

EXHIBIT

Exhibit No.: _____

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Cost of Service Study

Busch/Rebuttal

Public Counsel

GR-2004-0072

FILED³

JUN 21 2004

Missouri Public
Service Commission

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

Submitted on Behalf of the Office of the Public Counsel

**AQUILA, INC.
D/B/A AQUILA NETWORKS—MPS
AND AQUILA NETWORKS—L&P**

CASE NO. GR-2004-0072

February 13, 2004

Exhibit No. 63
Case No(s) GR-2004-0072
Date 3-30-04 Rptr 41

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the Application by Aquila, Inc.)
d/b/a Aquila Networks – MPS and Aquila)
Networks L&P, Natural Gas General Rate Increase.)

Case No. GR-2004-0072

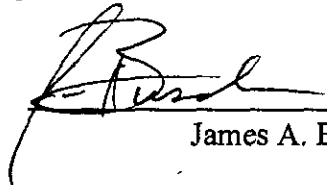
AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
)
COUNTY OF COLE)

ss

James A. Busch, of lawful age and being first duly sworn, deposes and states:

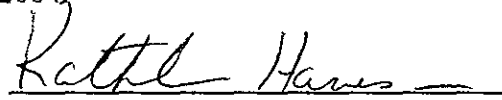
1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 5 and Schedule JAB-RDR1.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



James A. Busch

Subscribed and sworn to me this 13th day of February 2004.

KATHLEEN HARRISON
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan. 31, 2006



Kathleen Harrison, Notary Public

My commission expires January 31, 2006.

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REBUTTAL

OF

JAMES A. BUSCH

CASE NO. GR-2004-0072

AQUILA, INC

d/b/a

AQUILA NETWORKS – MPS

AQUILA NETWORKS – L & P

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 2230, Jefferson City, MO 65102.

Q. Are you the same James A. Busch that filed direct testimony in Case No. GR-2004-0072?

A. Yes I am.

Q. What is the purpose of your rebuttal testimony in Case No. GR-2004-0072?

A. The purpose of my rebuttal testimony is to provide an update of the Office of the Public Counsel's (OPC) class cost of service (CCOS) study and respond to the direct testimony of Aquila Inc.'s (Aquila or Company) witness Mr. Thomas J. Sullivan.

Q. How is your testimony organized?

1 A. My testimony is organized in the following manner. First, I will discuss the
2 changes to my CCOS study. Second, I will discuss Mr. Sullivan's direct
3 testimony.

4 **CLASS COST OF SERVICE STUDY**

5 Q. What changes have you made to your CCOS study?

6 A. I needed to change an allocator from direct testimony for Aquila Networks – MPS
7 operating division. In the CCOS study I filed in my direct testimony, I used an
8 allocator entitled annual margin sales to allocate the costs in the following
9 accounts:

10 Account 378 – Measuring and Regulating Station Equipment

11 Account 379 – Measuring and Regulating Station Equipment – City Gate

12 Account 875 – Measuring and Regulating Stations

13 Account 877 – Measuring and Regulating Equipment – City Gate

14 Account 889 - Measuring and Regulating Stations

15 Account 891 - Measuring and Regulating Equipment – City Gate

16 I should have used the allocator entitled annual throughput instead. These
17 accounts deal with the amount of natural gas that flows from the interstate or
18 intrastate pipeline to the Company's distribution system. To be as accurate as
19 possible, these costs should be spread to all customers, not just to non-
20 transportation customers.

21 Q. What impact does this change have on your CCOS study?

22 A. The change that I made has very little effect on the end results of my CCOS
23 study. On a revenue neutral basis, just under \$100,000 less is allocated to the

1 residential class, while about \$150,000 more is allocated to the Large
2 Transportation class. The impact of this change on OPC's rate design
3 recommendation is reduced by OPC's rate design methodology of only moving
4 halfway towards cost of service as described in Barbara Meisenheimer's direct
5 testimony. Attached, as Schedule JAB-RDR1 is an updated CCOS study for the
6 MPS Northern and Southern systems.

7 Q. Do you need to make this change to Aquila Networks – L & P operating division?

8 A. No. I properly allocated those costs in my Aquila Networks – L & P CCOS
9 study.

10 Q. Do you have any further changes you need to make to your CCOS studies?

11 A. No.

12 **AQUILA WITNESS SULLIVAN**

13 Q. Does Mr. Sullivan separate the costs of Aquila's MPS system between the
14 Northern and Southern systems and the Eastern System?

15 A. No he does not.

16 Q. What effect does the fact that he aggregates all of MPS's costs into one CCOS
17 have on his rate recommendation?

18 A. It causes the Company's CCOS study to indicate higher costs for Aquila's
19 customers on its Northern and Southern Systems than the cost levels that are
20 indicated by performing separate CCOS studies for the different systems. OPC
21 witness Barbara Meisenheimer explained the need to separate MPS into two
22 distinct systems in her direct testimony. If higher costs are passed along to the
23 Northern and Southern customers then those customers will be subsidizing the

1 Eastern customers. The Company's proposal to average the costs for both
2 systems and pass the higher costs through to the Northern and Southern System
3 customers should be denied because it creates an inequitable situation of inter-
4 system subsidies.

5 Q. Are there any other problems with the Company's approach of aggregating the
6 Eastern System's costs with the rest of the Company's costs?

7 A. Yes. The Company is proposing to sell the Eastern System. If the sale goes
8 through, the Eastern System will no longer be under Aquila ownership. If rate
9 increases for the Northern and Southern system are based upon those costs, the
10 Company will be receiving revenues in excess of its costs once the Eastern
11 System sale is completed. The Commission should not permit this to happen.

12 Q. What can be done to prevent this from happening?

13 A. The Commission should set rates for the Northern and Southern Systems based on
14 those costs specific to those systems. The Eastern System's rates should be based
15 solely on Eastern System costs even if that system remains under Aquila's
16 ownership.

17 Q. What is the main difference in the allocators used in your CCOS study and that
18 Mr. Sullivan used in his CCOS study?

19 A. There is one main difference. The difference is the allocator used for distribution
20 mains.

21 Q. Please explain the difference in the allocators that you and Mr. Sullivan utilized
22 for the distribution mains account.

1 A. OPC's allocator takes into account an economies of scale factor that reflects cost
2 per unit of throughput economies when a bigger pipe is used to meet peak
3 capacity as discussed in Barbara Meisenheimer's direct testimony. Mr. Sullivan's
4 approach is to allocate distribution mains based on three factors. Those factors
5 are throughput, services, and peak capacity. Mr. Sullivan does not take the
6 economies of scale factor into consideration in his methodology.

7 Q. What makes Mr. Sullivan's methodology inferior to OPC's method for allocating
8 distribution mains?

9 A. Since Mr. Sullivan does not recognize the concept of economies of scale in the
10 development of his allocator, he allocates too much cost to the residential class.
11 Economies of scale need to be recognized to appropriately allocate the
12 distribution mains costs to the various classes.

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes it does.

OFFICE OF THE PUBLIC COUNSEL

Class Cost of Service Study

Aquila Inc. d/b/a

Aquila Networks - MPS

Case No. GR-2004-0072

| TOTAL COST OF SERVICE SUMMARY | | TOTAL | Residential | General Service | | |
|-------------------------------|---|--------------|-------------|-----------------|--------------|--------------|
| | | | | Rate | Sm Transport | Lg Transport |
| 1 | O & M Expenses | 9,170,231 | 4,924,404 | 2,235,135 | 10,020 | 2,000,673 |
| 2 | Depreciation Expenses | 2,406,392 | 1,234,558 | 564,221 | 3,108 | 604,505 |
| 3 | Taxes | 1,443,042 | 725,565 | 333,641 | 1,974 | 381,862 |
| 4 | | | | | | |
| 5 | TOTAL - Expenses and Taxes | 13,019,665 | 6,884,527 | 3,132,997 | 15,102 | 2,987,039 |
| 6 | | | | | | |
| 7 | Current Revenue (non-gas) | | | | | |
| 8 | Rate Revenue (non-gas) | 16,173,925 | 10,491,889 | 4,079,731 | 10,457 | 1,591,848 |
| 10 | Other Revenue | 20 322,113 | 165,255 | 75,525 | 416 | 80,917 |
| 11 | | | | | | |
| 12 | TOTAL - Current Revenues | 16,496,038 | 10,657,144 | 4,155,256 | 10,873 | 1,672,765 |
| 13 | Current Revenue Percentage | 100.00% | 64.60% | 25.19% | 0.07% | 10.14% |
| 14 | | | | | | |
| 15 | OPERATING INCOME | 3,476,373 | 3,772,617 | 1,022,259 | (4,229) | (1,314,274) |
| 16 | | | | | | |
| 17 | TOTAL RATE BASE | 54,171,947 | 26,028,146 | 12,139,423 | 83,112 | 15,921,266 |
| 18 | | | | | | |
| 19 | Implicit Rate of Return (ROR) | 6.42% | 14.49% | 8.42% | -5.09% | -8.25% |
| 20 | | | | | | |
| 21 | PSC Recommended Rate of Return | 8.180% | 8.180% | 8.180% | 8.180% | 8.180% |
| 22 | | | | | | |
| 23 | Recommended Operating Income With | | | | | |
| 24 | Equalized (OPC) Rates of Return | 4,431,265 | 2,129,102 | 993,005 | 6,799 | 1,302,360 |
| 25 | | | | | | |
| 26 | Additional Current Income Tax | 20 582,720 | 298,955 | 136,629 | 753 | 146,384 |
| 27 | Class COS at PSC's Recommended Rate of Return | 18,033,650 | 9,312,584 | 4,262,631 | 22,653 | 4,435,783 |
| 28 | Revenue Percentage | 100.00% | 51.64% | 23.64% | 0.13% | 24.60% |
| 29 | | | | | | |
| 30 | Allocation of Difference Between Current | | | | | |
| 31 | Revenue and Recommended | 20 1,537,612 | 788,846 | 360,520 | 1,986 | 386,260 |
| 32 | | | | | | |
| 33 | Margin Revenue Required to Equalize | | | | | |
| 34 | Class ROR - Revenue Neutral | 16,496,038 | 8,523,738 | 3,902,111 | 20,667 | 4,049,522 |
| 35 | Revenue Percentage | 100.00% | 51.67% | 23.65% | 0.13% | 24.55% |