

*Exhibit No.:*  
*Issue:* *Bad Debt Expense*  
*Witness:* *V. William Harris*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Rebuttal Testimony*  
*Case No:* *GR-2004-0072*  
*Date Testimony Prepared:* *February 13, 2004*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**V. WILLIAM HARRIS, CPA, CIA**

**AQUILA, INC.**  
**d/b/a AQUILA NETWORKS-MPS (Natural Gas)**  
**and AQUILA NETWORKS – L&P (Natural Gas)**

**CASE NO. GR-2004-0072**

*Jefferson City, Missouri*  
*February 2004*



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6 **and AQUILA NETWORKS – L&P (Natural Gas)**

7 **CASE NO. GR-2004-0072**

8 Q. Please state your name and business address.

9 A. V. William Harris, Noland Plaza Office Building, Suite 110, 3675 Noland  
10 Road, Independence, Missouri 64055.

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

12 A. I am a Regulatory Auditor with the Missouri Public Service Commission  
13 (Commission or PSC).

14 Q. Are you the same V. William Harris who previously filed direct testimony in  
15 this case?

16 A. Yes, I am. On January 6, 2004, I filed direct testimony in the area of revenue  
17 annualization and bad debt expense.

18 Q. What is the purpose of your rebuttal testimony?

19 A. The purpose of my rebuttal testimony is to address the direct testimony of  
20 Aquila witness Harold E. Mikkelsen on the issue of bad debt expense. I will also update the  
21 Staff's position on bad debt expense based on information provided by the Company, in  
22 response to Data Request Nos. 136 and 140, subsequent to the filing of my direct testimony.

23 Q. Please describe the Company's position on bad debt expense.

Rebuttal Testimony of  
V. William Harris

1           A.     On page 8 of his direct testimony, lines 18 through 21, Mr. Mikkelsen states,  
2     “The bad debt expense rate was determined by calculating a percentage based on a three-year  
3     average of actual bad debt write-offs to revenues for the last three years (2000-2002).”

4           Q.     Is the use of this three-year average appropriate?

5           A.     No. As I stated in my direct testimony on page 12, lines 2 through 7, a change  
6     in the Company’s procedures in 2001 resulted in a substantial increase in uncollectibles and  
7     the percentage of write-offs to revenues for the years 2001 and 2002. As a result, I used the  
8     write-off ratio for the year 2000 in filing my direct testimony.

9           Q.     Did you intend for that to be the Staff’s final position in this case?

10          A.     No. As I stated in my direct testimony on page 12, lines 7 through 9, there  
11     were data requests pending to address the increases in bad debts and to update uncollectible  
12     information through September 30, 2003.

13          Q.     Did you receive the data necessary to complete your analysis of bad debt  
14     expense?

15          A.     Yes. I received the necessary data in the Company’s responses to Data  
16     Request Nos. 136 and 140 on January 6 and January 27, 2004, respectively.

17          Q.     Please describe how you used the information in Data Request No. 136.

18          A.     The information provided in the Company’s response to Data Request  
19     No. 136 allowed me to update my bad debt analysis through September 30, 2003.

20          Q.     Is it appropriate to update bad debt expense through September 30, 2003?

21          A.     Yes. Updating bad debt expense through September 30, 2003, is consistent  
22     with the Staff’s treatment of other income statement items in this case.

23          Q.     Please describe the information contained in Data Request No. 140.

1           A.     Data Request No. 140 identifies the Company’s actual historical bad debt  
2 experience for its natural gas operations in Missouri. Aquila Networks-MPS (MPS) data is  
3 provided from 1993 through 2002. In its response to this data request, the Company stated,  
4 “information for L&P is only available back to 1998.” Using this data and Data Request No.  
5 136, the Staff created the following table illustrating the historical uncollectible rates (the  
6 percentage of net write-offs to revenues):

	MPS	L&P
8           1998	.00599765	.00986086
9           1999	.00821807	.00635807
10          2000	.00958012	.00703586
11          2001	.02051353	.00622969
12          2002	.02206409	.01711199
13 <u>01-09/2003</u>	<u>.01694591</u>	<u>.00598075</u>
14          5-yr./9-mo. avg.	.01388656	.00876287

15           As shown above, the MPS rates steadily climbed but then began to show a downward  
16 spiral in 2003 while Aquila Networks-L&P (L&P) rates fluctuated significantly throughout  
17 the period (again showing a downward spiral in 2003).

18           Q.     Has the Staff updated its position since its direct filing based on the  
19 information provided by the Company in response to Data Request Nos. 136 and 140?

20           A.     Yes. The Staff believes, based on the information it received subsequent to its  
21 direct filing, that a 5-year, 9-month average is appropriate for calculating bad debt expense.

22           Q.     Why is a 5-year, 9-month average appropriate?

1           A.     There are primarily three reasons why using a 5-year, 9-month average is  
2 appropriate.

3           1.     As Mr. Mikkelsen states on page 9, line 2, of his direct testimony “bad  
4 debt levels can vary significantly from year to year.” In justifying his  
5 use of a 3-year average, he goes on to state (page 9, lines 5 through 7)  
6 that it “reflects a representative level of expense in the test year by  
7 using an average of *several years*’ history of actual bad debt write-offs  
8 to revenues in determination of the rate” [emphasis added]. A 5-year,  
9 9-month average is more representative of *several years* than a 3-year  
10 average is.

11          2.     A 5-year, 9-month average reduces the “skewed” amounts caused by  
12 uncollectible rates in 2001 (MPS) and 2002 (MPS and L&P) that were  
13 significantly higher than any other during the 5-year period. (MPS  
14 rates for 2001 and 2002 were more than double the rate for ANY other  
15 year.)

16          3.     Mr. Mikkelsen states on page 9, lines 7 and 8, of his direct testimony  
17 that the rate he used was “the most current data available at the time.”  
18 A 5-year, 9-month rate includes the most current data available at this  
19 time.

20          Q.     Does this conclude your rebuttal testimony?

21          A.     Yes, it does.