Exhibit No.:
Issues: Cost of Removal/Salvage; Aries Unit
Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case Nos.: ER-2004-0034 and HR-2004-0024 (Consolidated)
Date Testimony Prepared: December 9, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

AQUILA, INC.
D/B/A AQUILA NETWORKS - MPS ELECTRIC AND AQUILA NETWORKS - L&P ELECTRIC & STEAM
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)

CASE NOS. ER-2004-0034 AND HR-2004-0024
(CONSOLIDATED)

Jefferson City, Missouri
December 2003

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

NP

Exhibit No. 67 NP
Case No(s). ER-2004-0034
Date 2/23/04 Rptr KF

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE 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 Aquila, Inc. d/b/a Aquila Networks L&P to implement a general rate increase in Steam Rates.	)	Case No. HR-2004-0024

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 24 pages to be presented in the above case; that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone
Cary G. Featherstone

Subscribed and sworn to before me this 8th day of December 2003.

Toni Charlton
Notary Public

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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AND AQUILA NETWORKS – L&P – ELECTRIC AND STEAM

CASE NOS. ER-2004-0034 AND HR-2004-0024

(Consolidated)

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

AQUILA, INC.

d/b/a AQUILA NETWORKS-MPS ELECTRIC

AND AQUILA NETWORKS – L&P – ELECTRIC AND STEAM

CASE NOS. ER-2004-0034 AND HR-2004-0024

(Consolidated)

Q. Please state your name and business address.

A. Cary G. Featherstone, 3675 Noland Road, Independence, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Kansas City in December 1978 with a Bachelor of Arts degree in Economics. My course work also included study in the field of Accounting.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have assisted, conducted and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunication companies. I have been involved in cases concerning proposed rate increases, earnings investigations and complaint cases as well as cases relating to mergers and acquisitions and certification cases.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have. Schedule 1 to this testimony is a summary of rate cases in which I have submitted testimony. In addition, Schedule 1 also identifies other cases where I directly supervised and assisted in audits of several public utilities, but where I did not file testimony.

Q. With reference to Case Nos. ER-2004-0034 and HR-2004-0024, have you examined and studied the books and records of Aquila Inc and its Missouri electric and steam divisions, Aquila Networks -- MPS (MPS) and Aquila Networks– L & P (Light & Power or L & P)?

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

Q. What is the purpose of your direct testimony?

A. I will provide testimony that supports Staff's positions on the rate treatment of Greenwood Energy Center costs and cost of removal/ salvage. I will also provide testimony on a generating facility jointly owned by Aquila, Inc. (Aquila or Company) and an operating partner, Calpine Corporation — a 585-megawatt combined cycle unit located at Pleasant Hill, Missouri. Staff witness Mark L. Oligschlaeger will also provide testimony on the combined cycle unit. Throughout Staff's direct testimony filing, the Aries Combined Cycle Unit will be referred to as the "Combined Cycle Unit" or "Aries Plant."

Q. How did you perform the audit of Aquila?

A. Staff conducted interviews of several Aquila personnel in the areas of fuel and fuel related issues such as fuel prices, purchased power and interchange off-system sales, construction of new generation. I reviewed data requests responded to by the Company. I reviewed the Board of Directors minutes, Annual Reports to the Shareholders and SEC Forms 10-K and 10-Qs.

Q. What knowledge, skill, experience, training or education do you have in these matters?

A. I have acquired general knowledge of these topics through my experience and analyses in prior rate cases, complaint cases, merger cases and certificate cases before the Commission. I have participated in several Aquila rate cases, complaint cases, merger cases and certificate cases and filed testimony on a variety of topics. I have also acquired knowledge of these topics through review of Staff work papers for prior rate cases brought before this Commission relating to Aquila. Specifically, I have examined fuel and fuel-related areas on numerous occasions, at several companies. In addition, I have been involved in several construction audits. I have reviewed the Company's testimony, work papers and responses to data requests addressing these topics. I participated in interviews of Company personnel relating to the Aries issue. In addition, my college coursework primarily included accounting, auditing and economics classes.

Q. Please identify which adjustments you are sponsoring.

A. For the Aquila Networks - MPS electric operations, I am sponsoring adjustment S-93.1 for Cost of Removal/Salvage. These adjustments appear on Accounting Schedule 10, Adjustments to Income Statement.

For the Aquila Networks— L & P electric operations I am sponsoring adjustment S-93.1 and for steam operations S-42.1 relating to Cost of Removal/ Salvage.

Q. How is your testimony organized?

A. The following is the structure of my testimony by areas:

1. Cost of Removal and Salvage;
2. Aries Combined Cycle Unit.

Q. What caused Staff's review in this case?

A. On July 3, 2003, Aquila filed for a $65 million increase in its Missouri electric retail rates, exclusive of franchise and occupational taxes for its Aquila Networks—MPS division (MPS), generally referred to as MPS or Missouri Public Service. This represents an overall 19.2% increase to existing rates. Aquila also filed on July 3, 2003, for an increase in electric rates for its Aquila Networks—L & P division (Light & Power or L & P). This proposed increase for $14.6 million represents a 15.5% overall increase over existing rates. In addition, Aquila filed for a $1.3 million increase, or a 19.2% increase, in steam rates for its Light & Power's six commercial steam customers.

Q. What test year is being used in this case?

A. The test year authorized by the Commission in its October 2, 2003 Order was the calendar year ending 2002 with an update for known and measurable period through September 30, 2003.

Staff witness Phillip K. Williams describes the test year utilized in this case and the period to update the test year for known and measurable changes in his direct testimony.

Q. Have the electric and steam cases been combined?

A. Yes, these two cases have been consolidated by the Commission's Order Consolidating Cases issued July 24, 2003.

Q. Will your testimony relate to both of these cases?

A. Yes. References in this testimony to MPS refer to the Missouri jurisdictional electric operations of Aquila in and about Kansas City. References in this testimony to Light & Power or L & P refer to the Missouri jurisdictional electric and steam operations of Aquila in and about St. Joseph.

Q. Does Aquila have any other rate cases pending before the Commission?

A. Yes. Aquila's MPS and L & P divisions, in addition to providing regulated electric and steam services, also provides natural gas services to the state of Missouri. On August 1, 2003, Aquila filed for a \$5.6 million increase or a 11.1% increase in rates for the natural gas operations of Aquila's MPS division and \$800,000 increase or a 13.9% increase in rates for the natural gas operations of Aquila's L & P division in the state of Missouri. This case is docketed Case No. GR-2004-0072. The current procedural schedule requires the direct filing for the natural gas case on January 6, 2004. The electric and steam revenue requirements determined for Case Nos. ER-2004-0034 and HR-2004-0024 do not reflect any impacts for the natural gas operations of Aquila.

Q. Please give a brief history of Aquila's utility operations in Missouri?

A. What is now Aquila began as a Missouri corporation that provided utility service within what is now the service area of Aquila Networks--MPS in 1917. By the 1980's that entity was named UtiliCorp United, Inc. (UtiliCorp) and reorganized itself as a Delaware corporation. In March 2002, UtiliCorp became Aquila, Inc. The Commission approved this name change early in 2002. Previous to UtiliCorp, the Company was called Missouri Public Service Company.

Q. Does Aquila currently provide utility services within the state of Missouri?

A. Yes. Aquila is an investor-owned electric and natural gas utility that is engaged in the generation, purchase, transmission, distribution and sale of electricity on a regulated basis to approximately 438,000 customers in three states, Missouri, Kansas and Colorado (page iv of UtiliCorp 2002 Annual Report.). The Company also serves 891,000 natural gas customers on a regulated basis in seven states: Missouri, Kansas, Colorado, Nebraska, Iowa, Michigan and Minnesota. The Company continues to provide trading and marketing of wholesale services on a limited basis as it winds down its non-regulated operations for natural gas, electricity, broadband capacity and other commodities.

Aquila provides retail electric utility service to electric customers in the western and central part of the state of Missouri through its operating divisions, MPS and Light & Power, from its electric generation, transmission and distribution facilities. MPS provides electricity on a wholesale basis through tariffs approved by the Federal Energy Regulatory Commission (FERC). MPS and Light & Power also provide natural gas utility service to customers in Missouri. In addition, Light & Power provides industrial steam to six customers in St. Joseph, Missouri, from its Lake Road generating facility. Between MPS and Light & Power, Aquila serves 338,000 electric and natural gas customers in Missouri. Aquila serves a total of 1.3 million customers through its regulated domestic utility operations in the states of Kansas, Colorado, Michigan, Minnesota, Iowa, Nebraska and Missouri.

Aquila also currently owns utility property in Canada (Aquila is attempting to sell its interest in Canada), and recently sold its interest in United Kingdom, New Zealand and Australia through its international subsidiaries and partnerships.

As of the end of 2002, Aquila had non-regulated power generation operations, owning or controlling approximately 3,626 megawatts of non-regulated capacity.

Finally, Aquila has a 96% ownership of Everest Communications. Everest provides local and long-distance telephone, cable television, high-speed internet and data services to areas of Greater Kansas City. This service was started in 2001.

Q. Did Aquila recently acquire its Light & Power division?

A. Yes. On December 31, 2000, Aquila merged with the St. Joseph Light & Power Company. The Commission approved this merger in Case No. EM-2000-292. The Commission's decision was appealed by parties to the case, and subsequent to the Commission's approval the Supreme Court of Missouri issued an opinion in Case Number SC85352 on October 28, 2003. The Supreme Court's opinion required the circuit court to remand the case back to the Commission "to consider and decide the issue of recoupment of the acquisition premium in conjunction with the other issues raised by PSC staff and intervenors in making its determination of whether the merger is detrimental to the public." [Source: page 3, Section 4 of the Supreme Court's decision in Case Number SC85352]

COST OF REMOVAL AND SALVAGE

Q. Please explain adjustment S-93.1 in the MPS electric case, S-93.1 in the Light & Power electric case and S-42.1 in the Light & Power steam case.

A. These adjustments reflect cost of removal and salvage costs to be included in the cost of service expense levels for each of the cases filed by the Company.

Q. What is cost of removal and salvage?

A. Cost of removal is incurred when utility property is retired and removed from service. Generally, removing property from service causes the utility to incur costs to abandon, physically dismantle, tear down or otherwise remove the property from its site.

Salvage is the proceeds received from the residual value or scrap value that some property has when it is dismantled and removed from utility service. After a piece of property is dismantled or removed from service, utilities can in some instances sell or receive some value for the displaced property. Utilities track the costs relating to removal costs and salvage value on an ongoing annual basis.

Typically, removal costs exceed salvage value, resulting in a positive net expense to the utility. The net effect of cost of removal and salvage was included in Staff's determination of the overall revenue requirement for MPS.

Q. Why is this adjustment necessary?

A. This adjustment is necessary to include an annual normalized level of cost of removal and salvage proceeds in MPS's cost of service. Cost of removal expenditures, like other expenses (maintenance, payroll, fuel expense, etc.) are on-going costs incurred by the utility to provide service to its customers. Therefore, like these other costs, Staff has determined a normalized level for annual cost of removal, netted against any normalized salvage proceeds received by the Company.

Q. How did Staff determine the appropriate normalized level of cost of removal and salvage amounts to include in this case?

Staff reviewed the cost of removal expenditures and amounts received from salvage values by year for MPS for a 10-year period of time from 1993 to 2002. Based on this information, Staff calculated cost of removal and salvage values using a five-year average for the period 1998 through 2002. Use of the five-year average reflected that MPS incurred a net cost of removal amount over this period of time that represents a cost to the MPS. This amount was included in Accounting Schedule 9, Income Statement, on both a total Company and jurisdictional basis.

Q. What were the cost of removal expenditures and salvage amounts for the five-year period?

A. The cost of removal and salvage amounts for the five-year period between 1998 and 2002 were:

Year	Cost of Removal	Salvage	Net Salvage
1998	$1,399,148	($339,912)	$1,059,236
1999	452,875	(190,589)	262,285
2000	303,736	(177,357)	126,379
2001	1,916,892	(1,860,577)	56,315
2002	3,811,253	(854,021)	2,957,232

[Source: Data Request No. 276]

Q. Why did Staff use a five-year average to determine the level of cost of removal and salvage value to include in the revenue requirement?

A. A five-year average was used because the costs of removal and salvage amounts fluctuated from year to year during the period examined. Using a five-year average for fluctuating costs removes or smoothes out the differences from one year to the next. Averaging costs to mitigate the impact of fluctuations is commonly used in the ratemaking process and is consistent with how other costs have been treated in this case. The average over the last five years is the most representative of the annual normal on-going level of expense for this case.

Q. Have cost of removal and salvage value been treated this way in prior Aquila rate cases?

A. Yes. This was the method that Staff used in the last Aquila (then known as UtiliCorp United) general rate case, Case No. ER-2001-672.

Q. Has Staff treated cost of removal and salvage amounts in other rate cases consistent with the way that they have been treated in this case?

A. Yes. This approach has been used the last several years in many rate cases filed with the Commission. The cases that cost of removal has been treated as an expense item netted against any salvage amounts are:

Ameren/Union Electric Company	Case No. GR-2000-512
Ameren/Union Electric Company	Case No. EC-2002-1
Ameren/Union Electric Company	Case No. GR-2003-517
Laclede Gas Company	Case No. GR-2001-621
Laclede Gas Company	Case No. GR-2002-356
St. Louis County Water Company	Case No. WR-2000-844
Missouri American Water Company	Case Nos. WR-2003-500 and WC-2004-0168
Empire District Electric Company	Case No. ER-2001-299
Empire District Electric Company	Case No. ER-2002-424
Missouri Gas Energy	Case No. GR-2001-292
UtiliCorp United, Inc. (Aquila Inc)	Case No. ER-2001-672

<u>ARIES COMBINED CYCLE UNIT</u>

Q. Does MPS have a purchased power agreement with one of its affiliates?

A. Yes. MPS entered into a purchased power agreement (PPA) with Aquila Merchant, a wholly-owned subsidiary of Aquila (then called UtiliCorp United, Inc.), on

February 22, 1999. Aquila Merchant created a company known as Merchant Energy Plant - Pleasant Hill, LLC (MEPPH) to supply power to MPS.

Q. Did Aquila Merchant build a new generating facility in Missouri to supply the power under the PPA with MPS?

A. Yes. Aquila Merchant and subsequent operating partner, Calpine Corporation (Calpine), completed construction of a 585-megawatt combined cycle unit at the Aries Power Plant site located at Pleasant Hill, Missouri in 2002.

Q. When did the Aries combined cycle unit become fully operational?

A. The partners identified the Aries Combined Cycle Generating Facility (Aries Combined Cycle Unit or Aries Plant) was completed and ready to generate electricity as a combined cycle unit by February 2002. The combined cycle plant provides to MPS 200 megawatts during October through March and 500 megawatts during April through September starting in 2002 through May 31, 2005, to MPS under the terms of the PPA entered into on February 22, 1999. Aries provided 320 megawatts of peaking capacity service to MPS during the summer of 2001 under the same capacity contract.

Q. What is Aquila's interest in the Aries Combined Cycle Unit?

A. Aquila effectively owns 50% of this unit. Calpine, the partner which effectively owns the other 50% of the plant, is the operating partner of the Aries Combined Cycle Unit through a Partnership Agreement. On January 12, 2000, Aquila, then called UtiliCorp, entered into a Partnership Agreement with Calpine for the construction, ownership and operation of the Aries Combined Cycle Unit. The actual Partnership Agreement is entitled "Amended And Restated Limited Liability Company Agreement of MEP Pleasant Hill, LLC a Delaware Limited Liability Company" (Case No. ER-2001-672, Data Request

No. 315). The Partnership Agreement provides that Aquila will have a 50% ownership share, which entitles it to half of the capacity of the total 585 megawatt combined cycle capacity. Calpine will own the remaining 50% of capacity of this generating facility.

Q. Why are Aquila and Calpine considered to "effectively own" Aries?

A. While Aquila and Calpine "own" the MEPPH partnership, the output of Aries generation, and ultimately, the plant investment itself, Aquila and Calpine up an arrangement, primarily for tax purposes, to have Cass County – the county where Aries is located, "own" the power plant. Although the county holds legal title for the sole purpose of providing tax abatement to MEPPH, MEPPH retains all of benefits and risks of ownership under a capital lease and has the option of acquiring legal title to the facility upon payment of nominal sum of $50,000 at any time. MEPPH has sole and exclusive possession of the Aries facility. Cass County does not have any authority to operate the facility as a business or in any manner except as the lessor. Any residual value at the end of the lease terms of Aries remains with MEPPH ownership [page 5, Amendment to Application for Determination of Exempt Wholesale Generator Status, filed with FERC May 20, 2002].

Q. Does Aquila recognize the ownership relationship of Aries?

A. Yes. Aquila identifies Aries, along with several other merchant plants on its non-regulated books of Aquila Merchant. At page 19 of Aquila's Securities and Exchange Commission (SEC) Form 10-K for December 31, 2002, Aquila states:

> We [Aquila] own or control 2,664 MW of net power generation capacity from merchant facilities, including capacity under construction. Our merchant power plants generally do not have dedicated customers, because they are designed to operate only during periods of peak demand in the geographic area in which the plant is located. Generally these plants provide power to utilities when they experience unexpected outages or transmission difficulties or the

> demands of their customers exceed their regular power supply due to extreme weather.

Aries is one of several plants that is identified in a table associated with the above description in the Aquila Form 10-K.

Q. How do Aquila and Calpine operate Aries?

A. The Aries Combined Cycle Unit, located at Pleasant Hill, Missouri, is made up of two combustion turbines and a 265-megawatt steam turbine generator that operates as part of the combined cycle unit, using heat generated by the two combustion turbine generator units that otherwise would be wasted. When the two 160-megawatt combustion turbines and the 265-megawatt steam turbine generator are operating in combined cycle, they total generating capacity of 585-megawatts.

Q. What type of unit is the combined cycle unit?

A. When operating in combined cycle mode, this unit will be efficient enough to be considered an intermediate generating facility. While the two combustion turbine-generators can be operated in what is referred to as "simple cycle" or "independent mode," the optimal and most efficient mode of operation is when the two 160-megawatt combustion turbine-generators are running in tandem and the heat recovery system is capturing the exhaust heat and converting it to steam. The steam is then used to power the 265-megawatt steam turbine-generator. The heat recovery system for each combustion turbine-generator is known as the heat recovery steam generator (HRSG). There is a separate HRSG unit for each of the two combustion turbine-generators. To obtain the optimal operating performance, the combined cycle unit will utilize the capacity from the two 160-megawatt combustion turbines and the steam flow to power the 265-megawatt steam turbine, giving the Aries Combined Cycle Unit a total operating capacity at full load of 585-megawatts.

Q. What fuel sources will the Aries Combined Cycle Unit use?

A. The Aries Combined Cycle Unit operates only on natural gas.

Q. What was the total cost of the Aries Combined Cycle Unit?

A. The final construction cost was ** __________ **. Aquila projected the final cost to be approximately $277 million (UtiliCorp 2000 Annual Shareholders Report—page 17). Aquila's 50% ownership share of this amount is ** __________ ** with Calpine responsible for the remaining 50% share.

Q. How has the Aries Combined Cycle Unit been financed?

A. The Aries partners, Aquila and Calpine, have "sold" their ownership rights to Cass County, the county in which the combined cycle facility is located. The partners have entered into a very complex and convoluted financing arrangement with Cass County through a capital lease. Below is the "ARIES Financing Structure" prepared by Aquila that shows this complex structure of "ownership" of the Aries Combined Cycle Unit:

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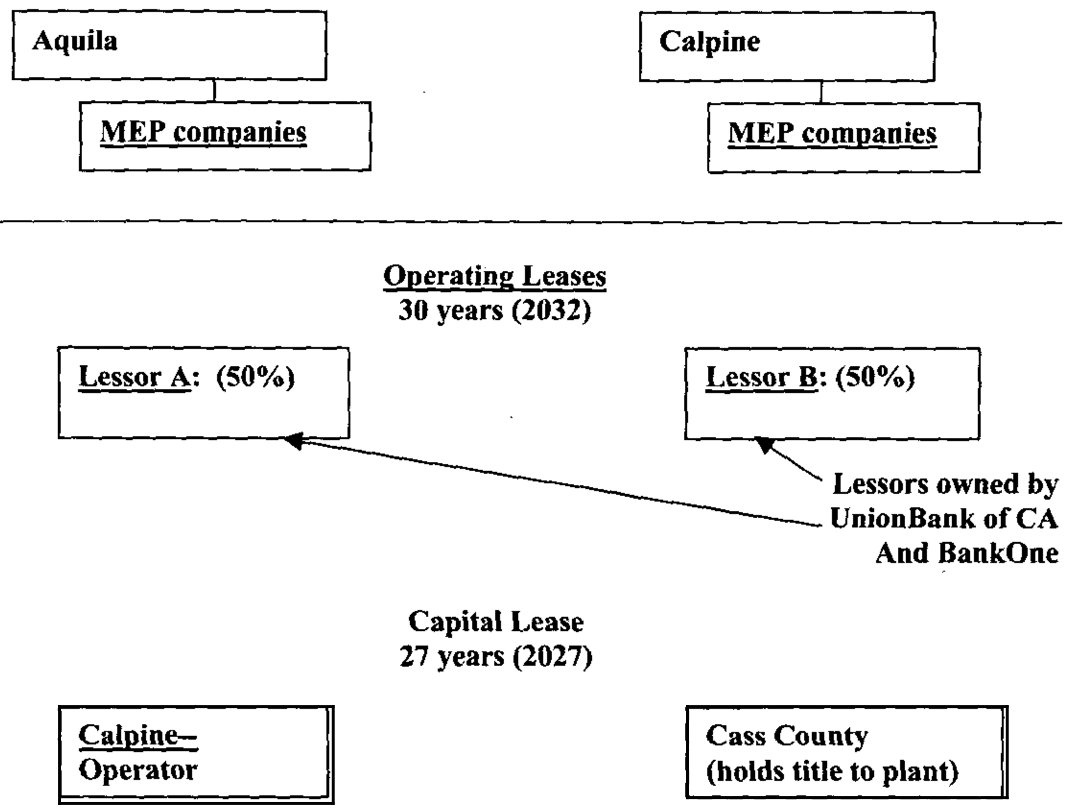
ARIES Financing Structure



Operator Agreement (21 years (2021)

[Source: Information supplied by Aquila, Case No. ER-2001-672]

Aquila, through its ownership of Aquila Merchant, and Calpine have a 30-year operating lease with Cass County, the "owner" of the power plant. Each of these entities has a separate agreement with each of the two lessors, i.e., Union Bank of California and BankOne. In turn, Cass County has a 27-year financing lease with two separate banks. The partnership structure between Aquila and Calpine is MEP Pleasant Hill, LLC, each having a 50% ownership share (membership).

Cass County "financed" the construction costs of building the Aries plant by selling revenue bonds. Aquila informed Staff that "MEP Pleasant Hill, LLC purchased the one and only bond sold by Cass County" (Case No. ER-2001-672, Data Request No. 496). Thus, in reality, Aquila Merchant and Calpine financed the plant themselves, entered into an operating agreement for 30-years, paying Cass County lease payments each year during that time period. In addition, Calpine is the operating partner of the Aries Plant under a separate operating agreement with MEP Pleasant Hill, LLC effective January 12, 2000 (Case No. ER-2001-672, Data Request No. 315).

Q. Is the Aries capacity contract a "tolling" agreement?

A. Yes. MPS supplies the natural gas to fuel the combustion turbines to generate the electricity consumed by MPS.

Q. What are tolling agreements?

A. Typically, these are capacity agreements that are entered into between a seller of power such as owners of generating power plants, known as independent power projects (IPPs), and buyers of power such as utilities like MPS or non-regulated entities like Aquila Merchant. The concept is that the utility will agree to purchase power through a firm capacity agreement paying the seller for this capacity and generally an operation and maintenance (O&M) amount, typically on a cost-per-megawatt-hour basis. The utility tolling aspect of the agreement is that the buyer (utility or non-regulated entity) will supply the fuel source to power the generating unit. In the case of Aries, the fuel source is natural gas. Another form of the tolling arrangement is where Aquila Merchant will supply the natural gas in exchange for the electricity. While the utility will generally use the power for its customers, the non-regulated entity (like Aquila Merchant) will sell power to wholesale customers at market prices.

Q. Are there certain financial obligations that relate to these generating units?

A. Yes. The capacity agreements generally have a finite term under the contract. In the case of the Aries tolling agreement, the contract is to provide 320 megawatts of peaking capacity June through September 2001 and between 200 and 500 megawatts of intermediate capacity in combined cycle operation from January 2002 to May 31, 2005.

When the units are under contract, the payments made by the buyers for electricity cover financing costs. However, because of the inherent risks associated with IPP generating units, lenders generally have asked for certain financial support or backing, to secure the loans for these units. The owners of these plants enter into a tolling arrangement to ensure that unused capacity of the plants (or capacity not under contract) will be supported by sufficient revenues to cover the lenders' financing costs.

Q. Does the Aries plant have a toll with its financial lenders?

A. Yes. The lenders insisted that the owners of the plant have a toll for the capacity of the unit that is not committed to MPS. Because the unit is a 585 megawatt power plant, Aries has a toll for the piece that is not committed to MPS (capacity in excess of 500 megawatts for 6 months and 200 megawatts for 6 months). In addition, the capacity agreement with MPS is only through May 31, 2005, so any unused capacity beyond that date is part of the toll obligation. Aquila, as one of the owners of Aries, is responsible for half of the total toll of the unit. These arrangements ensure that even if the units do not generate sufficient revenues, the lenders will get their loans repaid. The Aries owners must cover all of the loans regardless of the amount of power that is sold to generate revenues.

Q. Is Aquila responsible for any tolling agreements relating to other generating units?

A. Yes. Aquila has tolls that it is obligated to pay through these agreements that are made to ensure the lenders get paid for the financial loans relating to other units. Aquila has identified that it has a total obligation of future toll payments of almost $2.1 billion for the period 2003 to 2007 and thereafter. Generally, these toll agreements cover an approximate 20-year period [SEC Form 10-K, page 60 filed as of December 31, 2002].

Q. Will the $2.1 billion amount have to be paid regardless of any expected revenues generated by these power plants?

A. Yes. Even if the generating units never produce another kilowatt, Aquila will have to ensure that this amount is paid. At pages 59 and 60 of its 2002 SEC From 10-K, Aquila identifies the tolling agreement obligations:

> Our scheduled capacity payments for power generation in our Capacity Services business during 2003 aggregate approximately $101.3 million. Because it is generally expected that the fuel and start-up costs of operating merchant power plants will exceed the revenues that would be generated from the power sales, we believe that our capacity to generate power will largely be unutilized. If our tolling agreements that comprise a substantial portion of our capacity payments are not terminated or restructured on terms acceptable to our counterparties and us, our earnings and liquidity will be severely impacted. We have communicated to certain counterparties the necessity that these agreements be terminated or restructured.

Years	**Capacity Payments** (in millions)
2003	$ 101.3
2004	101.3
2005	112.4
2006	120.2
2007	120.2
Thereafter	1,508.1
Total	$2,063.5

[source: SEC Form 10-K, December 31, 2002, pages 59-60]

Q. Does this amount relate only to Aries?

A. No. Page 20 of Aquila's Form 10-K filed with the SEC identified that, as of December 31, 2002, Aquila had three merchant power plants under tolling agreements. These were the Aries unit, the 604 megawatt Elwood Energy, LLC unit located at an Illinois facility and the Acadia Power Plant located in Louisiana [Page 20, Form 10-K].

Q. Has Aquila reduced any of the obligations under the tolling agreements?

A. Yes. On May 13, 2003, Aquila announced that it had terminated the 20-year tolling agreement for the Acadia Power Partners, LLC. (Acadia). This unit is a joint venture between Calpine and Cleco Corporation. Under the toll, Aquila supplied the natural gas to a combined cycle plant in Eunice, Louisiana, and paid fixed capacity payments for the right to sell into the wholesale market 580 megawatts of power generated by the plant. Under the termination agreement, Aquila paid Acadia $105.5 million to release Aquila from the agreement. The transaction returned $45 million to Aquila in posted collateral and eliminated $843 million in payments due Acadia over the remainder of the 20-year term. Aquila originally entered into the contract with Acadia in 2000.

Q. Is part of the Aries tolling agreement included in the amounts identified above as reported to the SEC in Aquila's Form 10-K?

A. Yes. Aries has a substantial tolling obligation that the owners must pay regardless of their ability to sell any of the Aries power.

Q. Did Aquila's MPS or Light & Power operations have anything to do with the tolling obligation relating to Aries?

A. No. Neither MPS nor Light & Power had anything to do with the terms, responsibilities and ultimate obligation to pay the tolling agreements so the lenders can recover their loans respecting Aries.

Q. Should Aquila have to accept full blame and responsibility for getting into these tolling arrangements?

A. Yes, absolutely. Aquila attempted to be a non-regulated entity, seeing a substantial amount of its business being derived by non-regulated activities. The merchant plant business was a big part of Aquila's future business growth objectives. To the extent that Aquila made bad business decisions, Aquila should bear all the risks and consequences of those decisions. The decision of Aquila to build Aries as a non-regulated generating unit should not have any bearing on, or influence in any way, decisions that need to be made for Aquila's regulated Missouri operating divisions, MPS and Light & Power.

Q. Have the lenders been repaid on any of the loan obligations relating to Aries?

A. The Aries partners announced the default of the Aries construction loan in July 2003. The loan is still in default.

Q. Is Aquila planning on replacing the Aries capacity once the current contract ends May 31, 2005?

A. Yes. Aquila will have a capacity shortfall once the Aries contract is completed, May 2005. The Company has a Request for Proposal (RFP) that it has issued several times to acquire replacement capacity once the existing capacity agreement expires. The RFP was originally issued in 2001, with responses received late 2001 and rebid in 2003.

Q. Has the Company made any final decisions with regard to the capacity needs of the MPS and Light & Power divisions once the current MEPPH contract expires?

A. As of this testimony, Aquila has made no decision regarding the replacement capacity once the Aries contract ends May 31, 2005, approximately 17 months from now (Data Request No. 164.2).

Q. On the rebid has Aquila received proposals for power after the Aries contract ends May 31, 2005?

A. Yes. Aquila received bids from several separate entities. The responses have been received for Aquila's review during 2003. After evaluation Aquila ** ______ ** the proposals and has subsequently received ** ________ ** from the bidders.

Q. Did the Aries partners respond to Aquila's RFP for MPS and Light & Power capacity?

A. ** ____

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______ ** As stated earlier, to date no decision has been made by Aquila.

Q. Is Staff concerned that the Aries tolling obligation will place an undue influence on the bidding process for MPS and Light & Power capacity needs after the termination on May 31, 2005, of the existing PPA?

A. Yes. With the affiliated relationship between Aquila Merchant, one of the owners of Aries, Staff is concerned that the evaluation of capacity requirements for Missouri operations will be influenced and compromised to the extent that the Aries bid will receive preference over other qualified bidders and over any options for MPS and Light & Power to build their own generation that may exist that would benefit MPS and Light & Power customers' long-term energy needs.

Q. Did Staff express concern over the Aries PPA in Aquila's (then called UtiliCorp) last electric rate increase case?

A. Yes. In Case No. ER-2001-672, Staff proposed a similar adjustment that is being identified in Mr. Oligschlaeger's direct testimony in this case. In addition, Staff believed that Aquila needed to examine building and owning the generation required to meet the capacity needs of its customers. Staff continues to believe that this option is something that Aquila needs to address. The Commission should require Aquila and its operating divisions, MPS and Light & Power to perform an extensive study to determine what is in the long-range best interest of its customers in meeting capacity and energy requirements going forward.

Staff is concerned that Aquila will make the decision to enter into another five-year purchased power agreement with the Aries MEPPH partners that will effectively purchase capacity from this affiliated company through 2010. If this were to happen, then the pressure relating to the tolling agreement for Aries will be greatly reduced.

Q. Is Aquila currently reviewing the building of generation to meet the future capacity needs of MPS and Light & Power?

A. ** ________ **

Q. ** ________ **

A. ** ________ **

Q. Is any other Staff witness addressing the Aries capacity agreement in its direct testimony?

A. Yes. Staff witness Mark L. Oligschlaeger also addresses the Aries Combined Cycle Unit ownership and financing structure in his direct testimony.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Cary G. Featherstone

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony	Case
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph Light & Power Company (industrial steam)	Direct	Stipulated
1980	Case No. GR-80-173	The Gas Service Company (natural gas)	Direct	Stipulated
1980	Case No. GR-80-249	Rich Hill-Hume Gas Company (natural gas)	No Testimony filed	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Contested
1981	Case No. ER-81-42	Kansas City Power & Light Company (electric)	Direct Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone)	Direct	Stipulated
1981	Case No. TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone-- depreciation case)	Direct	Contested
1982	Case Nos. ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating)	Direct Rebuttal Surrebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)	Direct	Contested

Year	Case No.	Utility	Type of Testimony	Case
1983	Case No. EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1983	Case No. ER-83-49	Kansas City Power & Light Company (electric)	Direct Rebuttal Surrebuttal	Contested
1983	Case No. TR-83-253	Southwestern Bell Telephone Company (telephone)	Direct	Contested
1984	Case No. EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1985	Case Nos. ER-85-128 and EO-85-185	Kansas City Power & Light Company (electric)	Direct	Contested
1987	Case No. HO-86-139	Kansas City Power & Light Company (district steam heating-- discontinuance of public utility)	Direct Rebuttal Surrebuttal	Contested
1988	Case No. TC-89-14	Southwestern Bell Telephone Company (telephone-- complaint case)	Direct Surrebuttal	Contested
1989	Case No. TR-89-182	GTE North, Incorporated (telephone)	Direct Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50	Kansas Power & Light - Gas Service Division (natural gas)	Direct	Stipulated
1990	Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)	Direct Surrebuttal	Contested

Year	Case No.	Utility	Type of Testimony	Case
1990	Case No. GR-90-198	UtiliCorp United, Inc., Missouri Public Service Division (natural gas)	Direct	Stipulated
1990	Case No. GR-90-152	Associated Natural Gas Company (natural gas)	Rebuttal	Stipulated
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas-- acquisition/merger case)	Rebuttal	Contested
1991	Case Nos. EO-91-358 and EO-91-360	UtiliCorp United Inc., Missouri Public Service Division (electric-- accounting authority orders)	Rebuttal	Contested
1991	Case No. GO-91-359	UtiliCorp United Inc., Missouri Public Service Division (natural gas)	Memorandum Recommendation	Stipulated
1993	Case Nos. TC-93-224 and TO-93-192	Southwestern Bell Telephone Company (telephone-- complaint case)	Direct Rebuttal Surrebuttal	Contested
1993	Case No. TR-93-181	United Telephone Company of Missouri (telephone)	Direct Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas-- sale of Missouri property)	Rebuttal	Stipulated
1994	Case No. GM-94-252	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas--acquisition case)	Rebuttal	Contested
1994	Case No. GA-94-325	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas-- certificate case)	Rebuttal	Contested
1995	Case No. GR-95-160	United Cities Gas Company (natural gas)	Direct	Contested
1995	Case No. ER-95-279	Empire District Electric Company	Direct	Stipulated

Year	Case No.	Utility	Type of Testimony	Case
		(electric)		
1996	Case No. GA-96-130	UtiliCorp United, Inc./Missouri Pipeline Company (natural gas-- certificate case)	Rebuttal	Contested
1996	Case No. EM-96-149	Union Electric Company merger with CIPSCO Incorporated (electric and natural gas--acquisition/merger case)	Rebuttal	Stipulated -
1996	Case No. GR-96-285	Missouri Gas Energy Division of Southern Union Company (natural gas)	Direct Rebuttal Surrebuttal	Contested
1996	Case No. ER-97-82	Empire District Electric Company (electric-- interim rate case)	Rebuttal	Contested
1997	Case No. EO-97-144	UtiliCorp United Inc./Missouri Public Service Company (electric)	Verified Statement	Commission Denied Motion
1997	Case No. GA-97-132	UtiliCorp United Inc./Missouri Public Service Company (natural gas—certificate case)	Rebuttal	Contested
1997	Case No. GA-97-133	Missouri Gas Company (natural gas—certificate case)	Rebuttal	Contested
1997	Case Nos. EC-97-362 and EO-97-144	UtiliCorp United Inc./Missouri Public Service (electric)	Direct	Contested
1997	Case Nos. ER-97-394 and EC-98-126	UtiliCorp United Inc./Missouri Public Service (electric)	Direct Rebuttal Surrebuttal	Contested
1997	Case No. EM-97-395	UtiliCorp United Inc./Missouri Public Service (electric-application to spin-off generating assets to EWG subsidiary)	Rebuttal	Withdrawn
1998	Case No. GR-98-140	Missouri Gas Energy Division of Southern Union Company	Testimony in Support of	Contested

Year	Case No.	Utility	Type of Testimony	Case
		(natural gas)	Stipulation And Agreement	
1999	Case No. EM-97-515	Kansas City Power & Light Company merger with Western Resources, Inc. (electric acquisition/ merger case)	Rebuttal	Stipulated (Merger eventually terminated)
2000	Case No. EM-2000-292	UtiliCorp United Inc. merger with St. Joseph Light & Power Company (electric, natural gas and industrial steam acquisition/ merger case)	Rebuttal	Contested
2000	Case No. EM-2000-369	UtiliCorp United Inc. merger with Empire District Electric Company (electric acquisition/ merger case)	Rebuttal	Contested (Merger eventually terminated)
2001	Case No. ER-2001-299	Empire District Electric Company (electric)	Direct Surrebuttal True-Up Direct	Contested
2001	Case Nos. ER-2001-672 and EC-2002-265	UtiliCorp United Inc./Missouri Public Service Company (electric)	Verified Statement Direct Rebuttal Surrebuttal	Stipulated
2002	Case No. ER-2002-424	Empire District Electric Company (electric)	Direct	Stipulated

AUDITS WHICH WERE SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
1986	Case No. TR-86-14 (telephone)	ALLTEL Missouri, Inc.		Stipulated
1986	Case No. TR-86-55 (telephone	Continental Telephone Company of Missouri		Stipulated
1986	Case No. TR-86-63 (telephone)	Webster County Telephone Company		Stipulated
1986	Case No. GR-86-76 (natural gas)	KPL-Gas Service Company		Withdrawn
1986	Case No. TR-86-117 (telephone)	United Telephone Company of Missouri		Withdrawn
1988	Case No. GR-88-115 (natural gas)	St. Joseph Light & Power Company	Deposition	Stipulated
1988	Case No. GR-88-116 (industrial steam)	St. Joseph Light & Power Company	Deposition	Stipulated