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October 23, 2017

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MISS. PUBLIC SERVICE COMMISSION

BY HAND DELIVERY

Katherine Collier, Executive Secretary
Mississippi Public Service Commission
501 North West Street, Suite 201-A
Jackson, Mississippi 39201

RE: Mississippi Power Company, EC-120-0097-00
Docket No. 2017-AD-112
IN RE: ENCOURAGING STIPULATION OF MATTERS IN CONNECTION WITH THE KEMPER COUNTY IGCC PROJECT

Dear Ms. Collier:

I am enclosing the original plus 12 copies of Direct Testimony and Exhibits of Michael P. Gorman on behalf of Chevron Products Company, a division of Chevron U.S.A. Inc., Federal Executive Agencies, and The Chemours Company FC, LLC, in the above referenced case. This document was e-filed earlier today.

Please note that we are submitting a confidential and a redacted version of Mr. Gorman's testimony.

Thank you for your assistance. Please don't hesitate to let me know if you have any questions.

Sincerely,

BRUNINI, GRANTHAM, GROWER & HEWES, PLLC

Curtis L. Hébert, Jr.

CLHJR/vmp
Enclosures

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REDACTED VERSION

BEFORE THE

MISSISSIPPI PUBLIC SERVICE COMMISSION

IN RE: ENCOURAGING STIPULATION OF MATTERS IN CONNECTION WITH THE KEMPER COUNTY IGCC PROJECT	)))))))	DOCKET NO. 2017-AD-112

Direct Testimony and Exhibits of

Michael P. Gorman

On behalf of

Chevron Products Company, a division of Chevron U.S.A. Inc., Federal Executive Agencies, and The Chemours Company FC, LLC

October 23, 2017

BRUBAKER & ASSOCIATES, INC.

Project 10452 and 10452.1

BEFORE THE

MISSISSIPPI PUBLIC SERVICE COMMISSION

IN RE: ENCOURAGING STIPULATION OF MATTERS IN CONNECTION WITH THE KEMPER COUNTY IGCC PROJECT	**DOCKET NO. 2017-AD-112**

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Direct Testimony of Michael P. Gorman

BEFORE THE

MISSISSIPPI PUBLIC SERVICE COMMISSION

IN RE: ENCOURAGING STIPULATION OF MATTERS IN CONNECTION WITH THE KEMPER COUNTY IGCC PROJECT	**DOCKET NO. 2017-AD-112**

Direct Testimony of Michael P. Gorman

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

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q **WHAT IS YOUR OCCUPATION?**

A I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

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

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

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

A I am appearing on behalf of Chevron Products Company, a division of Chevron U.S.A. Inc. ("Chevron"), the Federal Executive Agencies ("FEA"), and The Chemours Company FC, LLC ("Chemours"). Chevron operates a petroleum refinery in

Pascagoula, Mississippi, which refines crude oil into gasoline and other usable oil products, and is one of Mississippi Power Company's ("MPC" or "Company") largest industrial customers. The FEA have offices, facilities, and/or installations in the service area of MPC, including Keesler Air Force Base ("Keesler AFB"). Chemours operates a plant in Harrison County, Mississippi that produces titanium dioxide (T_iO2) pigment, and is also one of MPC's largest industrial customers.

I. Overview

Q WHAT CIRCUMSTANCES SET THE STAGE FOR THIS PROCEEDING?

A Stakeholders approach this decision in the context of several unique circumstances. First, and most obviously, the gasifier portion of the Kemper Integrated Gasification Combined Cycle Project ("Kemper Project") was delayed and ultimately unsuccessful. Second, while the combined cycle gas turbine portion of the Kemper Project ("Kemper CC") has operated successfully to serve retail load, the capital cost of the Kemper CC is higher than other similar natural gas CC resources that had been conceived and constructed as a stand-alone CC. Third, even if ratepayers are not responsible for costs that are uniquely gasifier-related, MPC is still asking ratepayers to absorb the higher Kemper CC cost-related consequences of the gasifier's failure. Finally, while MPC's credit rating has been strained in this process, it appears to be improving, even recognizing some remaining risk as to the ultimate outcome of this proceeding. My testimony is framed in consideration of all of these circumstances.

Q **WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY.**

A I will respond to MPC's "Stipulation" filed in this docket ("Rate Filing"). Specifically, I will comment on two central issues: (1) the need for adjustments to MPC's Rate Filing to better balance ratepayer and shareholder interests and (2) the shortcomings of MPC's claim that under traditional ratemaking it would be entitled to a revenue requirement of up to $209 million for the Kemper CC. I will offer some adjustments to MPC's Rate Filing that result in a revenue requirement that supports MPC's stand-alone financial integrity, avoids additional write-offs from MPC's books, and better balances ratepayer and shareholder interests. Notably, unlike MPC's proposed Rate Filing, the result of the modest adjustments I propose here would provide a small, yet important, measure of relief to the recent increases in electricity bills that southern Mississippi ratepayers have borne as a direct result of the Kemper Project development.

Finally, I testify in response to MPC's arguments that it requires the full amount sought in its Rate Filing to get back to financial health and to meet certain credit quality metrics. I demonstrate that the small and reasonable downward adjustments I propose to MPC's Rate Filing have a *de minimis* impact on projected credit metric financial ratios, such that MPC can be expected to have strong cash flows that will support investment bond ratings.

Q **WILL YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND FINDINGS?**

A Yes. As a preliminary matter, I share MPC's goal of maintaining, and supporting the improvement of, its financial integrity. I observe that based on recent, optimistic conclusions drawn by credit rating agencies on MPC's financial integrity, the Mississippi Public Service Commission ("Commission") has some degree of flexibility in the way it chooses to support these important financial objectives. I also find MPC's Rate Filing does not reasonably balance the interests of ratepayers and shareholders. Based on this overview, I recommend the adoption of a Kemper CC revenue requirement of $121.65 million. This represents approximately a $4.7 million reduction from MPC's proposed revenue requirement. The proposed revenue requirement is the product of reductions in three areas: (1) the regulatory asset cost recovery; (2) the regulatory asset amortization period; and (3) the cost of capital.

I recommend reductions to certain regulatory assets allocated to retail customers in the Rate Filing, which represent deferrals of depreciation expense and carrying charges incurred during 2016-2017, for amounts that MPC was not permitted to recover in the In-Service Asset ("ISA") period. These regulatory assets are associated with capital costs in excess of the ISA allowed capital, including costs above the construction cost cap and costs related to the 15% South Mississippi Electric Power Association ("SMEPA") share of the Kemper CC costs.

I explain that these deferrals were allowed by the Commission, subject to determination of recovery after the full Kemper Project was placed in commercial operation. Recognizing that, technically, the Kemper Project (including the gasifier) has not yet been placed in-service and likely will not be placed in-service, I describe why excluding these deferrals from the revenue requirement strikes a reasonable balance between ratepayers and shareholders. Importantly, as explained below, removing these deferrals from the cost of service will not cause MPC to incur additional write-offs. As a result, these adjustments should not have a material impact, if any, on MPC's financial integrity or credit ratings.

In addition to the reductions in regulatory asset balances, I propose to reduce the amortization period for these assets. MPC uses a 20-year amortization period for most regulatory assets. I propose a shorter eight-year amortization to allow ratepayers to move beyond the impacts of the failed IGCC as quickly as possible, while not increasing customers' rates.

Beyond regulatory assets, I also adjust MPC's proposed cost of capital, eliminating the performance adder on the return on equity (0.761%) and providing a more reasonable projection of MPC's embedded debt cost in 2018, which includes a refinancing of a 2018 debt maturity. The debt refinancing costs I include for 2018 meet the objective of maintaining MPC's stand-alone credit consistent with an investment grade credit rating.

I outline credit rating analysts' reviews of the two proposed stipulated Kemper revenue requirements filed on August 21 in this proceeding. I show that my proposed revenue requirement is comparable to that proposed by MPC and the revenue requirement filed by the Mississippi Public Utilities Staff ("Staff") on August 21, 2017, thus meeting the expectations of credit ratings agencies to sustain an investment grade rating. The proposed revenue requirement, therefore, will support the restoration of MPC's stand-alone credit rating, and will produce credit metrics that are comfortably strong enough to support an investment grade bond rating at MPC. Finally, I demonstrate that my adjustments are consistent with the Commission's July 6, 2017 order.

Q **DO YOU TAKE A POSITION ON THE EXTENT TO WHICH MPC SHOULD BE PERMITTED TO PLACE IN RATE BASE THE $1.071 BILLION IDENTIFIED IN THE STIPULATED REVENUE REQUIREMENT?**

A No. My testimony does not challenge MPC's proposed Kemper CC plant balances; neither does it draw conclusions regarding their reasonableness.

Q **WILL YOU PLEASE SUMMARIZE THE DIFFERENCE IN THE REVENUE REQUIREMENT AND COST OF SERVICE POSITIONS AS YOU UNDERSTAND THEM IN THIS PROCEEDING?**

A Yes, they are set forth in Table 1 below.

TABLE 1

Settlement Summary

Kemper CCGT Cost of Service

Description		Approved In-Service Asset Settlement 12/31/2016[1] (1)	Kemper CC Revenue Requirement: MPC Filed 8/21/2017 12/31/2018[2] (2)	Staff Filed 8/21/2017 12/31/2018[3] (3)	Chevron/FEA/ Chemours 12/31/2018[4] (4)
2018 Kemper Retail Rev. Requirement	($MM)	$126.1	$126.38	$122.05	$121.65
Total Company Plant In-Service					
CCGT	($MM)	$563.2	$1,071.3	$819.2	$1,071.31
Transmission	($MM)	$121.0	$114.2	$114.0	$114.2
General	($MM)	$0.03	$0.52	$0.5	$0.52
CWIP	($MM)	$0.6	$0.0	$0.0	$0.00
ADIT	($MM)	($158.64)	($317.52)	($200.76)	($296.16)
Retail Reg Assets/Liability (2018 Avg. Bal.)					
Amount	($MM)	$123.7	$125.6	$99.8	$71.1
Amort. Period	yrs	2 yrs -10 yrs	20	5	8
Weighted Cost of Capital					
Capital Structure Weights					
Long Term Debt		49.59%	48.60%	49.30%	48.60%
Pref Stock		0.68%	0.95%	0.699%	0.95%
Common Equity		49.73%	50.45%	50.00%	50.45%
Total		100.00%	100.00%	100.00%	100.00%
Cost Rate					
Long Term Debt		4.152%	4.894%	4.216%	4.620%
Pref Stock		5.290%	5.293%	5.290%	5.293%
Common Equity Before Perf Adder		9.225%	8.652%	9.225%	8.652%
ROE Performance Adj Adder		0.000%	0.761%	0.000%	0.000%
Weighted Cost of Capital		6.683%	7.177%	6.729%	6.660%

Sources:
[1]MPSC Docket No. 2015-UN-8, Exhibit___(MHF-10), Exhibit A.
[2]Feagin Exhibit___(MHF-1).
[3]Staff Proposed Term Sheet, August 21, 2017
[4]Exhibit___(MPG-1).

Notably, the revenue requirements reflected above from MPC, Staff, and Chevron/FEA/Chemours have many material similarities which I believe reflect the progress made in settlement discussions, even if a broad settlement resolution was not ultimately reached. The difference between MPC's proposed revenue requirement of $126.38 million and Chevron/FEA/Chemours' revenue requirement of $121.65 million is only a $4.7 million spread. The Chevron/FEA/Chemours adjustments to MPC's Rate Filing, which I am sponsoring, are relatively minor, containing limited adjustments to the amount of recoverable regulatory assets, the elimination of the return on equity performance adder, and adjustment to the estimated cost of debt in 2018. They are, nonetheless, important adjustments for the Commission to consider, as I believe they better achieve appropriate policy goals of the Commission to assure customer value and protect customers from unreasonable Kemper cost burdens.

II. Basis for the Proposed Adjustments

Q DID MPC OUTLINE THE BASIS FOR ITS REVENUE REQUIREMENT IN THIS PROCEEDING?

A Yes. The basis for MPC's revenue requirement is outlined in MPC's Executive Summary and in the Direct Testimony of MPC witness Mr. Moses Feagin.

MPC's Executive Summary states certain goals that guided MPC's Rate Filing. Those include the following:

a. Comply fully with the directives of the Commission outlined in its Order Opening Docket on July 6, 2017;

b. Reach a compromise of all known issues related to the Kemper Project that appropriately balances the risks between MPC and its customers consistent with the law and the prevailing facts and circumstances so that an overall fair and reasonable result is assured; and

c. Provide MPC the ability, in time, to restore the Company's financial strength and credit quality which the parties agree is vital to maintaining safe, reliable and cost-effective service for MPC's customers now and in the future.

MPC continues in paragraph 4 of that Executive Summary to state several characteristics of its proposed stipulation. First, MPC states the proposed stipulation ensures that MPC's customers will endure no additional rate increases related to MPC's seven-year construction and startup of the Kemper Project. Second, MPC agrees to remove risk of customers bearing any cost associated with the past and future design, construction, startup, and operation of the Kemper gasification facilities. Third, MPC states that it reported in its Securities and Exchange Commission filings that it has written off all costs and credits related to its investment in the gasification portion of the Kemper Project and that none of these costs will be recovered from customers. Fourth, MPC states that to the extent Southern Company or any third-party owner operates the Kemper gasifier, customers will be shielded from any and all costs and risks associated with its operation. Fifth, MPC requests amendments to the existing Kemper Project certificate to ensure that the settlement agreement and goals are implemented. These goals are discussed in MPC witness Feagin's Direct Testimony at 5-7.

Q DID MPC WITNESS FEAGIN ALSO COMMENT ON COUNTER PROPOSALS TO THE COMPANY'S SETTLEMENT EFFORTS THROUGHOUT THE NEGOTIATION PROCESS?

A Yes. At pages 9 and 10 of his Direct Testimony, Mr. Feagin summarizes MPC's view of these counter proposals. Under his assessment, Mr. Feagin asserts that most of the proposals put to MPC went far beyond guidelines established by the Commission and would have required "a fundamental change in MPC's business." He also asserts the counter proposals would have left MPC in a precarious financial condition, would have strayed from MPC's intention to rebuild its financial strength, and would have required additional significant write-offs. He also opines that many of the counter proposals were not consistent with traditional ratemaking principles that often underlie just and reasonable rates.

Q DID CHEVRON, FEA, AND CHEMOURS CONSIDER THESE GOALS AND MPC'S CONCERNS IN FORMING ITS RECOMMENDED ADJUSTMENTS?

A Yes. I would first note that, with regard to the settlement discussions with which I have familiarity, Mr. Feagin's assertions that counterproposals were inconsistent with Commission guidelines or would require a "fundamental change" in MPC's business do not appear to be supported as to the proposals with which I am familiar. That said, the Chevron/FEA/Chemours proposed adjustments meet the goals outlined in MPC's Rate Filing and also address Mr. Feagin's concerns, including: (1) improving MPC's stand-alone credit standing, (2) adjusting cost of service so as to prevent MPC from recording additional write-offs, and (3) embracing the Commission orders and traditional cost of service principles. I will address each of these issues in outlining the reasonableness of the proposed Chevron/FEA/Chemours adjustments in this testimony.

Q WILL YOU ADDRESS THE COMPROMISES CHEVRON, FEA, AND CHEMOURS ARE MAKING AS PART OF THEIR RECOMMENDED ADJUSTMENTS?

A Yes. I will do this specifically in response to MPC's claim that the Kemper CC revenue requirement of $209 million would be appropriate absent any settlement. As outlined in Section IV of my testimony and Exhibit MPG-3, under a reasonable litigation position at hearing—and grounded soundly in the traditional ratemaking principles of prudence and used and usefulness--Chevron, FEA, and Chemours could have supported a revenue requirement for the Kemper CC of approximately $106 million, or even substantially lower if adjustments to Kemper CC plant investments are made. Such a "traditional revenue requirement" outcome would evidently be far lower than that proposed in this testimony. However, in an ongoing effort to reach a good faith compromise in this proceeding and to avoid further contentious litigation, the Chevron/FEA/Chemours adjustments are ones that I believe are supportable and clearly support MPC's stated goal of sustained cash flow strength and credit health.

III. Chevron/FEA/Chemours Proposed Adjustments

Q PLEASE EXPLAIN HOW YOU DEVELOPED THE ADJUSTMENTS RECOMMENDED BY CHEVRON, FEA, AND CHEMOURS IN THIS PROCEEDING.

A As explained in Section I, the proposal started with MPC's Rate Filing and made a few adjustments, including the following:

1. Reduce the additional amount of net retail regulatory assets recovered to $71.1 million, from MPC's proposed $125.6 million retail balance average in 2018.

2. Amortize all regulatory assets starting January 1, 2018 over an eight-year period, rather than the 20-year period proposed by MPC. Regulatory liability will continue to be amortized over five years as proposed by MPC.

3. Adjust MPC's proposed cost of capital by removing the performance incentive adder from its proposed return on common equity and by reducing MPC's projected embedded cost of debt in 2018 to reflect an investment grade refinancing cost of a maturing debt.

These changes refine the balance between ratepayers and shareholders while maintaining MPC's objectives in this proceeding.

III.A. Regulatory Assets Adjustments

Q WHAT IS THE NET RESULT OF YOUR ADJUSTMENTS TO MPC'S NET REGULATORY ASSETS?

A MPC includes Average Year 2018 Retail allocated regulatory assets in the amount of $125.6 million. I propose to reduce this regulatory asset balance by $52.6 million at the beginning of 2018 and reduce the average year retail regulatory asset balance to $71.1 million. Both retail balances are net of regulatory liability.

Q WHICH REGULATORY ASSET BALANCES ARE YOU PROPOSING TO REDUCE?

A The regulatory asset balances at issue in my recommendation are detailed below in Table 2, which shows their balances for the beginning of 2018 and the annual revenue requirement assuming MPC's 20-year amortization. Importantly, while MPC's Rate Filing characterizes these balances as regulatory assets, MPC points out that except for a small amount of debt carrying cost of $1.47 million, these costs, have not been, "deferred to a regulatory asset on the books."

TABLE 2

Regulatory Asset Adjustments

Description	Retail Reg. Asset. Amount 12/31/2017	Line-Item Amount	Annual Amortization 20 yrs.
I. Deferred Depreciation and Amortization [2]	$17,974,491		$898,725
• Depr Exp on Items Excluded from ISA		$6,167,856	
• Depr Exp on 15% Portion of Assets in ISA		$4,210,365	
• Amort Exp on 15% Portion of Assets in ISA		$7,596,270	
II. Debt Carrying Costs [2]	$13,664,974		$683,249
• On Assets not in ISA Proposal (prod. & reg. assets)		$1,474,397	
• On Items Excluded from ISA Stipulation (FM, BC, CIL, over certified)		$7,996,165	
• On 15% Portion of Assets in ISA		$4,194,412	
III. Equity Carrying Costs [2]	$20,984,407		$1,049,220
• On Assets not in ISA Proposal (prod. & reg. assets)		$3,103,960	
• On Items Excluded from ISA Stipulation (FM, BC, CIL, over certified amount)		$10,390,242	
• On 15% Portion of Assets in ISA		$7,490,205	
IV. Total	$52,623,872		$2,631,194
V. ADIT	$20,122,003		

Source:
Exhibit ___(MHF-1) pages 8 and 23, Docket No. 2017-AD-0112.

Specifically, footnote 2 noted in my Table 2 above was taken from Mr. Feagin's Exhibit ____(MHF-1), page 8 under footnote 2 and stated: "With the exception of debt carrying costs on assets not in in-service asset proposal (embedded in the debt carrying cost line), amounts included in these three sections are not deferred to a regulatory asset on the books. These regulatory assets are tracked by regulatory purposes." Hence, a majority of these regulatory assets removed will not need to be written off because they were not deferred to a regulatory asset account on MPC's books, only the $1.47 million deferred debt cost may require a write-off of a record asset, under my proposed adjustment, and, if written-off, would create a *de minimis* impact on MPC's cash flows and balance sheet.

Q CAN YOU SUMMARIZE WHY YOU HAVE IDENTIFIED THESE PARTICULAR REGULATORY ASSET ACCOUNTS FOR REMOVAL?

A There are several reasons, which I discuss in more detail below. As a threshold matter, I would note that, in studying Kemper rate issues during the settlement phase, in the discovery process, and in preparation for filing this testimony, I have heard MPC discuss many times the significance to the Company of avoiding further write offs of assets from its books. As explained above, choosing these regulatory asset accounts squarely comports with this objective, repeatedly emphasized by MPC. I would also underscore there is broad justification for additional downward adjustments to the Kemper CC rate to be approved here, based on the very high $/kW installed cost of the Kemper CC (approximately $1,720 per kW), as compared to reasonable industry benchmark installed costs for similar CCGT technology, between $960/kW and $1,220/kW. (I discuss this point further below, on page 19 of my testimony). Moreover, the very modest customer ratepayer benefit generated by removal of these regulatory assets should also be placed in the context of the much greater downward adjustments to the Kemper revenue requirement that, if all issues were being fully litigated in a rate hearing, could have been supported based on traditional ratemaking principles—these significant compromises are discussed in Section IV and my Exhibit MHF-2.

Beyond these broad justifications for removal of these regulatory asset accounts, there is also a very specific requirement in the Final Order of the ISA proceeding that makes recovery of certain deferred costs and accounts that were excluded from the approved ISA revenue requirement—including these three regulatory asset accounts—contingent on the full Kemper Project (i.e., the IGCC) reaching commercial operations. As explained in detail below, that pre-requisite for recovery of these deferred costs has not been met.

Q **WILL YOU PLEASE EXPLAIN THE NATURE OF THESE REGULATORY ASSET BALANCES?**

A Yes. In response to CVX 1-10, MPC explained these regulatory assets as follows:

I. Depreciation Expense on Items Excluded from ISA Stipulation. This item represents the unrecovered depreciation expense of the combined cycle unit related capital exclusions of the ISA stipulation. This includes beneficial capital, force majeure, change in law, and capital amounts above the $2.4 billion original estimate.

II. Depreciation Expense on 15% Portion of Assets in ISA. This item represents the unrecovered depreciation expense of the 15% SMEPA portion of assets included in the ISA Filing.

III. Deferred Amortization of In-Service Assets. This item represents the unrecovered amortization expense of the 15% SMEPA portion of assets included in the ISA Filing.

Under MPC's Rate Filing, the effect of deferring these 2016 and 2017 costs for recovery from customers in prospective rates effectively provides MPC with greater cost recovery under the original ISA amount in excess of the $126 million revenue that was approved by the Commission. If these deferrals are allowed, MPC will have recovered $126 million for two years in a row, plus additional deferred costs of around $52 million during this same time period. As such, this is effectively the equivalent of giving MPC cost recovery (current and deferred) under the original ISA of approximately $152 million/year, rather than the $126 million actually approved by the Commission.

Q DID THE COMMISSION ADDRESS MPC'S REQUEST TO DEFER CERTAIN COSTS THAT WERE NOT INCLUDED IN THE REVENUE REQUIREMENT IN THE ISA SETTLEMENT AGREEMENT?

A Yes, but the Commission made it clear that recovering the deferral in a future rate case was conditional.

At page 39 of the ISA final order, the Commission authorized MPC to defer for ratemaking purposes certain costs that were excluded from the ISA revenue requirement. Those costs include: (a) cost of capital and excluded land; (b) cost of capital and depreciation on capital over $2.4 billion to the extent such costs do not exceed the $2.88 billion cost cap; (c) cost of capital and depreciation on excluded capital exceptions; (d) cost of capital and depreciation on AFUDC related to a, b, and c above, unless underlying amounts exceed the $2.88 billion cost cap; and (e) O&M portion of excluded variable pay. The Commission also allowed MPC authority to defer for ratemaking purposes the prudency costs, ad valorem on AFUDC, and independent monitor costs incurred on or before April 1, 2016.

The Commission, however, did not approve recovery of the deferred costs in the ISA order. Rather, concerning recovery, the Commission stated that:

> The recoverability of the above listed deferrals, in paragraphs 82 and 83, will be addressed within the final prudency hearing or in a subsequent rate case to be filed following the Kemper Project's declaration of commercial operation. These findings are necessary to permit the Company to defer certain Kemper costs not included in the stipulated revenue requirement so that they may be later reviewed and considered for recovery by the Commission. (Paragraph 84 and 85 to the ISA Final Order, Docket No. 2015-UN-80, emphasis added).[1]

[1] While the ISA order refers to paragraphs 82 and 83 for deferrals subject to recovery, the paragraphs in the order which actually discuss deferrals are paragraphs 84 and 85. Paragraph 82 discusses the stipulated return on equity and paragraph 83 discusses the need for a capital infusion to support the capital structure debt and equity mix included in the stipulated revenue requirement.

Q DO YOU BELIEVE THAT THESE DEFERRED COSTS ARE APPROPRIATELY RECOVERED IN THIS CASE BASED ON THE TERMS OF THE COMMISSION ORDER?

A No. As a preliminary matter, MPC has not declared the full Kemper Project in commercial operation. Therefore, seeking recovery of these costs at this point does not meet the clear recovery threshold imposed on MPC by the Commission. The Kemper Project is not in commercial operation at this time and may never be placed in commercial operation. As such, under the specific terms of the Commission's prior order, MPC should not be allowed to now seek recovery of these deferred costs.

Also, the ISA order does not explicitly identify costs associated with removing the amount of the Kemper CC capacity related to the 15% SMEPA ownership as subject to deferral, with possible recovery in future rates; although, in paragraph 33(b), the Commission did acknowledge that MPC reserved the right to seek recovery of such costs that were not included in the ISA revenue requirement in a future proceeding. However, the order is simply silent on authority to defer costs incurred and expenses in 2016 and 2017 related to the 15% SMEPA related cost of the ISA.

Q ARE YOU RECOMMENDING THE DISALLOWANCE OF ALL COSTS RELATED TO THE ASSETS NOT INCLUDED IN THE ISA PROPOSAL AND THE 15% PORTION OF THE KEMPER CC RELATED TO THE SMEPA ALLOCATION?

A No. I am only rejecting the deferred costs that were incurred and booked in years prior to 2018, but not actually deferred to a regulatory asset recorded on MPC's books. My proposal does not reduce or assess the reasonableness of the specific net plant costs and applicable carrying charges for CC related capital exclusions from the ISA and the 15% of the Kemper CC costs are included as recoverable plant in-service for costs based on the 2018 net plant balances.

As such, while costs booked to expense prior to 2018 for these portions of the Kemper CC investment that were not included in the ISA settlement are excluded from my proposed revenue requirement, importantly, the capital costs for the same portions of the Kemper CC plant costs that will booked to expense in 2018 and through its useful operating life will be recovered by MPC with my recommended revenue requirement adjustments. This, in effect, provides MPC with approximately thirty-eight years out of forty years of cost recovery for these specific Kemper CC capital cost items. I believe this is a more than reasonable recommendation, which I propose in the spirit of overall compromise on a Kemper CC rate.

Q WILL MPC BE REQUIRED TO TAKE A WRITE-OFF IF THESE DEFERRED COSTS ARE NOT INCLUDED?

A No. Mr. Feagin's Exhibit___(MHF-1), page 8 (Note 2) clearly states that, except for debt carrying costs on certain assets, these deferred costs were not actually deferred on MPC's books and records. As such, removing these costs that have never actually been deferred from prospective rate recovery will not cause MPC to incur additional write-offs.

In response to CVX 1-3, MPC acknowledged these are costs deferred from prior periods and were not deferred due to accounts under Generally Accepted Accounting Principles. Since the regulatory assets have not been deferred on MPC's books, MPC will not need to write off those costs. MPC stated that these costs should be allowed to be recovered because it believes they are prudent and reasonable costs.

For the reasons outlined here, I believe these costs should not be included because they do not meet the terms for MPC's authority to request recovery of deferred costs per the ISA order. The Kemper Project is not in commercial operation and may never be placed in commercial operation. Further, excluding these costs represents a reasonable compromise on these Kemper CC costs.

III.B. Cost of Capital

Q PLEASE DESCRIBE THE ADJUSTMENT YOU MADE TO MPC'S COST OF CAPITAL USED IN ITS RATE FILING.

A MPC included two elements of its cost of capital which were unreasonable. First, MPC included its Performance Evaluation Plan ("PEP") benchmark return on equity performance adder of 0.724%. Rewarding the utility for performance on a failed plant defies logic. Consequently, I remove this performance adder. Second, MPC's projected cost of refinancing debt in 2018, which influences the long-term debt component of its rate of return, is overstated. I have reduced the long-term debt component to reflect the lower rate that MPC should expect in light of its improving credit rating.

Q DID MPC EXPLAIN AND JUSTIFY WHY IT BELIEVES A PERFORMANCE RETURN ON EQUITY ADDER IS REASONABLE AS PART OF ITS SETTLEMENT?

A No.

Q DO YOU BELIEVE THAT A PERFORMANCE ADDER TO THE RETURN ON EQUITY IS JUSTIFIED IN THIS CASE?

A No. I strongly recommend the Commission reject this performance adder in the Kemper CC rate it approves. Because of the significant costs associated with the Kemper CC and the Kemper Project generally, an equity return performance adder is simply not reasonable or justified. Indeed, MPC is seeking recovery of a gross investment in Kemper CC of $1.186 billion. This is a 696 MW combined cycle generating unit. Hence, MPC's capital investment represents an installed capital cost of about $1,720 per kW. Further, MPC seeks recovery of deferred regulatory asset/liability costs of approximately another $104.7 million. This adds approximately $115 per kW to the installed cost of the Kemper CC.

The installed cost of the Kemper CC is substantially in excess of estimates of the expected installed cost for similar CC technology. Specifically, the Energy Information Agency estimates an overnight installed cost for a modern CC of $978 per kW.[2] Adjusting for the carrying charges during construction would equate to approximately $1,220 per kW. Also, the MISO recent cost of new entry estimate for an entry new capacity in 2018 is around $679 per kW for Mississippi.[3]

The Kemper CC represents a capital investment cost substantially in excess of estimates of reasonable capital costs for alternative generation resources. Because the capital cost is so out of line with market value estimates, a performance adder should not be included in the revenue requirement. Therefore, I recommend this performance incentive adder be excluded.

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[2]U.S. Energy Information Administration: "Capital Cost Estimates for Utility Scale Electricity Generating Plants," November 2016 at 8-3, attached as Exhibit___(MPG-1).

[3]MISO, Filing of the Midcontinent System Operator, Inc., Regional LRZ Cone Calculation, Docket No. ER17-____-000, September 1, 2017, attached as Exhibit___(MPG-2).

Q PLEASE DESCRIBE YOUR SECOND ADJUSTMENT TO THE MPC'S REQUESTED RATE OF RETURN.

A MPC is projecting a $550 million bond issue to be refinanced in 2018. It projects that this bond issue that is currently carried at an interest rate of 2.29% will be refinanced in 2018 at an interest rate of 6.5%. Reflecting this bond refinancing has the effect of increasing MPC's embedded debt cost from 4.26% at the beginning of 2018, up to 5.665% by the end of 2018. (Exhibit___(MHF-1), page 15). As shown on Exhibit___(MPG-3), Column 5, a 6.5% yield is consistent with a below investment grade corporate bond yield.

MPC explained how it developed this forecasted refinancing rate for 2018 in response to CVX 1-13. There, MPC stated as follows:

> The 2018 projected issuance is a 10-year senior note that replaces a 2-year bank note and establishes a layer of long-term financing for the Company. The coupon rate is based on the 10-year treasury forecast from Moody's of 3.70%. A 280 basis point (2.80%) credit spread is added to the treasury rate based on a combination of the prior 20 years (August 1996 to August 2016) of historical A-rated utility credit spreads and the increased trading spreads of the Company associated with its divergence from the rest of the utility market. The interest rate forecast is updated annually in the Fall.

Q DO YOU BELIEVE THE COMPANY'S ESTIMATED COST OF REFINANCING THIS BOND ISSUE IN 2018 IS REASONABLE?

A No. MPC states that an objective of its Rate Filing is to restore MPC's stand-alone credit standing. As such, and as explained in more detail below, the estimated cost of refinancing the 2018 bond issue should reflect that objective.

Indeed, the 2018 bond issue should reflect an investment grade bond rating with reasonable issuance costs. As shown on my attached Exhibit___(MPG-3), the current cost of a Baa rated utility company bond is approximately 4.45% over the last

12 months. Treasury bond projections are expected to increase by approximately 50 basis points through mid-year 2018 from 3rd Quarter 2017.[4] As shown on Exhibit____(MPG-3), for the three-month period ending September 2017, the average Baa utility bond yield was 4.28%. Adding 50 basis points to this produces a projected Baa debt cost of around 4.80%, for mid-year 2018. Alternatively, the average Baa utility bond yield over the last 12 months was approximately 4.5%.

As a conservative measure, I recommend a bond yield refinance cost of 4.8% be used, rather than MPC's projected refinancing cost of 6.5%. This adjustment reduces MPC's 2018 embedded debt cost calculation from 4.894% to 4.62%.

Q DID YOU ADJUST MR. FEAGIN'S EXHIBIT___(MHF-1) TO INCORPORATE YOUR ADJUSTMENTS TO THE COMPANY'S RATE FILING?

A Yes. As shown on my Exhibit___(MPG-4), making these adjustments to MPC's Rate Filing as outlined in Mr. Feagin's Exhibit___(MHF-1) produces a revenue requirement of $121.65 million, which meets the objective of no increase to retail customers. Indeed, this produces a slight decrease to customers. Also, this revenue requirement will allow for the amortization of regulatory assets over an eight-year period, as opposed to the 20-year period proposed by MPC.

[4]*Blue Chip Financial Forecasts*, October 1, 2017 at 2.

IV. Compromises

Q DID MR. FEAGIN OUTLINE THE COMPROMISES HE BELIEVES THE COMPANY HAS MADE TO SUPPORT THE REASONABLENESS OF THE COMPANY'S RATE FILING?

A Yes. At pages 8 and 9 of Mr. Feagin's testimony, he offers his Exhibit___(MHF-2) to support MPC's estimate of a traditional revenue requirement for the Kemper CC.

As shown on Mr. Feagin's Exhibit___(MHF-2), MPC believes a revenue requirement of $209 million would be reasonable, which demonstrates that MPC's proposed revenue requirement of $126 million is reasonable.

Q DO YOU HAVE ANY COMMENTS CONCERNING CHEVRON/FEA/CHEMOURS' RESPONSE TO THE COMPANY'S ESTIMATE OF A TRADITIONAL REVENUE REQUIREMENT?

A Yes. MPC contends that its Stipulated Revenue Requirement is a compromise from the revenue requirement that would have been produced under "traditional" ratemaking. As an initial matter, MPC has submitted this Rate Filing as a routine filing under Rule 9.100(1) of the Commission's Rules of Practice and Procedure. We are dealing with the Rate Filing presently before the Commission, not a hypothetical "traditional" revenue requirement. However, to the extent MPC's so-called "traditional revenue requirement" is even relevant in this proceeding, Chevron, FEA, and Chemours have all made several significant concessions from what their positions might otherwise have been to resolve the contentious issues surrounding the Kemper Project.

1. Chevron, FEA, and Chemours are not challenging Kemper CC costs for capacity above the capacity authorized in the original Certificate of Public Convenience

and Necessity ("CPCN"). The Kemper IGCC capacity included in MPC's Rate Filing is approximately 696 MW.[5] The capacity MPC originally had authority to add to its resource mix under the CPCN was 582 MW. Indeed, the amount of the CC costs proposed to be recovered in rates of around $1.185 billion is considerably more than the $575 million of combined cycle unit costs originally estimated in the Company's certification proceeding.[6] Similar adjustment could be reasonably made to working capital, and non-fuel O&M expense.

2. Chevron, FEA and Chemours are not challenging the inclusion of the costs associated with the SMEPA Asset Purchase Agreement terminated as a result of project delay. MPC had negotiated to sell a portion of the Kemper Project capacity output to SMEPA. MPC sought and received authority from the Commission to sell 15% of the Kemper output to SMEPA. Indeed, in the original ISA settlement for rates to take effect in 2016, 15% of the Kemper ISA costs were not recovered from retail customers. Transferring the cost of this 15% of the Kemper CC to retail customers rather than a wholesale allocation has not been justified.

3. Chevron, FEA and Chemours are not challenging the inclusion of the portion of total Kemper CC capital costs that were excluded in the ISA docket based on those costs being deemed to be part of a CC-allocated share of the $2.8 billion cost cap. MPC's inclusion of these costs is discussed at pages 14-15 of Mr. Feagin's testimony. I believe including these costs attributable to the gasification portion of the Kemper Project in a traditional revenue requirement would have been strenuously opposed.

4. Chevron, FEA and Chemours MPC included AFUDC costs associated with a gasifier incurred up through the end of 2014. Including these gasifier construction carrying charges is inconsistent with including in rates only the Kemper CC costs. As such, these costs would likely have been opposed absent these proceedings had MPC sought to include them in retail cost of service.

5. Chevron, FEA and Chemours are not challenging the land included in the Kemper CC capital investment as unnecessary for operation of a combined-cycle generating unit. Part of this land may have been challenged under a more detailed assessment of the prudency of the Kemper CC capital costs.

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[5] Staff witness, Critical Technologies Consulting, LCC, October 9, 2015 at 8, Public Redacted Version, MPSC Docket No. 2015-UN-80.

[6] Paragraph 46 of Final Order for ISA, Docket No. 2014-UN-80.

Q **IF CHEVRON, FEA AND CHEMOURS HAD SUCCESFULLY LITIGATED THE FOREGOING ISSUES AND RECOMMENDED THE SAME REGULATORY ASSET ADJUSTMENTS YOU RECOMMEND IN YOUR TESTIMONY, HOW WOULD THE "TRADITIONAL" REVENUE REQUIREMENT OUTLINED BY MR. FEAGIN'S EXHIBIT___(MHF-2) HAVE BEEN AFFECTED?**

A Yes. As shown on my Exhibit___(MPG-5), making these adjustments to Mr. Feagin's Exhibit___(MHF-2) would support a traditional revenue requirement for the Kemper CC of $106.7 million. This is substantially lower than the revenue requirement I am advocating in this proceeding. As such, Chevron, FEA, and Chemours believe that this proposed revenue requirement constitutes a good faith effort to resolve the contentious Kemper Project.

Q **DOES YOUR EXHIBIT___(MPG-5) CONTAIN ALL POTENTIAL ADJUSTMENTS THAT WOULD HAVE BEEN MADE TO THE KEMPER CC COSTS UNDER A TRADITIONAL RATE FILING?**

A No. It simply is based on a high level review of such potential costs. As explained, I am submitting this testimony position in an effort to set forth a good faith compromise position on limited adjustments to MPC's Rate Filing. If, however, the full issues surrounding a reasonable Kemper CC rate were to be fully litigated, additional investigations would be appropriate into the prudence and reasonableness of the installed cost of the Kemper CC, evaluation of the AFUDC rates included in the Kemper CC during construction, and assessments of the adequacy of the transmission system needed to serve just the CPCN capacity of Kemper, or the entire output, as examples. All these inquiries could, if fully litigated, result in additional issues that support a traditional revenue requirement for the Kemper CC lower than the adjustments to MPC's Rate Filing proposed in this testimony.

V. Financial Integrity

Q **ARE CREDIT RATING ANALYSTS AWARE OF THE PROPOSED SETTLEMENT DISCUSSIONS IN THIS PROCEEDING, AND HAVE THEY COMMENTED ON THE CREDIT QUALITY FOR MPC UNDER THESE PROPOSED SETTLEMENT AGREEMENTS?**

A Yes. One of the most recent reports on MPC's credit rating recognizing the attempts to negotiate a settlement of the Kemper CC costs was stated by Moody's in a recent publication. Moody's stated as follows:

> **Rating Outlook**
>
> The stable outlook on Mississippi Power's ratings reflects the anticipated near-term resolution of most of the cost recovery issues associated with the Kemper plant and the continued, demonstrated support of the Southern parent company, including substantial capital contributions. This has helped offset a regulatory environment that has been negatively affected by the Kemper IGCC plant construction project and is likely to remain below average for some time. The stable outlook reflects our view that the utility has finally turned the corner on the problematic project and that its credit quality will not decline further despite the remaining cost recovery uncertainties.
>
> * * *
>
> Despite the 45 day period, and a subsequent three week extension, the utility and the Staff failed to reach a settlement, leading the MPSC to issue an order on 12 September 2017 laying out a procedural schedule for the remainder of this year with a final MPSC decision to be issued in January 2018, instead of October 2017 as we had previously expected. A settlement is still possible over this period.
>
> We believe the inability to reach a settlement demonstrates how seriously the Kemper project has negatively affected the utility's regulatory environment. The utility proposed a stipulation that included a $126.3 million revenue requirement based on a 9.413% return on

> equity (ROE), which includes some performance incentives, which would have kept customer rates unchanged.
>
> The Staff proposed a $122.1 million revenue requirement based on a 9.225% ROE, which would have resulted in a rate reduction for residential customers, better addressing the wishes of the MPSC. The Staff also proposed a shorter amortization period for some regulatory assets, which would result in the utility not recovering a portion of the costs it attributes to the Kemper natural gas combined cycle units and taking an additional charge of potentially up to $250 million.
>
> We believe Mississippi Power's high customer rates (approximately 40% higher than Entergy Mississippi's retail residential rates), in a service territory with below average economic demographics, and excess reserve margins in the 50% range all played a role in the Staff's attempt to try to mitigate the impact of the Kemper natural gas plant on customer rates as much as possible. Attempts to bridge the difference between the proposals of the utility and the Staff were not successful.
>
> Despite the lack of a settlement, the confirmation of Mississippi Power's ratings considers the <u>relatively narrow gap between the two proposals</u> and the MPUC's intention to resolve the remaining cost recovery issues over the <u>next four months</u>. The near-term resolution of Kemper related cost recovery issues, along with the significant recent capital contribution and continued support from the parent company, has stabilized Mississippi Power's credit profile.[7]

Q HAS MPC PROVIDED CREDIT METRICS UNDER ITS PROPOSED REVENUE REQUIREMENT THAT SUPPORT THE IMPROVEMENT OF MPC'S CREDIT METRIC OUTLOOK?

A Yes. In assigning credit ratings for MPC, and other utilities, Moody's and S&P consider financial metrics that help assess the adequacy and predictability of cash flow in order to support the debt obligations of the utility. The stronger the financial metrics, the stronger their credit standing and vice versa.

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[7] *Moody's Investors Service*: "Rating Action: Moody's confirms Mississippi Power's ratings; outlook stable," September 21, 2017, emphasis added.

As shown below in Table 3, under MPC's proposed Mississippi retail cost of service, and revenue requirement,[8] its projected credit metrics from both S&P and Moody's exhibit very strong improvement in 2018 and 2019 relative to the two-year prior period. This two-year period reflects the ISA settlement period, and 2018 and 2019 reflect the first two years this Kemper settlement rate will be in effect.

TABLE 3

Credit Metric Financial Ratio Projections
MPC Proposed
Retail Revenue Requirement

Moody's Credit Metric Ratios (Including Tax Benefits)	Redacted 2015	2016	2017	2018	2019	Moody's Benchmarks (Standard Grid) A	Baa
Adjusted Debt to Capital						35%-45%	50%-59%
Imputed CFO + Interest to Interest						4.5x-6x	3x-4.5x
Imputed CFO to Debt						22%-30%	11%-19%
Imputed CFO - Dividends to Debt						17%-23%	7%-15%

S&P Credit Metric Ratios (Including Tax Benefits)	2015	2016	2017	2018	2019	S&P Benchmarks Business Risk: Excellent Median Volatility Aggressive	Significant	Intermediate
Imputed FFO to Debt						9%-13%	13%-23%	23%-25%
Imputed Debt to EBITDA						4.5x-5.5x	3.5x-4.5x	2.5x-3.5x

Sources:

CVX IDR 3-1 Att A and Att B
Moody's Investors Service: "Regulated Electric and Gas Utilities," June 23, 2017 at 22.
S&P Capital IQ, downloaded October 18, 2017.

[8] Response to CVX IRR 3-1.

As shown in the table above, I have also included credit metric ranges published by Moody's and S&P to help gauge the strength of the projected MPC credit metric financial ratios in 2018 and 2019. As shown in this table, MPC's cash flow metrics[9] using both S&P and Moody's methodologies reflect very strong improvement in the cash flow strength relative in the projected years of 2018 and 2019. These credit metric improvements reflect the equity infusions in MPC by Southern Company following MPC's significant write-offs, and stable and supportive cash flow on remaining MPC capital investment, including the Kemper CC investment cost included in the stipulation. These improvements are in both balance sheet and cash flow strength.

MPC's balance sheet strength is largely measured by the adjusted debt to total capital ratio. For projected 2018 and 2019, a low debt ratio indicates less leverage on the balance sheet. As shown in the projected ratios in 2018 and 2019, MPC is expected to have moderate financial leverage relative to Moody's benchmarks for "A" and "Baa" rated investment grade utilities.

There is also a strong improvement to the imputed Cash Flow from Operations ("CFO") ratios. The CFO ratio in relationship to interest is considerably stronger than the benchmarks for an "A" rated utility company, using the Standard Grid or business risk category largely reflective of an integrated electric utility company like MPC based on Moody's benchmarks. The same is true for an imputed CFO less dividends to debt, showing a strong amount of retained cash flow (after

[9]Under Moody's metrics, CFO stands for Cash Flow from Operations. FFO under the S&P metrics stands for Funds From Operations. Both of these measures reflect the amount of operating cash flow produced from operating activities. They are largely determined by net profit, depreciation and amortization expense, and deferred taxes. Both Moody's and S&P adjust the cash flow debt and interest estimates to reflect both on-balance sheet financial obligations, and off-balance sheet financial obligations. Hence, the designation as "adjusted" and "imputed" designates the reflection of both on-balance sheet and off-balance sheet financial obligations.

dividend payments) in relationship to total debt of MPC. These ratios exhibit strong investment grade cash coverage of debt obligations.

Similarly, under the S&P guidelines of FFO to total debt the projected metrics in 2018 and 2019 show a very strong cash flow coverage in relationship to total MPC debt during these two periods. For imputed debt to EBITDA, a lower ratio shows greater strength. And in these projected ratios, again this ratio is considerably stronger than that reflective of an "A" rated utility bond rating based on the median volatility index which is generally reflective of electric utility companies who own their own generation plants.

Q HAVE YOU REVISED MPC'S CREDIT METRIC CALCULATIONS TO REFLECT THE REDUCED REVENUE REQUIREMENT UNDER YOUR PROPOSED ADJUSTMENTS?

A Yes. I have replicated Table 3 above to reflect a $4.7 million lower revenue requirement, and increases in depreciation and amortization expenses of $3.75 million. With these changes, MPC's retail cash flows from operations are slightly impacted, but the resulting credit metric ratios are still very strong as shown below in Table 4.

TABLE 4

Credit Metric Financial Ratio Projections
Chevron/FEA/Chemours
Retail Revenue Requirement

Moody's Credit Metric Ratios (Including Tax Benefits)	Redacted 2015	2016	2017	2018	2019	Moody's Benchmarks (Standard Grid)* A	Baa
Adjusted Debt to Capital						35%-45%	45%-55%
Imputed CFO + Interest to Interest						4.5x-6x	3x-4.5x
Imputed CFO to Debt						22%-30%	13%-22%
Imputed CFO - Dividends to Debt						17%-25%	9%-17%

S&P Benchmarks
Business Risk: Excellent

S&P Credit Metric Ratios (Including Tax Benefits)						Medial Volatility** Aggressive	Significant	Intermediate
Imputed FFO to Debt						9%-13%	13%-23%	23%-35%
Imputed Debt to EBITDA						4.5x-5.5x	3.5x-4.5x	2.5x-3.5x

Sources:
CVX IDR 3-1 Att A and Att B
*Moody's Investor Services, Regulated Electric and Gas Utilities, June 23, 2017 at 22.
**S&P Capital IQ, downloaded October 18, 2017

In comparing Table 4 to Table 3 above, the slight change in revenue requirement and recoverable amortization expense has a *de minimis* impact on the projected credit metric financial ratios for MPC over the period 2018 and 2019. These cash flow projections still reflect very strong cash flow coverages of debt obligations which are stronger than indicated as necessary to support investment grade bond ratings of "A" and "BBB" from both S&P and Moody's.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

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

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the Staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling, and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating to industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service, and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation, and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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