EXECUTIVE SUMMARY
DIRECT TESTIMONY OF CHARLES R. GRAY
DOCKET NO. EO-2002-384

Section I: Introduction

This section provides the qualifications of the witness.

Section II: Proof of Revenue and Billing Determinants

This section provides the purpose of the testimony, a listing of the sponsored schedules, the purpose of each schedule, a description of the sources of the test year billing determinants, the conclusions reached after billing determinants were compiled and a presentation of billing determinants at proposed rate design structures. The appropriate billed revenues are accurately reflected in the test year billing determinants on the schedules provided.

Section III: Rate Design Philosophy

This section describes the process to determine the proposed rate values and changes in rate design proposed by Aquila, a summation of how the information and feedback Aquila received from the technical conferences was incorporated into the rate design process, a listing of rate schedules maintaining their current rate structure and description of the across the board percentage change proposal of those rate schedules. This section also describes Aquila's rate design philosophy which is the creation of fair, competitive, consistent, and flexible rates that satisfy customers' needs while recovering and reflecting costs and shows how its application leads to Aquila's proposal. Aquila recommends a simplification of rate structures, elimination of the Time Of Use tariffs for small customers, elimination of the base/seasonal billing concept for all but the largest MPS customers, a regrouping of customers of similar load and service levels on the same rate schedule and simplifying a number of others either by consolidating multiple existing tariffs, or changing the basic structure to make them easier for customers to understand, thereby facilitating their ability to respond to the price signals.

Section IV: L&P Rate Design

This section describes the changes to L&P rate schedules, discusses the proposed rate design changes, discusses potential Large General Service rate switching, discusses the proposal to eliminate Time of Use Service, School and Church Service and Limited Demand Electric Space Heating General Service rate schedules and the addition of a Short Term Service tariff.

Section V: MPS Rate Design

This section describes the addition of a Residential Service-Other Use for MPS similar to the current L&P Residential-Other Use tariff, describes the proposed simplification of the rate structure for Small General Service tariff, describes the reason behind the consolidation proposal of School and Church rate and Municipal Water Pumping and Lighting rate into a standard Small General Service rate, describes changes to the Large General Service tariff, discusses the reasons behind the proposed elimination of the base/seasonal billing concept for all but the largest customers, and describes the proposed elimination of Time of Use tariffs and consolidation of the Special Contract tariff into a standard Large Power Service tariff.

Exhibit No.:	
Issues:	Proof of Revenue, Billing Determinants, Rate Design
Witness:	Charles R. Gray
Sponsoring Party:	Aquila Networks – L&P Aquila Networks – MPS
Case No.:	EO-2002-384

Before the Public Service Commission
Of the State of Missouri

Direct Testimony

Of

Charles R. Gray

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF CHARLES R. GRAY
ON BEHALF OF AQUILA INC.
DOCKET NO. EO-2002-384

Q. Please state your name and business address.

A. My name is Charles R. Gray and my business address is 10700 East 350 Highway, Kansas City Missouri.

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

A. I am employed by Aquila, Inc. ("Aquila" or "Company") in the Regulatory Services group as a Senior Regulatory Analyst.

Q. Please briefly describe your duties and responsibilities as a Senior Regulatory Analyst for Aquila.

A. I am responsible for gathering, researching and analyzing accounting, financial, statistical, customer billing data and other information. I also prepare analyses, work papers and other supporting documents for various filings with regulatory agencies and reports, both internal and external. I also participate in the preparation of the cost of service study and relate cost of service results to the development of product prices, rates and tariffs.

Q. Please state your educational background and professional experience.

A. I attended Central Missouri State University in Warrensburg Missouri, from which I received a Bachelor of Science-Education Degree. I also attended Longview Community College in Kansas City Missouri, from which I received an Associates of Arts-Accounting Degree. In 1986 I began working

for Missouri Public Service, a division of Aquila, and held positions within the Accounting department. My responsibilities included direct responsibility for the monthly billing of Missouri Public Service's Large Volume billing accounts, as well as preparation of financial and regulatory reports, monthly Accounting journal entries and budgeting. In 1995 I joined Aquila's Regulatory Department as a Rates Analyst. I was promoted to Senior Rates Analyst in 2000, the position I currently hold.

PROOF OF REVENUE AND BILLING DETERMINANTS

Q. What is the purpose of your testimony in this proceeding before the Missouri Public Service Commission ("Commission")?

A. The purpose of my testimony is to provide a proof of test year revenue on the rate schedules in effect on December 31, 2002, the end of the test year in this case, for Aquila Networks-Missouri Public Service ("MPS") and Aquila Networks- Light and Power ("L&P"). I also will be providing the test year billing determinants priced out on the proposed rates on the proposed rate structures. I also will be introducing the new rate design concepts Aquila is proposing in this proceeding. In addition, I will price out the test year billing determinants on the proposed rate structure.

Q. Are you sponsoring any schedules?

A. Yes. I am sponsoring the MPS Billing Determinant Schedule CRG-1, L&P Billing Determinant Schedule CRG-2, MPS Billing Determinant on Proposed

Structure Schedule CRG-3 and L&P Billing Determinant on Proposed Structure Schedule CRG-4. .

Q. Please explain the purpose of Billing Determinant Schedule CRG-1.

A. The purpose of Schedule CRG-1 is to price out the MPS billing determinants on existing rates for the test year ended December 2002 by rate ID. This process is necessary for the proof of test year revenue on the existing rates. The electric rate schedule revenue MPS receives is normally classified as customer service charge, demand charge or energy charge. In addition to these normal billing charges, electric revenues may also be generated by the facilities kW charge, reactive demand adjustment, primary discount rider, economic development rider, rate schedule minimum monthly charges, and maintenance and facilities charges.

Q. Are there any billing charges excluded from Schedule CRG-1?

A. Yes. The revenue shown on Schedule CRG-1 does not include sales taxes, franchise taxes or non-utility charges.

Q. Please explain how you derived the billing determinants shown on CRG-1?

A. I compiled the billing determinants by rate ID from a combination of Customer Information System (CIS+) monthly billing system reports, monthly amounts booked to the Aquila PeopleSoft accounting system and from a download of individual customer billing records from CIS+ in a database format. From these sources I crosschecked the billing information for accuracy and reliability and grouped the appropriate rate ID's to the specific rate schedule.

Q. Does the CIS+ Billing system assign only one rate ID number for each tariff rate schedule?

A. No it does not. There can be multiple rate ID's within the CIS+ billing system for a specific rate schedule. The rate ID's are used internally by the billing system to designate the proper rate component values to apply to the billed usage during the bill calculation process. As an example, L&P has a Residential Service – General Use tariff schedule, but the tariff schedule has two rate ID's associated with it. The Residential Service – General Use rate sheet No. 18 uses rate ID MO910 for the regular residential service accounts and MO911 for the Multiple Occupancy Residential accounts. In total, the CIS+ billing system currently uses 27 rate ID's for metered electrical service and another 38 rate ID's for the unmetered street lighting, security lighting and private are lighting options available to MPS customers. The CIS+ billing system currently uses 22 rate ID's for metered electrical service and another 39 rate ID's for the unmetered street lighting, security lighting and private are lighting options available to L&P customers.

Q. Please discuss the format used on Schedule CRG-1.

A. The schedule lists separately each rate schedule by name and schedule number. The summer billing period charges are used on bills inclusive of June 1st to September 30th. The winter billing period charges are used on bills inclusive of October 1st to May 31st. Charges may differ between the summer/winter split or may remain constant during all months of the year. The test year billing determinants are shown by season along with the

approved charge per unit and the total test year dollars billed by rate component. The various components are summed and shown in total at the end of each section. When the charge is stepped, the billing determinants are shown for each step. For the unmetered street and area lighting schedules, the schedule lists the unmetered usage billed and the revenue generated by lighting schedule.

Q. Did your analysis of the test year billing determinants allow you to reach any conclusions concerning billed revenue?

A. My analysis allows me to conclude that billed revenues are accurately reflected in the test year billing determinants provided in Schedules CRG-1 and CRG-2.

Q. Please explain the purpose of the Schedule CRG-2.

A. The purpose of Schedule CRG-2 is to price out the L&P billing determinants on existing rates for the test year ended December 2002 by rate ID. The process to create the test year billing determinants for L&P was identical to the process used for Schedule CRG-1

Q. Please explain the purpose of the Schedule CRG-3.

A. The purpose of Schedule CRG-3 is to price out the test year MPS billing determinants on the proposed rate values and on the proposed rate design. Schedule CRG-3 will prove that the proposed rate values and rate design will allow Aquila to recover the proper revenue from each cost of service customer class while maintaining overall revenue neutrality.

Q. Please explain the purpose of the Schedule CRG-4.

A. The purpose of Schedule CRG-4 is to price out the test year L&P billing determinants on the proposed rate values and on the proposed rate design. Schedule CRG-4 will prove that the proposed rate values and rate design will allow Aquila to recover the proper revenue from each cost of service customer class while maintaining overall revenue neutrality.

RATE DESIGN

Q. How are the proposed rate values and rate design decided upon?

A. We begin with a determination of the modifications in current rate structures that are warranted and desired by the Company and/or its customers. When this information is gathered, we incorporate changes into a fixed set of billing determinants, in this proceeding, the billing determinants for the test year ended December 31, 2002. We then adjust the current rate structures for each rate ID into proposed rate structures for the customer classes. The cost of service study presented by Aquila Witness David Stowe identifies the revenue shifts between all cost of service customer classes. Within the cost of service study results are the customer related, demand related and energy related costs to be recovered from each customer class. We determined a proper rate value for each of the billing components for each rate ID from the cost of service study findings. Within the process of rate design, while maintaining revenue neutrality, Aquila desires to ensure consistency in the electric rates across various jurisdictions and compliance with a broad, Aquila rate design philosophy.

Q. Generally speaking, what is Aquila's rate design philosophy?

A. Aquila's primary rate design principle is the creation of fair, competitive, consistent, and flexible rates that satisfy customers' needs while recovering and reflecting costs. However, the process of rate design is complex and iterative, and involves various overlapping and sometimes conflicting factors.

Q. What are those factors?

A. They include, but are not limited to, the following: 1) collection of Aquila's total revenue requirement, the required change in revenue and the allocation of that change to each customer class, 2) recognition of the cost of service as reflected by a cost of service study, as well as the cost of both existing and future facilities to provide service, 3) the need to encourage optimum use of supply facilities by promoting desirable and discouraging undesirable load characteristics, 4) recognition of the value of service considering the nature and level of competition and the degree of price sensitivity in each rate class, 5) avoidance of undue discrimination between customer classes and individual customers within each class, 6) the history of rates, including trends in the level of charges and stability of the rates, 7) rate structure and terms and conditions of service which provide for simplicity of understanding, acceptance by customers, ease of administration, and economy of billing, 8) consideration of the rates and practices of other utilities having similar types of load and service conditions, and 9) redesign of rates and services to reflect industry movement.

Q. Please describe the process used to develop the proposed rate schedules in this case.

A. The Company's Regulatory Services Department representatives met with various employee groups within Aquila. In addition to the internal meetings with Aquila employees, multiple meetings and technical conferences were held with members of The Public Service Commission ("Staff"), members of the Office of The Public Counsel ("OPC") and representatives of the Sedalia Industrial Energy Users' Association ("SIEUA") and the Federal Executive Agencies ("FEA"). From the discussions in those meetings, Regulatory Services developed the proposed rate structures with the mission to satisfy customer feedback to simplify the rates, to provide Aquila with an ease of tariff administration, to consolidate rate schedules where appropriate, to eliminate certain rate schedules, to regroup customers of similar load and service level onto the same rate schedule, to eliminate the base/seasonal rate design concept for MPS small general service and MPS large general service customers, and finally to design rates that more adequately assign and allocate the total costs of providing service to the various customer classes.

Q. Why has Aquila proposed these new rate design changes?

A. Aquila would like to simplify the rates wherever possible, as long as it does not produce undue hardship and burden on customers. Many of the factors that were used to determine the current rate design are no longer valid and/or quantifiable.

Q. Is Aquila proposing to change every MPS rate ID rate structure?

A. No. Aquila has not proposed any rate structure changes for the following MPS rate IDs:

Residential General Use rate MO860

Residential Electric Space Heating rate MO870

Thermal Energy Storage Pilot Program rate MO650

Real Time Pricing Program rate MO721, MO731, MO737

Large Power Service rate MO730 MO735

Lighting - Municipal Street Lighting Service

Lighting – Private Area Lighting Service

Lighting – Non-Standard Street and Area Light Facilities

Cogeneration Purchase Schedule rate MO700

Net Metering Rider rate MO865

Q. Is Aquila proposing to change every L&P rate ID rate structure?

A. No. Aquila has not proposed any rate structure changes for the following L&P rate IDs:

Residential Other Use rate MO915

Residential Space Heating/Water Heating – Separate Meter rate MO922

Fixed Bill Pilot Program rate MO916

Large Power Service rate MO944

Lighting - Municipal Street Lighting Service

Lighting - Street Lighting and Traffic Signals Service MO972

Lighting – Private Area Lighting Service

Lighting – Outdoor Night Lighting MO971

Cogeneration Purchase Schedule rate MO700

Net Metering Rider rate MO965

Q. Does Aquila propose to change any rate values for the rate IDs listed above?

A. Aquila proposes an across the board percentage change to each rate component for the rate IDs that are not structurally changing. The percentage change is calculated from the cost of service study. The proposed rate component values are each test year rate component value times the percentage increase/decrease determined by the cost of service study. For example, if the cost of service study determined that the MPS lighting customer class warrants a 10% increase in revenue, each type of private area lighting will receive a 10% increase in each rate component charge.

L&P Rate Design

Q. Please discuss the changes proposed to the L&P residential rates.

A. Currently, L&P offers the following residential rate schedules.

Residential Service - General Use

Residential Service – With Space Heating

Residential Service – With Electric Water Heating

Residential Service - Other Use

Residential Space Heating/Water Heating – Separate Meter

We are proposing merging the Residential Service – General Use and the Residential Service – With Electric Water Heating. The reason behind this consolidation deals with the difficulty of verifying a customer having a

permanently installed electric water heater. Most all of the water heaters are located inside a home either in the basement, garage or utility room. The location of the water heater makes it extremely difficult and time consuming to validate that a customer does in fact have an electric water heater. The proposed Residential Service – General Use would be a stepped rate with seasonal winter/summer energy charges. The winter period declining block energy charge proposed will allow L&P to encourage a customer to install an electric water heater while eliminating the need for home access by Company personnel to validate the presence of the electric water heater. This consolidation is proposed to help ease tariff administration and consistency in electric rates across the various Aquila jurisdictions. Both the proposed Residential Service – General Use and the Residential Service –With Electric Space Heat tariff will have an inverted stepped energy rate in the summer period. I believe this rate design is appropriate to send the proper price signal to customers during period of higher energy production costs. It also allows Aquila to encourage optimum use of supply facilities by promoting desirable and discouraging undesirable load characteristics as previously listed in Aquila's rate design philosophy. We are proposing no rate structure change on the Residential Service – Other Use tariff or the Residential Space Heating/Water Heating – Separate Meter tariff.

Q. What rate design is proposed for Small General Service – Limited Demand tariffs?

A. Aquila proposes a Small General Service – Limited Demand tariff for customers whose actual demand is no greater than 30 kW or energy usage greater than 5,400 kWh per month. The tariff would consist of a monthly customer charge and a stepped energy charge. During winter billing months, the energy charge is stepped at 1,000 kWh and priced with a declining energy charge. During the summer billing months, the tariff would have 3 energy blocks. The first block is for usage between 0 and 1,000 kWh. The second block is for usage between 1,000 and 5,400 kWh. The last block is for usage is excess of 5,400 kWh. This inverted rate design, where the unit charge for energy increases as usage level increases, encourages optimum use of supply facilities by promoting desirable and discouraging undesirable load characteristics. Aquila also proposes to consolidate the General Service – Limited Demand with Electric Space Heating tariff and the General Service – Churches and Schools tariff into the Small General Service – Limited Demand tariff. Currently all three tariffs are billed the identical charge for monthly customer charge and seasonal energy charges. In keeping with our desire to eliminate duplicate tariffs and ease tariff administration, this consolidation will not affect the customers or the Company.

Q. What rate design is proposed for Small General Service – Demand tariffs?

A. Aquila proposes to consolidate The General Service – General Use tariff and the General Service – With Electric Space Heating tariff. The tariff would consist of a monthly customer charge, seasonal demand charge and a stepped energy charge. The energy charge is stepped at the first 180 hours of use with

an excess block of any remaining kWh and priced with a lower energy charge. This declining energy charge encourages the customer to control his kW demand and increase his kWh usage (i.e. improve his load factor). The current facilities charge has been eliminated and replaced with a monthly customer charge and a monthly kW demand charge. This rate structure mirrors the MPS Small General Service with Demand Meters tariff and accomplishes our desire for common rate structures.

Q. What rate design is proposed for Large General Service tariff?

A. Aquila proposes a monthly customer charge, seasonally priced demand charge and a stepped energy charge. The current facilities charge would be replaced with a monthly customer charge. This rate structure mirrors the MPS Large General Service tariff and accomplishes our desire for common rate structures. The energy charge would incorporate a 3 step allocation of the kWh usage. The first step would bill the first 180 hours of use. The second step would bill the kWh from 180 hours through 360 hours of use. The third step would be for any kWh usage in excess of 360 hours of use. The higher the load factor, more kWh is billed at the cheaper energy rate. The 180 hours of use was chosen as that level represents the normal business hours in an 8 to 5 PM workplace. The second 180 hours of use typically reflects the addition of a second work shift. The excess hours of use typically signifies a "graveyard" shift. We also are proposing elimination of the Primary Discount Rider for Large General Service customers and will offer a Large General Service- Primary Voltage tariff for those current customers on Large General Service rate (MO940). The

reason behind this change is to make it simpler to identify the primary voltage customers from the secondary voltage customers. Aquila uses different rate IDs for its MPS secondary and primary customers and desires to do the same for L&P customers. Both the Large General Service-Secondary Voltage and Large General Service-Primary Voltage will have a 100 kW monthly minimum billing demand and a 75% demand ratchet covering the previous 11 months.

Q. Will adopting the 100 kW minimum demand cause "rate switchers"?

A. Yes, many of the current Large General Service customers never register a metered demand of 100 kW. Currently the L&P Large General Service tariff is used by customers with a maximum demand of 20 kW to customers over 1,000 kW maximum demands. The range is too large and the customers too dissimilar. Those smaller customers will be shifted to the Small General Service – Demand tariff. This follows Aquila's rate design philosophy to regroup customers of similar load and service levels onto the same rate schedule. It also would allow Aquila to align the L&P Large General Service tariff with the MPS Large General Service tariff. This follows Aquila's rate design philosophy of consistency of rates throughout the state of Missouri.

Q. How many Large General Service rate switchers are anticipated by Aquila?

A. Aquila expects over 60% of the current Large General Service customers will switch to the Small General Service – Demand tariff.

Q. Why is Aquila proposing elimination of the optional Time of Use Adjustment Rider?

A. No customer has taken service under this rider for at least 4 years. The Aquila cost of generation in our region does not, in our opinion, justify a large enough differential between On and Off Peak periods to compel customers to change their usage behavior. Time of Use rates have more value to the customer, as well as the Company, when there is a wider range of prices between peak use periods and off peak periods. As evidenced by the lack of L&P customer participation in Time of Use rates, we propose eliminating the tariff. We will continue the Large Power Service (MO944) structure as those customers through their representatives, SIEUA and FEA, have expressed the desire to keep the current Large Power Service tariff structure. This is another example of Aquila's primary principle for rate design as the creation of fair, competitive, consistent, and flexible rates that satisfy customers' needs while recovering and reflecting costs.

Q. Please describe the proposed Small General Service Short Term tariff?

A. The purpose of the Short Term Service tariff is to allow L&P to easily identify customer services that are of a temporary nature. These services would include festivals, fairs, carnivals, circuses, seasonal fruit stands and other services on a non-permanent nature. In addition, Short Term Service shall be supplied to builders, contractors, or developers constructing residential or commercial sites prior to occupancy and/or permanent meter set. The tariff would consist of a monthly customer charge and a seasonal energy charge similar to Small General Service without Demand billing.

Q. Does this conclude your direct testimony of the L&P rate design?

A. Yes, that covers our rate design for L&P.

MPS Rate Design

Q. What rate design is Aquila proposing for residential customers of MPS?

A. The only new residential rate design proposed for MPS is the addition of a Residential – Other Use tariff. This rate will mirror the L&P Residential – Other Use tariff in rate structure and availability. This rate will greatly reduce the problem customers and Company employees have in determining what rate an outbuilding at a residence should be billed. Customers have complained that we are billing their separately metered detached garage on a commercial rate, typically Small General Service rate ID MO710. The customer believes that the metered service should be billed on a residential rate like his house. If a customer is truly running a commercial business, a wood shop or auto repair business for example, out of the detached building, then we will continue to place the service on the Small General Service rate. By offering a Residential – Other Use tariff that specifically describes the appropriate types of buildings covered under the tariff, less confusion will be experienced by both the customer and the Company. This will foster rate acceptance by customers and ease of tariff administration.

Q. What changes are proposed for the Small General Service Without Demand Billing rate schedule?

A. We are proposing to greatly simplify the tariff offered to non-residential customers with low kWh usage and limited kW demands. The proposed rate

structure will have a monthly customer charge and a stepped kWh energy charge. We propose to eliminate the base/seasonal billing concept to all Small General Service rate schedules. In addition to simplifying the rate structure, we also propose consolidating five frozen rate IDs into the Small General Service – Without Demand Billing rate schedule. In keeping with our desire to regroup customers of similar load and service level onto the same rate schedule, the School and Church Service tariff (MO740 and MO745), the Municipal Water Pumping and Special Street Lighting Service tariff (MO800) and the Municipal Park and Recreation Service tariff (MO810 and MO811) will be consolidated with the Small General Service non-demand billing tariff (MO710). These five rates have been frozen to new customers since June 29, 1993. The largest School and Church accounts have migrated to other tariffs over the years that resulted in actual dollar savings for the customers. The remaining accounts still on these rates have very similar load and service levels as the typical MO710 customer. They are the very low usage services.

Q. Why do away with the base/seasonal billing concept for Small General Service and Large General Service tariffs?

A. While the Company still believes that the base/seasonal concept is an excellent method of sending appropriate price signals to the customer, the calculations and allocations of demand and energy are difficult for the less sophisticated energy users to understand. Within the Company, some of our customer service employees that do not work with the base/seasonal concept on a day to day basis also have trouble understanding what the billing concept

is trying to accomplish. Aquila will continue to offer the base/seasonal concept for the large usage customers taking service on the Large Power Service tariff. The SIEUA and FEA representative voiced their desire to maintain the base/seasonal concept for those accounts on Large Power Service (MO730 and MO735). Aquila has taken customer feedback and incorporated those wants and needs into the proposed rate designs.

Q. What changes are proposed for the Small General Service Demand billing rate schedule?

A. Aquila proposes the elimination of the base/seasonal billing concept for Small General Service with Demand meters at Secondary Voltage (MO711) and Primary Voltage (MO716). We also propose elimination of the billing demand calculation that compares the actual metered maximum demand with the imputed demand value determined by dividing the monthly energy usage by 180 hours during billing periods when the customer's maximum demand does not exceed 100 kW. We propose to bill the demand charge based on each customer's actual metered maximum monthly demand. The proposed rate structure is identical as the previously discussed L&P Small General Service – Demand tariff. The tariff would consist of a monthly customer charge, a seasonally priced demand charge and a stepped energy charge. The energy charge is stepped at the first 180 hours of use with an excess block of any remaining kWh and priced with a lower energy charge. This declining energy charge encourages the customer to control his kW demand and increase his kWh usage. Aquila also proposes to freeze the Small General Service-

Demand at Primary Voltage rate offering. During the test year only 6 customers took service at Primary Voltage. Recently the 3 largest customers have migrated to Large General Service- Primary tariff (MO725). The remaining customers have special security reasons for owning their own transformers. Because of the lack of customer interest in a Small General Service Demand at Primary Voltage service, we chose to freeze the tariff.

Q. What changes are proposed for the Large General Service rate schedule?

A. Aquila proposes the elimination of the base/seasonal billing concept for Large General Service with Demand meters at Secondary Voltage (MO720) and Primary Voltage (MO725). The proposed rate structure is identical to the previously discussed L&P Large General Service – Demand tariff. Both the Large General Service-Secondary Voltage and Large General Service-Primary Voltage will maintain the 100 kW monthly minimum billing demand with a 75% demand ratchet covering the previous 11 months. Aquila proposes a monthly customer charge, seasonally priced demand charge and a stepped energy charge. The energy charge would incorporate a 3 step allocation of the kWh usage. The first step would bill the first 180 hours of use. The second step would bill the kWh from 180 hours through 360 hours of use. The third step would be for any kWh usage in excess of 360 hours of use. The higher the load factors, the more kWh are billed at the cheaper energy rate.

Q. Why is Aquila proposing elimination of the Residential Time of Use Service?

A. No residential customer has ever taken service under this tariff. The Aquila cost of generation in our region does not, in our opinion, justify a large enough

differential between On and Off Peak periods to compel customers to change their usage behavior. Time of Use rates have more value to the customer, as well as the Company, when there is a wider range of prices between peak use periods and off peak periods. As evidenced by the lack of MPS customer participation in Time of Use rates, we propose eliminating the tariff.

Q. Why is Aquila proposing elimination of the General Service Time of Use tariff?

A. No customers are taking service under this tariff. The last customer left the time of use tariff and returned to a standard tariff on June 1, 2001. The Aquila cost of generation in our region does not, in our opinion, justify a large enough differential between On and Off Peak periods to compel customers to change their usage behavior. Time of Use rates have more value to the customer, as well as the Company, when there is a wider range of prices between peak use periods and off peak periods. As evidenced by the lack of MPS customer participation in Time of Use rates, we propose eliminating the tariff.

Q. What is Aquila proposing for the Modine Manufacturing Company tariff?

A. Aquila is proposing a consolidation of the Modine Manufacturing Co. (MO919) tariff into the Large Power Service – Secondary Voltage (MO730) tariff. The current rate structure for rate MO919 dates back to 1978. It only incorporated a declining stepped energy rate. It lacks a monthly customer charge or a demand charge component. Aquila does not support the idea of customer specific tariffs, preferring the use of Special Contracts when unique situations warrant. In keeping with our desire to offer fair and equitable tariffs

to all customers, the appropriate rate structure for this size of customer is one that has a customer charge, demand charge and base/seasonal hours of use energy charge. Aquila's cost of service study results along with the Staff and SIEUA and FEA cost of service study results all indicate that the MO919 rate does not generate an appropriate level of revenue to cover the allocated costs. By consolidating the MO919 rate ID into the MO730 rate ID, the customer will experience modest but justified increase in rates. Removal of this rate schedule will also reduce the burdens of tariff administration on the Company.

Q. Does Aquila propose adding any new tariffs?

A. Yes, a Small General Service Short Term Service tariff.

Q. Please describe the proposed Small General Service Short Term tariff?

A. The purpose of the Short Term Service tariff is to allow MPS to easily identify customer services that are of a temporary nature. These services would include festivals, fairs, carnivals, circuses, seasonal fruit stands and other services on a non-permanent nature. In addition, Short Term Service shall be supplied to builders, contractors, or developers constructing residential or commercial sites prior to occupancy and/or permanent meter set. The tariff would consist of a monthly customer charge and a seasonal energy charge similar to Small General Service without Demand billing.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of an Examination of Class Cost of Service And Rate Design in the Missouri Jurisdictional Electric Service Operations of Aquila, Inc., formerly known as UtiliCorp United Inc.	))))	Case No. EO-2002-384

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF CHARLES R. GRAY

Charles R. Gray, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Charles R. Gray;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Charles R. Gray
Charles R. Gray

Subscribed and sworn to before me this 16TH day of SEPTEMBER, 2005.

Marvin L. Friedrich
Notary Public
MARVIN L. FRIEDRICH

My Commission expires:

March 10, 2007