Exhibit No:	
Issues:	Health, Dental, & Vision Benefits 401(k) ESOP Bad Debts Expense
Witness:	Harold E. Mikkelsen
Sponsoring Party:	Aquila Networks – MPS Aquila Networks – L&P
Case No:	GR-2004-0072

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

REBUTTAL TESTIMONY

OF

HAROLD E. MIKKELSEN

State of Nebraska)
) ss
County of Douglas)

AFFIDAVIT OF HAROLD E. MIKKELSEN

Harold E. Mikkelsen, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony and schedules entitled "Rebuttal Testimony of Harold E. Mikkelsen"; that said testimony was prepared by him and/or 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.

Harold E. Mikkelsen

Subscribed and sworn to before me this 12th day of February, 2004.

Richard G. Petersen
Notary Public

My Commission expires:

7/4/05

RICHARD G PETERSEN
GENERAL NOTARIAL
SEAL
STATE OF NEBRASKA
COMMISSION EXPIRES
JULY 4, 2005

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REBUTTAL TESTIMONY OF
HAROLD E. MIKKELSEN
AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
AND AQUILA NETWORKS-L&P
CASE NO. GR-2004-0072

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
REBUTTAL TESTIMONY OF HAROLD E. MIKKELSEN
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. GR-2004-0072

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Harold E. Mikkelsen and my business address is 1815 Capitol Avenue, Omaha, Nebraska.

Q. ARE YOU THE SAME HAROLD E. MIKKELSEN WHO SPONSORED DIRECT TESTIMONY IN THIS PROCEEDING BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") ON BEHALF OF AQUILA, INC. ("AQUILA" OR "COMPANY")?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to various direct testimony and calculations completed by witnesses for the Commission Staff ("Staff"). The following issues will be discussed in my rebuttal:

- Health, Dental and Vision Benefits
- 401(k) Benefits Matching Expense
- ESOP (Profit Sharing Plan) Contribution Expense
- Bad Debt Expense

<u>Health, Dental and Vision Benefits</u>

Q. WHAT ISSUES DO YOU HAVE WITH STAFF'S DETERMINATION OF THE ONGOING LEVEL OF THE EMPLOYER' SHARE OF HEALTH, DENTAL AND VISION BENEFITS FOR MPS AND L&P?

A. The employer's share of health, dental and vision benefit annualization method employed by Staff witness Dana Eaves was identical to Aquila's employer share of health, dental and vision benefit annualization method with one exception.

Q. PLEASE EXPLAIN THAT DIFFERENCE.

A. Staff witness Eaves made an adjustment to the accrual of the Company's self-insured portion of health, dental and vision for MPS and L&P to reflect actual claims paid. Mr. Eaves states that his adjustment corrects the historical over-accrual on the Company's books for the self-insured portion of health, dental and vision, which has been higher than actual costs.

Q. DO YOU AGREE WITH MR. EAVES CONTENTION?

A. No. The Company's self-insured portion of its benefits is based on total Aquila employees and allocated so that medical, dental and vision costs are spread over a larger group rather than just the employees based in Missouri. Aquila retains the benefit consulting firm, PriceWaterhouseCoopers ("PWC"), to actuarially estimate medical, dental and vision expenses for Aquila's employees and dependents covered by the plans. PWC uses historical actual claims plus assumptions on future medical inflation, employee turnover, likelihood of catastrophic claims, etc. PWC then assigns a cost to each coverage level in medical, dental and vision (e.g. single $209 per month, employee plus one dependent $419 per month, and employee plus two or more dependents $628 per month). Aquila adjusts the allocated cost each six months based on actual enrollment in coverage levels. Over the long term, since actual claims fluctuate from year to year, the allocation method, being actuarially based, has proven to be an accurate method of allocating cost. The allocation method is similar to the "smoothing method" to allocate pension expense. If Aquila just used actual claims for the employees in each state, the cost per employee and state could fluctuate dramatically and cost would tend to be much higher. For example, the SJLP merger agreement with Aquila requires that Aquila follow the pre-merger method for setting annual retiree medical cost. Consequently, the SJLP retiree population medical cost is calculated independently of Aquila's other retiree population. In the last three years, the SJLP pre 65 retiree medical rate has fluctuated as follows: 2002 = 8.8% decrease, 2003 = 72.7% increase and 2004 = 51.3% increase.

Q. WHAT IS THE DOLLAR IMPACT OF THE ADJUSTMENT PROPOSED BY STAFF TO ELIMINATE THE ACTUAL COSTS BASED ON CLAIMS PAID??

A. The dollar amount eliminated by Staff related to the Company's health, dental and vision adjustment totals $31,332 for MPS gas northern-southern systems, $3,803 for MPS gas eastern system, and $13,204 for L&P gas cost of service filing.

<u>401(k) Benefits Matching Expense</u>

Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE METHOD USED BY STAFF WITNESS DANA EAVES TO COMPUTE AN ANNUALIZED LEVEL OF 401(K) BENEFITS MATCHING EXPENSE.

A. Staff witness Dana Eaves agreed with Aquila's method in computing the annualized level of 401(k) benefits matching expense. This method included obtaining annualized payroll expense and applying the percentage of base pay being matched by Aquila during the test year. The resulting amount is the annualized level of 401(k) benefits matching expense

Q. ARE THE STAFF AND AQUILA ADJUSTMENTS FOR 401(K) BENEFITS MATCHING EXPENSE DIFFERENT?

A. Yes

Q. WHY IS THIS SO IF THE METHODS ARE THE SAME?

A. The difference between Aquila and Staff 401(k) benefits matching expenses is the result of Staff adjusting the annualized payroll expense as discussed in the rebuttal testimony of Aquila witness Richard G. Petersen. Staff's 401(k) expense amount has been lowered as a result of its payroll annualization adjustments.

Q. DOES AQUILA BELIEVE THAT ITS PAYROLL ANNUALIZATION AMOUNTS SHOULD BE USED IN THE CALCULATION OF 401(K) BENEFITS MATCHING EXPENSE CALCULATION?

A. Yes. As discussed in the rebuttal testimony of Aquila witnesses Richard G. Petersen and Jon R. Empson, the payroll expense annualized levels as computed by Aquila are reflective of ongoing cost levels. As such, this amount should be used to compute the 401(k) benefits matching expense adjustment.

Q. IF THE COMMISSION ADOPTS AQUILA'S PAYROLL ANNUALIZATION EXPENSE PLEASE QUANTIFY THE AMOUNT OF 401(K) BENEFITS MATCHING EXPENSE ADJUSTMENT THAT SHOULD BE MADE TO STAFF'S CALCULATION FOR MPS AND L&P.

A. The total difference between Aquila and Staff's 401(k) expense adjustment for MPS gas northern-southern systems is $4,923. $2,495 of this adjustment is due to the exclusion of the MPS union contract increase beginning April 1, 2004 in the payroll annualization calculation. $2,428 of this adjustment is associated with the elimination of certain corporate department payroll amounts identified by Staff to be associated with restructuring activities. The total difference between Aquila and Staff's 401(k) expense adjustment for MPS gas eastern system is $597. $303 of this adjustment is due to the exclusion of the MPS union contract increase beginning April 1, 2004 in the payroll annualization calculation. $294 of this adjustment is associated with the elimination of certain corporate department payroll amounts identified by Staff to be associated with restructuring activities. The total difference between Aquila and Staff's 401(k) expense adjustment for L&P gas operations is $371. The entire amount is associated with the elimination of corporate departments identified by Staff to be associated with restructuring activities

ESOP (Profit Sharing Plan) Contribution Expense

Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE METHOD USED BY STAFF WITNESS DANA EAVES TO COMPUTE AN ANNUALIZED LEVEL OF ESOP (PROFIT SHARING PLAN) CONTRIBUTION EXPENSE.

A. Staff witness Dana Eaves agreed with Aquila's method in computing the annualized level of ESOP (Profit Sharing Plan) contribution expense. This method included obtaining annualized payroll expense and applying the percentage of base pay being contributed by Aquila during the test year. The resulting amount is the annualized level of ESOP (Profit Sharing Plan) contribution expense.

Q. ARE THE STAFF AND AQUILA ADJUSTMENTS FOR ESOP (PROFIT SHARING PLAN) CONTRIBUTION EXPENSE DIFFERENT?

A. Yes, Staff's computed amount differs from Aquila's.

Q. WHY ARE THE ADJUSTMENTS BETWEEN AQUILA AND STAFF'S ESOP (PROFIT SHARING PLAN) CONTRIBUTION EXPENSE DIFFERENT BETWEEN AQUILA AND STAFF IF THE METHODS ARE THE SAME?

A. The difference between Aquila and Staff's ESOP (Profit Sharing Plan) contribution expenses is the result of Staff adjusting the annualized payroll amounts as discussed in the rebuttal testimony of Aquila witness Richard G. Petersen. Staff's ESOP (Profit Sharing Plan) expense amount has been lowered as a result of its payroll annualization adjustments.

Q. DOES AQUILA BELIEVE THAT ITS PAYROLL ANNUALIZATION AMOUNT SHOULD BE USED IN THE CALCULATION OF ESOP (PROFIT SHARING PLAN) CONTRIBUTION EXPENSE CALCULATION?

A. Yes. As discussed in the rebuttal testimony of Aquila witnesses Richard G. Petersen and Jon R. Empson, the payroll expense annualized levels as computed by Aquila are reflective of ongoing cost levels. As such, this amount should be used to compute the ESOP (Profit Sharing Plan) expense adjustment.

Q. IF THE COMMISSION ADOPTS AQUILA'S PAYROLL ANNUALIZATION EXPENSE, PLEASE QUANTIFY THE AMOUNT OF ESOP (PROFIT SHARING PLAN) CONTRIBUTION EXPENSE ADJUSTMENT THAT SHOULD BE MADE TO STAFF'S CALCULATION FOR MPS AND L&P.

A. The total difference between Aquila and Staff's ESOP (Profit Sharing Plan) contribution expense adjustment for MPS gas northern-southern systems is $2,657. $1,348 of this adjustment amount is associated with the exclusion of the 3% increase in MPS union contract wages. $1,309 of this adjustment amount is associated with the elimination of certain corporate departments identified by Staff to be associated with restructuring activities. The total difference between Aquila and Staff's ESOP (Profit Sharing Plan) contribution expense adjustment for MPS gas eastern system is $322. $164 of this adjustment amount is associated with the exclusion of the 3% increase in MPS union contract wages. $158 of this adjustment amount is associated with the elimination of certain corporate departments identified by Staff to be associated with restructuring activities. The total difference between Aquila and Staff's ESOP (Profit Sharing Plan) contribution expense adjustment for L&P gas operations is $134 due solely to the payroll adjustment proposed by Staff to eliminate certain corporate department's payroll costs identified with restructuring activities.

Bad Debt Expense

Q. PLEASE EXPLAIN THE METHOD USED BY STAFF WITNESS V. WILLIAM HARRIS TO CALCULATE BAD DEBT EXPENSE FOR MPS AND L&P GAS OPERATIONS.

A. Staff witness V. William Harris first reviewed the historical uncollectibles and bad debt write-offs for each division. For MPS gas operations, Mr. Harris then chose an uncollectible rate of .9580012% based solely on the ratio of net write-offs to revenues for a single year, the year 2000. The uncollectible rate for the year 2000 was then multiplied by Staff's annualized level of MPS gas revenues to come up with an annualized level of bad debt expense. The MPS level was split between the northern-southern systems and the eastern system using an allocation factor (89.375% - northern-southern systems and 10.625% eastern system). Staff used the same method to calculate an annualized level of bad debt expense for L&P's gas operations. An uncollectible rate of .703586% was chosen for L&P also based solely on the ratio of net write-offs to revenues for a single year, the year 2000. The uncollectible rate for the year 2000 was then multiplied by Staff's annualized level of L&P gas revenues to come up with an annualized level of bad debt expense.

Q. HOW DOES STAFF'S METHOD DIFFER FROM THE METHOD USED BY THE COMPANY?

A. Company used a 3-year average uncollectible rate of 1.738591% for MPS gas operations, which averages the net write-off rates for the years 2000-2002. A separate rate was calculated for the eastern system based on eastern system direct net write-offs over the same three-year period as a percentage of total MPS gas revenues. For L&P gas operations, Company used a 3-year average uncollectible rate of 1.012585%, which also averages the actual net write-off rates for years 2000-2002.

Q. WHY DOES THE COMPANY BELIEVE THAT A 3-YEAR AVERAGE UNCOLLECTIBLE RATE FOR MPS AND L&P IS MORE APPROPRIATE THAN THE UNCOLLECTIBLE RATE FOR MPS AND L&P CALCULATED BY STAFF?

A. During the 2001 timeframe, the Company began tracking uncollectibles on a gas and electric specific basis. Prior to this time, the uncollectibles were combined for both services and allocated between gas and electric. By including only the year 2000 in the average uncollectible rate calculation, Staff has arbitrarily excluded the Company's actual net write-off experience in the two most recent years since the Company has tracked net write-off experience by fuel type. The actual net write-off levels have been consistently higher over this time period (See Schedule HEM-1 and HEM-2 showing net write-offs for MPS gas operations of $372,043 for 2000; $1,060,199 for 2001; and $1,031,538 for 2002 and L&P gas operations of $23,241 for 2000; $39,565 for 2001; and $95,035 for 2002, respectively). By excluding the Company's actual experience over 2001 and 2002 Staff has understated the level of bad debts on an ongoing basis. Using a rate based on a 3-year average of net write-offs to revenues provides a more accurate representation of the current bad debt trend and reflects a representative level of expense in the test year revenues by using an average of several years' history in the determination of the rate.

Q. IF THE COMMISSION ADOPTS AQUILA'S BAD DEBT EXPENSE, PLEASE QUANTIFY THE AMOUNT OF BAD DEBT EXPENSE ADJUSTMENT THAT SHOULD BE MADE TO STAFF'S CALCULATION FOR MPS AND L&P.

A. The total difference between Aquila and Staff's bad debt expense adjustment for MPS gas northern-southern systems is $285,379, for MPS eastern system is $85,258, and for L&P gas operations is $13,047.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

MPS
Bad Debt History

Description	Gas-Retail Revenue - Net of Unbilled	AC 904 Uncollect. Exp. as Recorded (GAS)	Actual Total Net Write-offs	Gas Util Factor,#6	Total MPS Net Write-offs (Gas Only)	Eastern System Net Write-offs (Gas Only)	Total MPS Effective Uncoll. Rate	Eastern System Effective Uncoll. Rate
YE 12/31/00	38,834,917	280,367	2,468,764	15.070%	372,043	39,533	0.958012%	0.101798%
YE 12/31/01	51,682,911	227,146	1,060,199	100.000%	1,060,199	191,055	2.051353%	0.369668%
YE 12/31/02	46,751,902	1,207,540	1,031,538	100.000%	1,031,538	170,211	2.206409%	0.364073%

Average Effective Uncollectible Rate:	Total MPS (Gas)	Eastern System
through 2002		
Over Last 3 years (00-02)	1.738591%	0.278513%

L&P
Bad Debt History

Description	Gas-Retail Revenue - Net of Unbilled	AC 904 Uncollect. Exp. as Recoreded (GAS)	Actual Total Net Write-offs	Gas Util Factor,#6	Net Write-offs (Gas Only)	Effective Uncoll. Rate
YE 12/31/00	3,303,219	30,000	146,357	15.880%	23,241	0.703586%
YE 12/31/01	6,351,035	26,822	39,565	100.000%	39,565	0.622969%
YE 12/31/02	5,553,709	64,327	95,035	100.000%	95,035	1.711199%

Average Effective Uncollectible Rate:

through 2002	
Over Last 3 years (00-02)	1.012585%