

Exhibit No.:

Issues: Revenue

Annualization

Witness: Eric L. Watkins

Sponsoring Party: Aquila Networks-MPS

Case No.: ER-2004-0034 &
[REDACTED]
[REDACTED]

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Eric L. Watkins

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REBUTTAL TESTIMONY OF
ERIC L. WATKINS
AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
[REDACTED]
CASE NOS. ER-2004-0034 [REDACTED]
[REDACTED]**

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
REBUTTAL TESTIMONY OF ERIC L. WATKINS
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)**

1 Q. Please state your name and business address.

2 A. My name is Eric L. Watkins and my business address is 20 West 9th Street, Kansas
3 City, MO, 64105 USA.

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

5 A. I am employed by Aquila Inc. ("Aquila") as Vice President-Commodity Risk
6 Management, reporting to the Chief Financial Officer of Aquila Inc.

7 Q. Are you the same Eric L Watkins who previously filed direct testimony in this
8 proceeding before the Missouri Public Service Commission ("Commission")?

9 A. Yes, I am.

10 Q. What is the purpose of your rebuttal testimony in this proceeding?

11 A. The purpose of my rebuttal testimony is to respond to certain annualization
12 adjustments presented in direct testimony of Commission Staff ("Staff") witnesses
13 Hong Hu and Amanda McMellen.

14 Q. Please describe the annualization adjustments, presented by The Staff witnesses with
15 which you have concerns?

16 A. There are two primary adjustments: 1) Customer Annualization adjustment of
17 \$2,621,310 made to Rate Codes Mo710/Mo711, and 2) Customer Annualization
18 adjustment of \$983,794 made to Rate Codes Mo730 and Mo735.

19 **CUSTOMER ANNUALIZATION ADJUSTMENTS, RATE CODES MO710 AND MO711**

1 Q. What is your specific concern regarding Customer Annualization adjustments for
2 Mo710 and Mo711 Rate Codes?

3 A. Ms. McMellen points out in her direct testimony that these Rate Codes have a high
4 number of customers that are switching Rate Codes. Specifically, a large number are
5 moving from Mo710 to Mo711 causing the customer counts in Mo710 to decline by
6 about 3,000 and correspondingly increasing the customer counts for Mo711 by about
7 3,000 during the test year.

8 Q. What is the significance of this?

9 A. This presents a problem if customer annualizations are completed for each Rate Code
10 separately because the average kWh usage and revenue per customer is much lower
11 for the Mo710 customers that are switching to Mo711 than the average kWh usage
12 and revenue per customer for the customers already in Mo711. Performing this
13 calculation separately without adjusting for the different usage levels would result in
14 overstated revenues, as Ms. McMellen points out. Ms. McMellen attempted to
15 correct for this anomaly by simply combining Rate Codes Mo710 and Mo711 in her
16 annualization calculation.

17 Q. How do you respond to her approach?

18 A. If the actual average kWh usage and revenue for the customers that are switching to
19 Mo711 is dramatically different than the average kWh usage computed with Ms.
20 McMellen's approach, then revenues will be overstated or understated.

21 Q. Which is the more likely result?

22 A. Aquila believes that the average kWh usage and revenue per customer for the
23 customers switching to Mo711 from Mo711 is much lower than the average

1 computed using Ms. McMellen's approach. If true, this would result in an
2 overstatement of normalized revenue.

3 Q. How did Aquila compute the annualization adjustments for Mo710 and Mo711?

4 A. Aquila adjusted for customer annualization separately for Mo710 and Mo711 by
5 using an adjustment to reflect what we believe to be a lower kWh usage and revenue
6 per customer for customers in Mo710 that have switched to Mo711. In fact, we used
7 the average kWh usage and revenue for Mo710 customers as a proxy for the
8 customers that switched.

9 Q. What were the results of your approach?

10 A. This approach resulted in a net positive customer annualization revenue adjustment of
11 \$1,059,073, which is \$1,562,237 lower than Ms. McMellen's adjustment. A
12 summary of this adjustment is included as Rebuttal Schedule ELW-1.

13 Q. What evidence do you have that would support your number?

14 A. Queries from Aquila's customer database suggest the average kWh usage and revenue
15 numbers are closer to those used by Aquila (\$738/customer) than those used by Ms.
16 McMellen (\$1,788/customer).

17 Q. What is your recommendation to the Commission?

18 A. I recommend that the Commission adopt Aquila's customer annualization adjustment
19 for Rate Codes Mo710 and Mo711 of \$1,059,073.

20 **CUSTOMER ANNUALIZATION ADJUSTMENTS, RATE CODES MO730 AND MO735**

21 Q. What is your specific concern regarding Customer Annualization adjustments for
22 Mo730 and Mo735 Rate Codes?

1 A. Ms. Hu's combined adjustment of \$983,794 for Mo730 and Mo735 attempts to
2 annualize for customer additions/subtractions, rate switching, and load changes. The
3 adjustments made for rate switching appear to be inconsistently applied.

4 Q. Can you explain further?

5 A. Ms. Hu adjusts for rate switching to and from Mo730 and Mo735 on an individual
6 customer basis. Many of the revenue additions/subtractions are from Rate Codes that
7 use an averaging method of annualization described in Ms. McMellen's testimony.
8 For example, if a customer switched from Mo720 to Mo730 Ms. Hu would identify
9 the customer and make an annual adjustment for increases in revenue to Mo730.

10 Q. Would she then decrease the revenue in Mo720?

11 A. No, and likewise if a customer moved from Mo730 or Mo735 to a Rate Code that
12 used an averaging method for annualization such as Mo720, a decrease in revenue
13 would be reflected in Mo730 or Mo735, but no increase in revenue would be applied
14 to the Rate Code that the customer switched to.

15 Q. What was the effect of this?

16 A. It appears that this approach results in a net revenue addition of \$529,326 to MPS's
17 revenue rather than a more appropriate neutral effect.

18 Q. Are there any other concerns?

19 A. Yes, Ms. Hu's method for annualization for load changes is a very difficult method to
20 apply with a high degree of accuracy.

21 Q. Can you explain further?

22 A. There are a multitude of factors that affect a large customer's load. Some of these
23 factors may be short-term in nature while others may be ongoing and should be

1 annualized. It is very difficult to ascertain this information by graphically displaying
2 a customer's load over a short period of time. Local knowledge of each customer
3 must be used as well. While Ms. Hu attempted to obtain other sources of
4 information, I believe her analysis may be lacking valuable customer information not
5 found in her load analysis.

6 Q. What was Aquila's adjustment for the same Rate Codes?

7 A. Aquila adjusted for individual customer additions/subtractions that resulted in
8 \$398,000 of additional revenue, which is \$585,794 lower than Ms. Hu's adjustment.

9 A summary of this adjustment is included on Rebuttal Schedule ELW-1.

10 Q. What is your recommendation to the Commission?

11 A. I recommend that the Commission adopt Aquila's customer annualization adjustment
12 for Rate Codes Mo730 and Mo735 of \$398,000.

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes, it does.

Annualized Customer Adjustments

<u>Rate Codes</u>	<u>MoPSC staff</u>	<u>Aquila</u>	<u>Difference</u>
710/711	\$2,621,310	\$1,059,073	\$1,562,237
730/735	\$983,794	\$398,000	\$585,794

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila
Networks-MPS [REDACTED],
for authority to file tariffs increasing electric
rates for the service provided to customers in
the Aquila Networks-MPS [REDACTED]
[REDACTED]

Case No. ER-2004-0034

[REDACTED]

[REDACTED]

County of Jackson)
State of Missouri)

ss

AFFIDAVIT OF ERIC L. WATKINS

Eric L. Watkins, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Eric L. Watkins;" 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.

Eric L. Watkins
Eric L. Watkins

Subscribed and sworn to before me this 26th day of January, 2004.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission expires:
8-20-2004

