

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

07-AQLG-431-RTS

In the Matter of the Application of Aquila, Inc.,)
d/b/a Aquila Networks-KGO, For Approval of)
the Commission to Make Certain Changes)
in its Rates For Natural Gas Service)

Docket No. _____

Direct Testimony of Terry R. Thomas

Senior Financial Manager
Aquila, Inc.

STATE CORPORATION COMMISSION

NOV 01 2006

Pro Forma Adjustments

 Docket
Room

November 2006

1 **Q. Please state your name and business address**

2 A. My name is Terry R. Thomas. My business address is 110 E 9th,
3 Lawrence, KS, 66044.

4

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

6 A. I am employed by Aquila, Inc. (Aquila) as a Senior Financial Manager.

7

8 **Q. Please state your educational background and business experience.**

9 A. I am a 1981 graduate of St. Mary of the Plains College where I received a
10 B.A. in Business Administration with a major emphasis in accounting. I
11 have been employed by Aquila for 20 years. In those years, I have held
12 numerous positions and responsibilities including Accounting, Auditing,
13 Reporting, Budgeting and Financial Management.

14

15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to explain Pro Forma adjustment Nos. 3,
17 5, 10, 11, 19, and 22.

18

19 **Q. Please explain Pro Forma Adjustment No. 3.**

20 A. Pro Forma Adjustment No. 3 relates to Aquila's Weather Normalization
21 Adjustment Program. The WNA Rider Adjustment eliminates revenues
22 related to Aquila's Weather Normalization Adjustment Program (WNA).
23 Aquila's WNA adjusts for the variance of actual weather from normal

1 weather. The difference is deferred as an under collection if the weather
2 is warmer than normal, or an over collection if the weather is colder than
3 normal. During the test period, there was a net under collection of
4 \$3,425,783 that must be eliminated since an adjustment for normal
5 weather has already been made. The amount being eliminated includes
6 a prior period adjustment related to activity out of the year which totals
7 \$1,426,231.

8
9 **Q. Please explain Pro Forma Adjustment No. 5.**

10 A. In Docket No. 05-AQLG-687-ACT, Aquila was granted an Accounting
11 Authority Order (AAO) to defer and seek recovery of its actual costs
12 incurred to respond to an emergency situation due to hydrogen sulfide
13 levels in natural gas being supplied to a number of customers in
14 southwestern Kansas. Pro Forma Adjustment No. 5 is a three year
15 amortization of these costs.

16
17 **Q. Can you provide some background information on the emergency
18 situation?**

19 A. Mr. Chuck Loomis is providing additional information on the matter in his
20 testimony. My testimony specifically addresses the pro forma adjustment.

21
22 **Q. What costs did you include in the three year amortization?**

1 A. As the AAO allowed, all costs, including overtime, materials, vehicle &
2 travel, and outside services, have been included. Consistent with the
3 AAO, Aquila has documentation of the costs that have been included in
4 this adjustment. The costs have been tracked in the company's project
5 cost system under a separate project number and have been recorded to
6 account number 182.300. The pro forma adjustment includes carrying
7 costs equal to the overall rate of return proposed in this filing.

8

9 **Q. Please explain Pro Forma Adjustment No. 10.**

10 A. As a result of Docket No. 04-GIMX-651-GIV, payment in person at
11 Aquila's walk-in payment locations is one of the payment methods where
12 customers are not to be charged a fee above the actual amount of the
13 utility bill; i.e. the cost of providing the service of walk-in payments should
14 be included in base rates as a cost of doing business. As of May 1, 2005
15 customers were no longer assessed the \$1.00 fee by the vendor and the
16 Company began to bear the cost. Pro Forma Adjustment No. 10
17 annualizes the impact of this for the test period.

18

19 **Q. Please explain Pro Forma Adjustment No. 11.**

20 A. Pro Forma Adjustment No. 11 reduces the test year amount for
21 uncollectible accounts to the non-gas cost portion of net write-offs. In
22 other words, the adjustment removes the gas cost portion of uncollectible
23 accounts.

1

2 **Q. Why are you removing the gas cost portion of uncollectible**
3 **accounts?**

4 A. In Docket 05-ATMG-643-GIG, the Commission granted the joint applicants
5 authority to recover the gas cost portion of uncollectible accounts through
6 their respective Purchased Gas Adjustment. As was determined in that
7 docket at the time of the utility's next rate case, only the non-gas cost
8 portion of uncollectible accounts would be included in base rates.

9

10 **Q. Please explain Pro Forma Adjustment No 19.**

11 A. As a result of the sale of Aquila's Kansas Electric Operations, costs
12 relating to Aquila's field operations will change in relation to what is
13 included in the test period. This adjustment specifically addresses office
14 facilities and meter readers.

15

16 **Q. Please explain the office facilities portion of the adjustment.**

17 A. In both Dodge City and Liberal, the office facilities are shared by the
18 electric and gas employees. As a result of the sale of the electric
19 operations, both facilities will become electric only facilities. This
20 adjustment removes the lease expense for the Liberal office totaling
21 \$57,908 which will no longer be incurred. No adjustment is needed for the
22 Dodge City office building as the facility is recorded on the Kansas Electric
23 books and consequently not included in the rate filing. An adjustment has

1 been included in the rate base section of the filing for \$1,200,000
2 (\$600,000 each) to reflect the planned construction of two new
3 office/warehouse facilities in Dodge City and Liberal.

4
5 **Q. Please explain the meter reading portion of the adjustment.**

6 A. Meter readers in Dodge City and Liberal are currently shared between the
7 gas and electric operations. As a result of the sale, two natural gas meter
8 readers will be added, one in Dodge City and one in Liberal. This
9 adjustment adds \$96,951 which includes payroll, benefits and
10 transportation expenses.

11
12 **Q, Please explain Pro Forma Adjustment No 22.**

13 A. Based on an evaluation of market data from the field, a determination was
14 made that some employees who are good performers with several years
15 experience in the same job/grade, were being paid below the relevant
16 market rate for their job. This adjustment to individual employee's base
17 pay is a proactive step to align employee's salaries with the market and as
18 a reflection of their contribution to the company.

19
20 **Q. How were individual employee adjustments calculated?**

21 A. A target position in the salary range was determined for each non-union
22 employee by evaluating time in job/grade and performance ratings from
23 the last four years. Employees were given credit for time in job or the

1 same grade (to account for instances when the job title changed, but the
2 grade remained the same, lateral moves and market-based grade
3 adjustments), whichever was higher. Also, a determination was used to
4 adjust the time in job/grade based on feedback from HR managers and
5 managers (to account for long time experience at the same level of work,
6 but at another employer for instance).

7

8 **Q. Does this conclude your testimony?**

9 **A. Yes.**

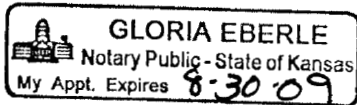
VERIFICATION

STATE OF Kansas)
COUNTY OF Douglas)ss:

Terry R. Thomas, being first duly sworn, deposes and says that he is Terry R. Thomas, referred to in the foregoing document entitled "Direct Testimony of Terry R. Thomas" before the State Corporation Commission of the State of Kansas and the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

Terry R. Thomas
Terry R. Thomas

SUBSCRIBED AND SWORN to before me this 23rd day of October, 2006.



Gloria Eberle
Notary Public

My Appointment Expires: