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Missouri Public
Service Commission

Exhibit No.: ***1026***
Issues: ***Revenue Annualization***
Uncollectibles
Witness: ***Amanda C. McMellen***
Sponsoring Party: ***MoPSC Staff***
Type of Exhibit: ***Rebuttal Testimony***
Case No.: ***ER-2004-0034***

Date Testimony Prepared: ***January 26, 2004***
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

AQUILA, INC., d/b/a AQUILA NETWORKS-MPS (Electric)

CASE NO. ER-2004-0034

Exhibit No. 1026
Case No(s). ER-2004-0034
Date 3-1-04 Rptr TL

Jefferson City, Missouri
January 2004

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

AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the following rebuttal testimony as modified on February 27, 2004, in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following rebuttal testimony as modified on February 27, 2004, were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Amanda C McMellen

Amanda C. McMellen

Subscribed and sworn to before me this 26th day of February 2004.

D SUZIE MANKIN
Notary Public - Notary Seal
STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

D Suzie Mankin

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AMANDA C. McMELLEN

AQUILA, INC., d/b/a AQUILA NETWORKS-MPS (Electric)

CASE NO. ER-2004-0034

Q. Please state your name and business address.

A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. Are you the same Amanda C. McMellen that has previously filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of this testimony?

A. I am addressing certain aspects of the Aquila Networks-MPS (MPS) division of Aquila, Inc. (Aquila or Company), direct filing, including electric revenues and uncollectible (bad debts) expense for MPS.

REVENUES

Q. What is Aquila's proposed method to annualize MPS customer growth in this case?

A. Aquila witness Eric L. Watkins explained the Company's proposed method to annualize customer growth to September 30, 2003, on pages 4 through 5 of his direct testimony in this manner:

> A customer annualization adjustment to the test year revenue is made to reflect additional sales and revenue that will occur in the future because of projected growth in the number of customers. This method is simple and requires dividing the weather normalized test year rate class revenues by average customers, and then multiplying the result by the projected customers as of September 30, 2003 to obtain customer annualized revenues. Customers were projected using MetrixND exponential smoothing models based on trends over the past 5 years in these historical monthly customers by rate class. The customer annualization adjustment is the difference between the test year weather normalized revenues and the customer annualized revenues projected at September 30, 2003 customer levels.

Q. Has Aquila made any changes to the revenue calculations since the filing of direct testimony?

A. Yes. The customer counts have been updated to reflect actual September 30, 2003 numbers instead of projections.

Q. What is the Staff's proposed method of calculating the customer annualization adjustment for MPS?

A. The Staff's method relies on actual customer counts, known and measurable for each rate class for the test year (January 1, 2002 through December 31, 2002) and the end of the update period, September 30, 2003. The weather normalized rate class revenues for each month of the test year are divided by the mid-month customer average. The mid-month customer average is the average of the number of actual customers in two consecutive months. The normalized usage per bill is then multiplied by the difference between the mid-month customer counts and the actual customer count at the end of the September 30, 2003 update period. The customer annualization adjustment is the cumulative result when each month of the test year is added for a rate class. The main difference between the Company's method and the Staff's is the Staff's use of mid-month customer average by rate class instead of the Company's use of the yearly average customer counts by rate class.

Q. Why is it the Staff's position to use the mid-month customer average as opposed to the yearly average customers in determining the annualization of customer growth?

A. The Staff's approach used an average of beginning and ending customers, or mid-month customers, for each month to represent both full and partial month customers. This method is more precise than the annual average used by the Company. Since usage per customer varies by season, the growth adjustment should measure the change in customers each month.

Q. Are there any other differences in the methods used between the Staff and the Company?

A. Yes. The Staff's and the Company's methods are different for rate codes MO730 and MO735, Large Power Service (customers with demands in excess of 500 kW). The Company used the same method for all rate codes, as described earlier in this testimony. In the Staff's opinion, rate code MO730 and MO735 needed further review. We examined large customers on a customer specific basis and adjusted for customers coming on and/or leaving the system and for changes in load/usage not fully reflected in the test year 2002 results.

Q. Why did the Staff determine that rate codes MO730 and MO735 needed further review?

A. The Staff believes that average usage adjustments are inaccurate for large customers. New large customers may have initial erratic load levels and their usage is not reasonably estimated in the beginning. So, further review is necessary to deal with these problems.

UNCOLLECTIBLE (BAD DEBT) EXPENSE

Q. How does the Staff's calculation of bad debt expense differ from the Company for MPS?

A. The Staff used a three-year and nine-month average of actual net write-off rates, multiplied by the Staff's normalized revenue, to calculate bad debt expense. The Company used a three-year average of actual net write-off rates, multiplied by the Company's normalized revenue for MPS, to calculate bad debt expense.

Q. Why has Aquila used a three-year average in this case for MPS?

A. Aquila used a three-year average because they feel it is "the most accurate representation of the current bad debt trend" (direct testimony of Randall D. Erickson, page 4). There is no further explanation for the three-year average being used by Aquila.

Q. Why has the Staff chosen to use a three-year and nine-month average for bad debt expense?

A. The Staff used the three-year and nine-month average for bad debts to update this item for the most current information available. In the Staff's opinion, including the nine months of 2003 best represents the ongoing level of actual net-write-offs. Also, this update was necessary to remain consistent with the revenues calculation, which was also updated to September 30th.

Q. What were the effective uncollectible rates for the MPS electric operations?

A. The following represents the uncollectible rates for MPS electric:

Year	Uncollectible Rate
1998	0.449906%
1999	0.324767%
2000	0.715976%
2001	0.720837%
2002	0.956166%
9/30/03	0.241961%

The three-year average for MPS electric is 0.797660%. The three-year and nine-month average for MPS electric is 0.658735%. In the Staff's opinion, the use of a three-year and nine-month average of MPS's uncollectible rate in calculating bad debt expense best reflects a normal level of bad debt expense for MPS, based on historical results.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.