2002 test-year rate base and
21 operating expenses to credit to customers only one-half of the savings
22 associated with the merger of L&P into the Aquila System.
- 23 6. Aquila's approach requires the estimation of what total stand-alone costs would
24 have been absent the merger and consequently is speculative by its nature. In
25 addition, allowing Aquila to increase the revenue requirement by one-half of the
26 purported merger savings provides an incentive to overstate the merger savings.
- 27 7. While conceptually I agree that there may be synergistic savings associated with
28 the merger, Aquila's support for the adjustments in its testimony and prepared
29 workpapers lacks sufficient detail to independently verify and to justify the
30 increase in revenue requirement.
- 31 8. Aquila has projected increases in the synergy savings over time. Regulatory lag
32 already provides a mechanism for sharing merger benefits with Aquila particularly
33 in times of increasing savings. For these reasons, I recommend that the
34 adjustments related to sharing merger benefits be denied.
- 35 9. The impact of disallowing the CS-17 and FPP-30 adjustments to cost of service
36 is approximately \$5,762,000 and \$1,338,000, for MPS and L&P, respectively,
37 based on Aquila's September 30, 2003 updated filing.

² Please note that gas prices are stated in both \$/MMBtu and \$ per Mcf in Aquila's testimony. Consequently, both terms are used in this testimony as well. One Mcf of natural gas contains approximately one MMBtu of energy.

1 **Natural Gas Price Forecast**

2 **Q HAVE YOU REVIEWED THE NATURAL GAS PRICE FORECAST WHICH AQUILA**
3 **PROPOSES TO USE TO ESTABLISH RATES IN THIS PROCEEDING?**

4 A Yes, I have. In its original filing, this issue is addressed by Company Witness John C.
5 Browning. Mr. Browning discusses at Pages 8 through 12 how he came up with his
6 recommended gas price forecast, which is based on a combination of actual NYMEX
7 settlement prices for January and February 2003 and an average of six analysts'
8 forecasts. The analysts' price forecasts are summarized by Mr. Browning and are from
9 the February and March 2003 time period.

10 Mr. Browning indicated in response to data request SIE-30 that the initial draft of
11 his testimony was completed in late March 2003 and that editing was completed in early
12 June 2003.

13 **Q DID AQUILA PROVIDE AN UPDATED NATURAL GAS PRICE FORECAST IN ITS**
14 **SEPTEMBER 30, 2003 REVENUE REQUIREMENT UPDATE?**

15 A No. According to Aquila's response to data request SIE-27, there has been no update.
16 Also, my review of the workpapers associated with the updated filing indicates that the
17 natural gas price assumptions used for modeling purposes remain the same as in the
18 original filing.

19 **Q HAVE NATURAL GAS MARKET CIRCUMSTANCES CHANGED SINCE THE TIME**
20 **MR. BROWNING PREPARED HIS TESTIMONY?**

21 A Yes, they have changed significantly. Schedule 1 is a graph showing the 2003 Henry
22 Hub monthly index prices as well as 2004 Henry Hub futures prices. As can be seen in

1 the 2003 line, monthly prices peaked dramatically in March 2003 (at over \$9/MMBtu),
2 the very time at which Mr. Browning prepared his testimony, and then dropped
3 dramatically over the remainder of the year. Schedule 1 also shows that, in contrast,
4 2004 futures prices are generally in the \$5 or below range for the year.

5 In addition, according to Mr. Browning's testimony at Pages 9-11, nearly every
6 analyst cited historically low storage levels coming out of last winter as a contributing
7 factor to their relatively high natural gas price forecasts. In actuality, natural gas storage
8 injections were very robust during this storage season, bringing levels of natural gas
9 storage to very high levels going into this winter period. Consequently, a number of the
10 analysts cited by Mr. Browning have since revised their forecasts downward to reflect
11 more current conditions.

12 Schedule 2 illustrates what these various analysts were forecasting for 2004
13 prices at the time Mr. Browning's testimony was prepared, as compared to more recently
14 published forecasts. Some of the analysts cited by Mr. Browning are not shown on
15 Schedule 2 because either a more current forecast was not publicly available, or the
16 comparable 2004 gas price forecast was not available. Most of these analysts have
17 significantly reduced their 2004 price forecast.

18 In addition to the various analysts' forecasts shown on Schedule 2, I have also
19 included information related to NYMEX futures contracts for 2004 from the period when
20 Mr. Browning's testimony was prepared and finalized, as well as forecasted 2004 natural
21 gas wellhead prices as reported by the Energy Information Administration (EIA), a
22 statistical agency of the U.S. Department of Energy, in its monthly EIA Short-Term
23 Energy Outlook.

24 The overall conclusion from reviewing Schedule 2 is that various analysts, both
25 private and governmental, as well as industry traders are now considering forecasted

1 2004 prices to be significantly lower than forecast in the time period when Aquila
2 developed its gas prices.

3 **Q WHAT SPECIFIC PRICES DID AQUILA USE IN PREPARING ITS RATE FILING?**

4 A Mr. Browning indicates at Page 12 of his testimony that a 12-month price of
5 \$5.14/MMBtu was used. (This price does not reflect MPS' proposed \$0.50 per Mcf
6 increment described by Company Witness Keith G. Stamm in conjunction with
7 Company's proposed gas commodity cost recovery mechanism.)

8 Mr. Browning does not provide a month-by-month breakdown of the natural gas
9 prices used by Aquila. However, as shown in Aquila workpapers, the average natural
10 gas costs used in the electric model are listed in Table 1 below.

<u>Months</u>	<u>Average Cost (\$/MMBtu)</u>
Jan	5.259
Feb	5.776
Mar	6.226
Apr	5.686
May	5.353
Jun	5.178
Jul	5.147
Aug	5.111
Sept	5.051
Oct	5.035
Nov	5.407
Dec	5.516
Average	5.336

1 **Q WHAT PERIOD OF NATURAL GAS PRICES DO YOU RECOMMEND BE USED FOR**
2 **ESTABLISHING RATES IN THIS CASE?**

3 A As Mr. Browning has discussed, 2002 prices may not be representative of gas costs
4 going forward. However, neither are the 2003 prices cited by Mr. Browning, which were
5 a combination of two months' historical prices and an average of analysts' projections for
6 other months in 2003. As I indicated, 2003 actual prices contain some very dramatic
7 and unexpected price swings and ought not to form the basis for rates going forward.

8 I recommend use of expected prices in the 2004 through 2006 time period. This
9 is the time period during which rates established in this case are likely to be in effect. In
10 addition, the use of a three-year average price smoothes out year-to-year anomalies in
11 prices. Also, this period corresponds to the cost recovery proposal of my colleague,
12 Maurice Brubaker.

13 I do not recommend use of the analyst sources cited by Mr. Browning as they
14 generally do not provide detailed forecasts of prices in the 2004 through 2006 time
15 period and the information has been made public only sporadically in recent months.

16 **Q ARE THERE ANY PUBLICLY AVAILABLE SOURCES OF INFORMATION RELATED**
17 **TO GAS PRICES IN THE 2004-2006 PERIOD?**

18 A Yes. NYMEX futures prices are established every trading day for the 2004 through 2006
19 period. Schedule 3 attached to this testimony shows NYMEX Henry Hub futures
20 contracts for the calendar months in 2004, 2005 and 2006. To smooth out day-to-day
21 pricing volatility, I have averaged closing prices over a recent 10-day period on the
22 schedule.

23 As you can see on Line 13 at Column 4 of Schedule 3, the average NYMEX price
24 over this period is \$4.71/MMBtu.

1 **Q ARE THERE ANY OTHER DATA SOURCES THAT THE COMMISSION SHOULD**
2 **CONSIDER IN ESTABLISHING THE PROPER GAS PRICE FORECAST?**

3 A Yes. The Energy Information Administration provides a report each month called the
4 "Short-Term Energy Outlook" which, among other things, provides a forecast of natural
5 gas wellhead prices. The most recent report at the time of my testimony preparation,
6 indicates an average projected 2004 price of \$3.99 per Mcf.³

7 Unfortunately, EIA does not provide 2005 and 2006 forecasts as part of this
8 monthly report. However, as suggested by the NYMEX futures prices shown on
9 Schedule 3, and indicated by other information we have obtained from EIA, it appears
10 that EIA projects 2005 and 2006 prices to be somewhat lower than 2004. Consequently,
11 use of the 2004 average price could be considered a conservatively high assumption for
12 the average of 2004, 2005 and 2006 EIA projected prices.

13 **Q WHAT PRICE SHOULD AQUILA USE IN ITS MODELING FOR REVENUE**
14 **REQUIREMENTS IN THIS CASE?**

15 A Based on the NYMEX futures contracts discussed above as well as the EIA forecasted
16 gas prices, it appears that natural gas prices in the 2004 through 2006 period should
17 average in the range of \$3.99 to \$4.71, with a midpoint of \$4.35/MMBtu. I recommend
18 that this midpoint price be used to establish rates in this case, based on the information
19 available at this time. This represents a \$0.79/MMBtu reduction from the \$5.14/MMBtu
20 figure cited by Mr. Browning.

³ A graph of EIA's forecasts of 2004 projected average price during 2003 is shown as Schedule 4. While the EIA forecast was higher earlier in the year, especially during the time when Mr. Browning's testimony was finalized, it has been relatively stable around the \$4.00 per Mcf level for the last several months.

1 **Q WHAT IS THE REVENUE REQUIREMENT IMPACT ASSOCIATED WITH A \$0.79**
2 **REDUCTION IN THE NATURAL GAS PRICE FORECAST?**

3 A I cannot state with certainty what the overall revenue requirement impact would be,
4 because this would require additional production cost model runs that only Aquila can
5 perform. SIEUA recently issued a data request to Aquila asking it to rerun its production
6 cost model assuming the recommended \$4.35/MMBtu natural gas price. However,
7 Aquila has not had time to perform this run and respond to the data request. I
8 recommend that Aquila provide this information in its rebuttal testimony in this case. In
9 the event Aquila fails to do so, I will seek to provide information from the response for
10 the record.

11 To illustrate the potential magnitude of this adjustment, I have utilized the
12 information provided by Aquila in its Adjustment Nos. FPP-40⁴, which provide the
13 revenue impacts associated with a \$0.50 per Mcf increase in natural gas costs
14 associated with its proposed gas commodity cost recovery mechanism, which is
15 described in the direct testimony of Aquila Witness Keith G. Stamm. Table 2, below,
16 shows the amount of the FPP-40 adjustments on the various Aquila revenue
17 requirements as well as the estimated gas cost reductions, based on scaled up values to
18 reflect a \$0.79/MMBtu change.

⁴ There are separate FPP-40 adjustments for L&P – electric, L&P – steam and MPS.

Table 2		
Estimated Impact of Natural Gas Price Decrease		
<u>Utility</u>	<u>FPP-40 Adjustment (at \$.050 per Mcf)</u>	<u>Estimated Gas Cost Reduction (at \$.79/MMBtu)</u>
MPS – Electric	\$4,569,000	\$7,219,000
L&P – Electric	461,000	728,000
L&P – Steam	452,000	714,000

1 **Merger Savings**

2 **Q HAVE YOU REVIEWED AQUILA’S FILING AS IT RELATES TO MERGER SAVINGS?**

3 A Yes, I have. Aquila claims that the merger of the L&P and MPS Systems created a
 4 significant amount of savings in operations and maintenance (O&M) expense, as well as
 5 savings associated with the joint dispatch of electric units. As discussed in the direct
 6 testimony of Aquila Witness Vern Siemek, Aquila proposes to reflect only 50% of the
 7 alleged merger savings in rates, while keeping the other 50% for itself, with 25%
 8 earmarked for application to the low-income assistance program.

9 Aquila indicated that the test-year cost of service already reflects the synergistic
 10 benefits of the merger and that in order to apply the sharing mechanism proposed,
 11 adjustments should be made to the test-year cost of service essentially to add back one-
 12 half of the estimated savings. In order to calculate the estimated savings, it is necessary
 13 to try to construct a hypothetical situation in which the merger did not occur, estimate
 14 what costs would have been in that circumstance, and compare that to the actual book
 15 costs.

1 **Q WHAT ADJUSTMENTS HAS AQUILA PROPOSED?**

2 A While the merger synergy impacts a number of the book accounts, as well as a number
3 of the adjustments, the major adjustments related to merger synergies are No. CS-17 as
4 discussed by Aquila Witness Beverly Agut and Nos. FPP-30 which are discussed by
5 Aquila Witness Lisa Starkebaum. The amounts of the proposed adjustments are shown
6 below.

<u>Adjustment Number</u>	<u>Amount</u>
CS-17 MPS O&M Merger Synergies	\$1,868,000
FPP-30 MPS Synergies From Joint Dispatch	\$3,894,000
FPP-30 L&P Synergies From Joint Dispatch	\$1,338,000

7 **Q DO YOU AGREE WITH THE COMPANY'S PROPOSED ADJUSTMENTS RELATED**
8 **TO MERGER SAVINGS?**

9 A No. Sharing the merger savings in the manner proposed by Aquila creates an incentive
10 to overstate claimed merger savings, since one-half of the alleged savings are to be
11 added to the revenue requirement. In addition, the notion of setting rates based on
12 "would-have-been" situations absent the merger requires a high degree of speculation
13 and is difficult to analyze and impossible to verify. The third reason, which is related to
14 the second reason, is because I did not find the adjustments to be adequately supported
15 in the Company's primary filing and workpapers. Finally, the fourth reason is because
16 regulatory lag provides an ongoing opportunity for Aquila shareholders to benefit from
17 the merger savings.

1 **Q DO YOU DISPUTE THE NOTION THAT THE MERGER CAN CREATE SYNERGISTIC**
2 **SAVINGS FOR MPS, L&P OR BOTH?**

3 A No. Conceptually, it makes sense that there could be savings in certain O&M costs and
4 savings through the joint dispatch of the system's generating units. Indeed, these types
5 of savings were cited by the Company in seeking approval of the merger in the first
6 place, in Case No. EM-2000-292. On Aquila Witness Siemek's Schedule VJS-1 in that
7 case, he estimated savings associated with dispatching/generation at \$5,216,000 per
8 year, on average, during Years 1 through 5 and \$6,777,000 per year, on average, during
9 Years 7 through 10. For general and administrative savings, he estimated an average of
10 \$5,688,000 per year during Years 1 through 5 and \$6,497,000 per year during Years 6
11 through 10. Other O&M items, which included distribution savings, transmission savings
12 and conversion to UtiliCorp benefits, combined to average \$5,372,000 per year during
13 Years 1 through 5 and \$7,303,000 during Years 6 through 10.

14 Against these projected savings, Aquila estimated capital costs and allocated
15 support function costs to L&P. The total synergies, net of costs to achieve and allocated
16 costs, were \$4,255,000 per year during Years 1 through 5 and \$7,681,000 per year
17 during Years 6 through 10.

18 These figures show not only the scale of expected cost savings that would be
19 achieved through the merger, but also indicate that Aquila expected the cost savings to
20 grow over time.

21 **Q WHY IS THAT LAST POINT RELEVANT?**

22 A Aquila's expectation that merger synergy benefits would grow over time is important in
23 the context of regulatory lag. Mr. Siemek indicates at page 3 of his direct testimony in
24 this case that Aquila has not enjoyed the full benefits of the synergies so far, as its other,

1 unrelated, costs have increased. Consequently, he does not feel that regulatory lag has
2 provided adequate benefit of the merger to Aquila shareholders up to this point. While I
3 do not agree with his point of view on this issue (as any revenue deficiencies likely would
4 have been even greater absent the merger benefits), I think the fact that merger savings
5 are expected to increase improves the likelihood that regulatory lag would provide
6 benefit to shareholders over time, as merger synergies grow after rates are set.

7 **Q IN THE MERGER CASE, CASE NO. EM-2000-292, DID THE MISSOURI PUBLIC**
8 **SERVICE COMMISSION INDICATE HOW MERGER BENEFITS ARE TO BE**
9 **TREATED IN SUBSEQUENT RATE CASES?**

10 A No, not based on my review.

11 **Q WHY DO YOU BELIEVE IT WOULD BE BAD POLICY TO TRY TO ESTIMATE**
12 **MERGER SAVINGS IN THIS CASE AND EMPLOY THE SHARING MECHANISM**
13 **PROPOSED BY AQUILA?**

14 A With the proposed sharing mechanism, Aquila would enjoy the benefits of both the add-
15 back of 50% of the merger savings, as well as increased savings achieved in years after
16 rates are set, through regulatory lag. In addition are the reasons I mentioned earlier,
17 that the sharing mechanism provides an incentive to overstate claimed merger savings
18 and that the savings are difficult to quantify and impossible to verify.

1 **Q HOW DO THE ALLEGED MERGER SAVINGS IN THIS CASE COMPARE TO THE**
2 **ESTIMATED MERGER SAVINGS OFFERED IN THE MERGER CASE, CASE**
3 **NO. EM-2000-292?**

4 A In the merger case, on the Annual Detail page of Schedule VJS-1, Mr. Siemek estimated
5 that dispatching/generating savings for the year 2002 would be approximately
6 \$4,358,000. In contrast, the total synergies shown on the Adjustment No. FPP-30
7 workpapers associated with MPS and L&P in this case are \$7,830,000 and \$2,676,000,
8 respectively, which total well over \$10 million, or more than double previously estimated
9 savings for 2002. This discrepancy introduces doubt as to the veracity of the original
10 estimate, the current estimate or both.

11 **Q ARE THE SAVINGS WELL DOCUMENTED IN THE CURRENT MPS FILING?**

12 A No. Aquila's testimony lays out general principles and shows the amount of the
13 adjustments. Some detail is provided in the workpapers associated with the filing but it
14 is impossible to independently verify the dispatch savings without use of Aquila's
15 production cost model. Even more importantly, there is no way to validate the
16 reasonableness of the input assumptions. The workpapers that were provided appear
17 only to show a summary page of the results of various production cost simulation
18 scenarios and how the results of the production cost model were used for calculating the
19 adjustment.

20 Similarly, the support for the O&M merger synergies associated with Adjustment
21 No. CS-17 consists of many pages of account information, utility allocation factors,
22 jurisdictional adjustments, etc. Again, it is difficult to verify the figures.

1 As illustrated by these workpapers, the myriad of computations associated with
2 seeking to quantify after-the-fact merger synergistic savings is not only complex, but also
3 is susceptible to overstatement and errors.

4 **Q WHAT IS YOUR OVERALL RECOMMENDATION ON THIS ISSUE?**

5 A Given the complexity of trying to calculate savings from “would-have-been” scenarios,
6 the impossibility for outside parties to objectively verify the savings, the negative
7 incentives such a sharing program creates and the opportunity for benefit of Aquila’s
8 shareholder from merger savings through normal regulatory lag, the Company’s
9 adjustments related to sharing of merger savings are untenable and I recommend
10 against their adoption. The better approach is to set the rates based on the actual cost
11 of service and allow regulatory lag to provide the mechanism by which shareholders
12 benefit from increasing merger synergies. As noted by Mr. Siemek, this is the approach
13 advocated by Staff on this issue in the past.

14 The main adjustments related to merger savings are Nos. FPP-30 and CS-17,
15 with amounts of these adjustments listed earlier in my testimony.

16 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A Yes, it does.

Qualifications of Robert R. Stephens

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

2 A Robert R. Stephens. My business mailing address is P. O. Box 412000, 1215 Fern
3 Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A I graduated from Southern Illinois University at Carbondale in 1984 with a Bachelor of
9 Science degree in Engineering. During college, I was employed by Central Illinois Public
10 Service Company in the Gas Department. Upon graduation, I accepted a position as a
11 Mechanical Engineer at the Illinois Department of Energy and Natural Resources. In the
12 summer of 1986, I accepted a position as Energy Planner with City Water, Light and
13 Power, a municipal electric and water utility in Springfield, Illinois. My duties centered on
14 integrated resource planning and the design and administration of load management
15 programs.

16 From July 1989 to June 1994, I was employed as a Senior Economic Analyst in
17 the Planning and Operations Department of the Staff of the Illinois Commerce
18 Commission. In this position, I reviewed utility filings and prepared various reports and
19 testimony for use by the Commission. From June 1994 to August 1997, I worked
20 directly with a Commissioner as an Executive Assistant. In this role, I provided technical
21 and policy analyses on a broad spectrum of issues related to the electric, gas,

1 telecommunications and water utility industries.

2 In May 1996, I graduated from the University of Illinois at Springfield with a
3 Master of Business Administration degree.

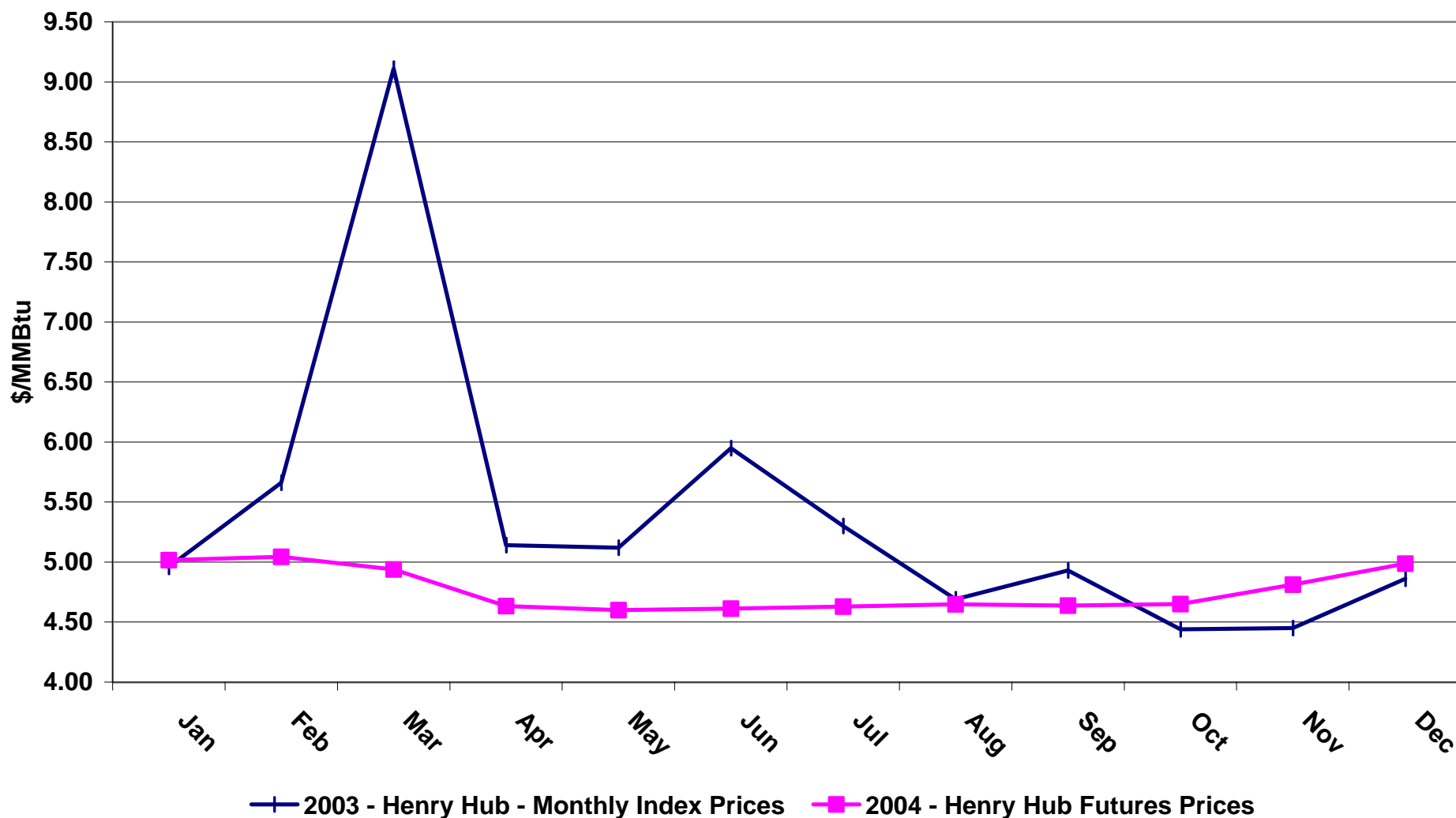
4 In August 1997, I joined Brubaker & Associates, Inc. as a Consultant. Since that
5 time, I have participated in the analysis of various utility rate and restructuring matters in
6 several states and the evaluation of power supply proposals for clients. I am currently
7 an Associate in the firm.

8 The firm of Brubaker & Associates, Inc. provides consulting services in the field
9 of energy procurement and public utility regulation to many clients, including large
10 industrial and institutional customers, some utilities, and on occasion, state regulatory
11 agencies. More specifically, we provide analysis of energy procurement options based
12 on consideration of prices and reliability as related to the needs of the client; prepare
13 rate, feasibility, economic and cost of service studies relating to energy and utility
14 services; prepare depreciation and feasibility studies relating to utility service; assist in
15 contract negotiations for utility services; and provide technical support to legislative
16 activities.

17 In addition to our main office in St. Louis, the firm also has branch offices in
18 Denver, Colorado; Chicago, Illinois; Asheville, North Carolina; Corpus Christi, Texas;
19 and Plano, Texas.

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COMPARISON OF HISTORICAL 2003 HENRY HUB MONTHLY INDEX PRICES TO RECENT 2004 HENRY HUB FUTURES PRICES



Sources: 2003 prices: Platts Monthly Gas Daily Prices Guide
 2004 prices: NYMEX.com "Daily Natural Gas Market Data" - Ten Day Average (11/13/03 - 11/26/03)

**Comparison of Expected 2004 Annual Natural Gas Prices by Various Sources
From the Time of Aquila Direct Testimony and More Recently**

(\$/MMBtu or \$/Mcf)

<u>Line</u>	<u>Information Source</u>	<u>Forecast "Then"</u> (1)	<u>Forecast "Now"</u> (2)
Sources Quoted by Mr. Browning:			
1	Cambridge Energy Research Associates	\$5.35	\$4.62
2		3/20/03	9/16/03
3	Energy and Environmental Analysis ¹	\$6.50	\$5.00
4		3/13/03	9/11/03
5	Jefferies & Co. ²	\$4.50	\$4.00-\$6.00
6		3/11/03	10/23/03
7	Fitch Ratings	\$3.50	\$4.00
8		3/5/03	Oct-03
9	Lehman Brothers	\$4.50	\$3.75
10		2/27/03	10/15/03
Other Industry Sources:			
11	Energy Information Administration	\$4.99	\$3.99
12		Jun-03	Nov-03
13	NYMEX Futures	\$5.44	\$4.77
14		Jun-03	11/13/03-11/26/03

¹ Quoted but not used in Browning estimate.

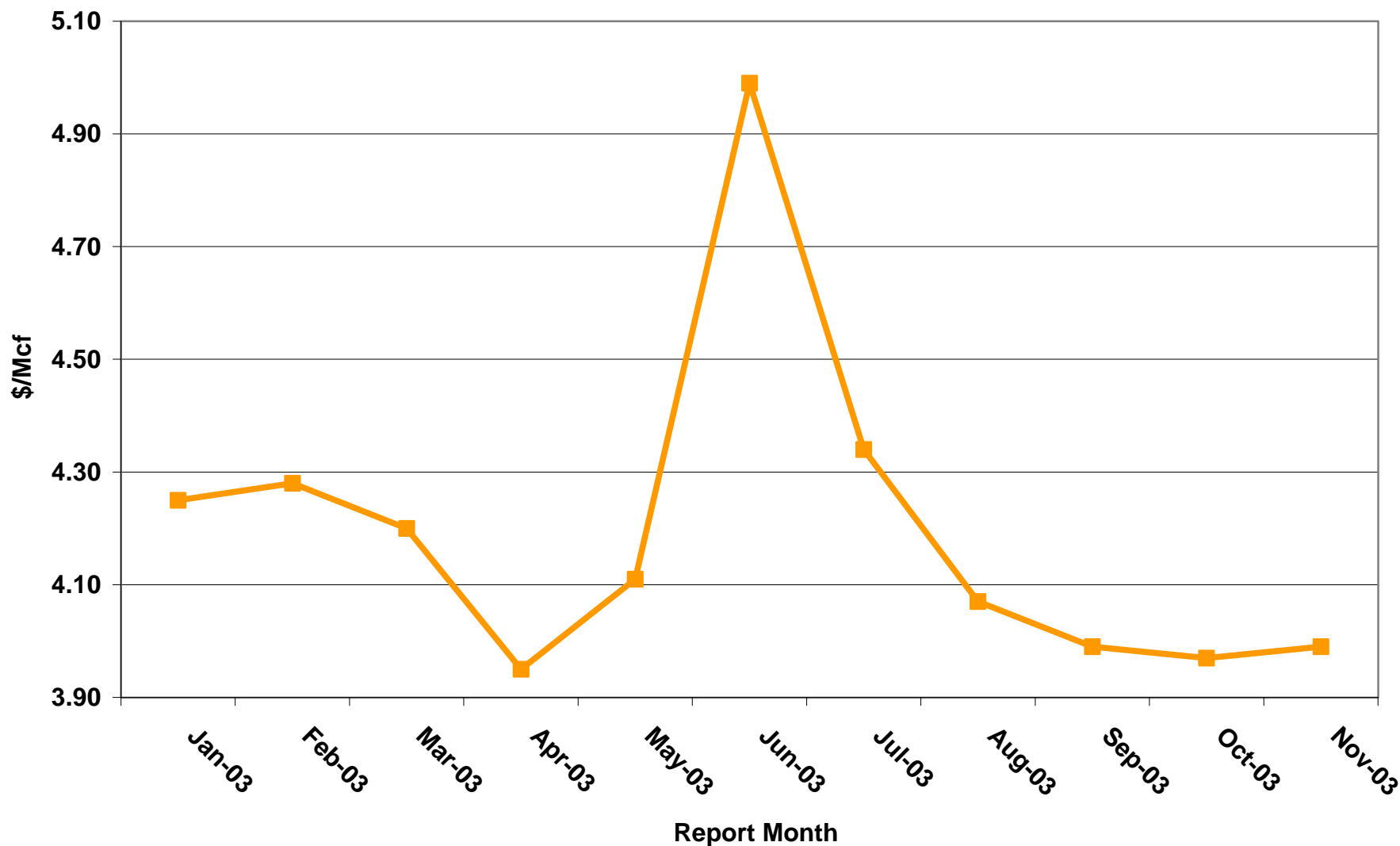
² "Now" forecast is for next 3-4 years (starting in 2004)

NYMEX HENRY HUB FUTURES CONTRACTS
TEN DAY AVERAGE OF RECENT CLOSING PRICES (\$/MMBtu)
(11/13/03 - 11/26/03)

<u>Line</u>	<u>Month</u>	<u>2004</u> (1)	<u>2005</u> (2)	<u>2006</u> (3)	<u>Average</u> (4)
1	Jan	5.016	5.100	5.004	5.040
2	Feb	5.044	5.062	4.974	5.027
3	Mar	4.940	4.911	4.834	4.895
4	Apr	4.634	4.556	4.558	4.583
5	May	4.600	4.478	4.478	4.519
6	Jun	4.613	4.495	4.474	4.527
7	Jul	4.630	4.518	4.483	4.543
8	Aug	4.649	4.538	4.496	4.561
9	Sep	4.638	4.526	4.493	4.552
10	Oct	4.651	4.551	4.532	4.578
11	Nov	4.813	4.723	4.721	4.752
12	Dec	4.987	4.903	4.889	4.926
13	Average	4.768	4.697	4.661	4.709

Source: NYMEX.com "Daily Natural Gas Market Data"

**EIA/SHORT-TERM ENERGY OUTLOOK
 FORECASTED 2004 NATURAL GAS WELLHEAD PRICES (\$/Mcf)
 (January 2003 - November 2003 Reports)**



Source: Monthly EIA Short-Term Energy Outlook