

Exhibit No.:
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Uncollectibles
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case Nos.: ER-2004-0034 and
HR-2004-0024 (Consolidated)
Date Testimony Prepared: January 26, 2004

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

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)

Jefferson City, Missouri
January 2004

Exhibit No. 26
Case No(s) ER-2004-0034
Date 2/23/04 Rptr 45

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) Case No. ER-2004-0034
general rate increase in electricity.)
)

In the matter of Aquila, Inc. d/b/a Aquila Networks)
L&P to implement a general rate increase in Steam) Case No. HR-2004-0024
Rates.)

AFFIDAVIT OF AMANDA C. MCMELLEN

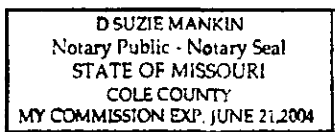
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the following rebuttal testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following rebuttal testimony 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

Subscribed and sworn to before me this 22nd day of January 2004.





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

REVENUES..... 1
UNCOLLECTIBLE (BAD DEBT) EXPENSE.....4

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

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

15 A. Yes. The customer counts have been updated to reflect actual September 30,
16 2003 numbers instead of projections.

17 Q. What is the Staff's proposed method of calculating the customer annualization
18 adjustment for MPS and L&P?

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

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

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

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

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

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

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

1 **UNCOLLECTIBLE (BAD DEBT) EXPENSE**

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

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

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

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

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

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

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

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

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

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

5 Q. Does the Staff's calculation of bad debt expense differ from the Company for
6 the L&P division?

7 A. The Staff used a five-year and nine-month average of actual net write-off rates,
8 multiplied by the Staff's normalized revenue, to calculate bad debt expense for L&P. The
9 Company used a three-year average of actual net write-off rates, multiplied by the Company's
10 normalized revenue for L&P, to calculate bad debt expense.

11 Q. What were the effective uncollectible rates for the L&P electric operations?

12 A. The following represents the uncollectible rates for L&P electric:

<u>Year</u>	<u>Uncollectible Rate</u>
1998	0.303875%
1999	0.239719%
2000	0.162541%
2001	0.418956%
2002	1.246048%
9/30/03	0.314234%

20 The five-year average for L&P electric is 0.474228%. The three-year average for
21 L&P electric is 0.609182%. The five-year and nine-month average for L&P electric is
22 0.447562%.

23 Q. Has the Company's calculation of bad debt expense changed since filing direct
24 testimony?

25 A. Yes. For L&P, Aquila has changed from a five-year to a three-year average in
26 their update.

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1 Q. Why did the Company change its method of calculation of bad debts?

2 A. The Company did not explain the change in method for the calculation of bad
3 debts. Use of a three-year average did provide the highest uncollectible write-off rate
4 compared to all the other averages calculated.

5 Q. Are the reasons for the differences for bad debt expense between the Staff and
6 the Company for L&P similar to those for MPS?

7 A. Yes. In the Staff's opinion, the same reasons apply to both MPS and L&P.
8 The only difference is the number of years used to calculate the average net write-offs. The
9 Staff believes it is more appropriate to use a five-year and nine-month average for L&P.

10 Q. Why does the Staff believe using a five-year and nine-month average is
11 appropriate for L&P?

12 A. The Staff believes using a five-year and nine-month average best reflects the
13 Company's ongoing level of bad debts, based on historical data.

14 Q. Does this conclude your rebuttal testimony?

15 A. Yes, it does.