

Exhibit No.:
Issues: Class Cost of Service
Rate Design
Witness: James C. Watkins
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2005-0436
Date Testimony Prepared: December 13, 2005

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

JAMES C. WATKINS

**AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
AND AQUILA NETWORKS-L&P**

CASE NO. ER-2005-0436

**Jefferson City, Missouri
December 2005**

FILED

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Service Commission

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Case No(s) ER-2005-0436
Date 1-09-06 Rptr JE

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

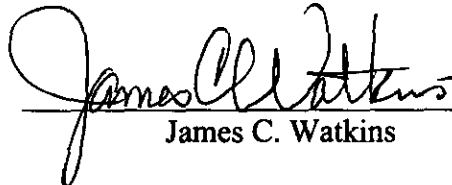
In the Matter of Aquila, Inc. d/b/a Aquila)
Networks-MPS and Aquila Networks-)
L&P, for Authority to File Increasing)
Electric Rates For the Service Provided to)
Customers in the Aquila Networks-MPS)
and Aquila Networks-L&P Area.)

Case No. ER-2005-0436

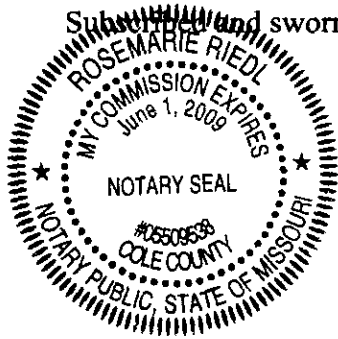
AFFIDAVIT OF JAMES C. WATKINS

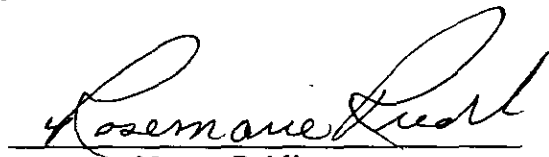
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 7 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


James C. Watkins

Subscribed and sworn to before me this 12th day of December, 2005.




Notary Public

My commission expires June 1, 2009

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TABLE OF CONTENTS

Purpose and Executive Summary 1
Surrebuttal to Ms. Meisenheimer..... 2
Surrebuttal to Mr. Brubaker..... 2
Surrebuttal to Mr. Tracy 4
Recommendations..... 5

Surrebuttal to Ms. Meisenheimer

Q. What part of Ms. Meisenheimer's rebuttal testimony are you responding to?

A. Ms. Meisenheimer presents Public Counsel's updated class cost-of-service study results. In that study Public Counsel adopts Staff's Time-of-Use allocators and allocation factors applied to certain accounts from the FERC 500 and 900 series recommended by Mr. Brubaker in his surrebuttal testimony in Case No. EO-2002-384. The class cost-of-service study Public Counsel presented in direct testimony did not use cost and revenue data that reflects Public Counsel's positions on those issues in this case and Public Counsel did not update its study to reflect those positions. (Meisenheimer, Rebuttal, p.2., ll. 8-17).

Q. What is your response?

A. Use of the Staff's Time-of-Use allocators for production and transmission costs and changing allocation factors applied to certain accounts from the FERC 500 and 900 series as recommended by Mr. Brubaker are appropriate.

Surrebuttal to Mr. Brubaker

Q. What part of Mr. Brubaker's rebuttal testimony are you responding to?

A. Mr. Brubaker attached copies of his direct, rebuttal, and surrebuttal testimony from Case No. EO-2002-384 in response to Staff's and OPC's direct testimonies on class cost of service and rate design prefled in this case. (Brubaker, Rebuttal, p.2., ll. 13-16). He claims the Commission should be afforded more time to respond to these testimonies. (Brubaker, Rebuttal, p.2., ll. 20-23). In particular, with regard to the differences in the study results the Staff obtained in Case No. EO-2002-384

Surrebuttal Testimony of
James C. Watkins

1 and in this case, he asserts that "other parties cannot reasonably be expected to determine
2 the reasons for these differences, and whether there are errors in the studies, unless
3 adequate time is provided for discovery and analysis."

4 Q. What is your response to his claim?

5 A. It is totally bogus. The only change between the analysis here and that
6 done in Case No. EO-2002-384 is the cost and revenue data inputs into the Staff's class
7 cost-of-service model. If there were errors in the Staff's model, Mr. Brubaker should
8 have addressed them in Case No. EO-2002-384. Mr. Brubaker was a witness in that case
9 and the parties had ample time to evaluate the models each party used.

10 The whole purpose of this, or any other, rate case is to examine the propriety of
11 current rates. When rates are based on cost of service, as has been this Commission's
12 practice, the focus of a rate case is on changes in costs and revenues from the last case,
13 i.e., changes in ratebase, expenses and revenues. Staff witness James A. Busch identified
14 the changes to the distribution of costs in his direct testimony. There were significant
15 increases in production costs, which have now been identified as related to increases in
16 generating capacity, replacing certain generating capacity with higher cost capacity, and
17 marked increases in fuel costs.

18 In addition, the only energy costs considered in Case No. EO-2002-384 were
19 those included in permanent rates in Case No. ER-2004-0034. The energy costs that
20 were included in the Interim Energy Charge (IEC) were excluded from the class cost-of-
21 service studies developed by all of the parties in Case No. EO-2002-384. Since Aquila
22 has not requested an IEC in this case, the Staff has included all energy related costs in its
23 updated class cost-of-service study in this case. Thus, the results of the studies produced
24 in Case No. EO-2002-384 do not represent the current picture. The need for class

Surrebuttal Testimony of
James C. Watkins

1 revenue shifts can only be seen when all the relevant costs are included in the class cost-
2 of-service study, as they have in the results presented by the Staff in this case.

3 **Surrebuttal to Mr. Tracy**

4 Q. What part of Mr. Tracy's rebuttal testimony are you responding to?

5 A. In his rebuttal testimony Mr. Tracy primarily repeats the positions Aquila
6 stated in Case No. EO-2002-384; however, he adds a recommendation that "the
7 Commission reject the COS filed by the Staff as being contradictory . . . , incomplete and
8 unsupportable" (Tracy, Rebuttal, p.5., ll. 20-22).

9 Q. What is your response?

10 A. When the higher costs and revenues the Staff has developed in this case
11 for the year 2004 updated through June 30, 2005 are used as inputs in the methodology
12 developed in Case No. EO-2002-384, the resulting revenue shifts required to align class
13 cost of service with rates are quite different than those obtained with the costs (excluding
14 energy costs included in the IEC) and revenues from 2002 updated for known and
15 measurable changes to September 30, 2003 are used. That is the cause of my concern
16 with blindly applying revenue shifts determined from the cost (excluding energy costs
17 included in the IEC) and revenue data from Aquila's last rate case, when the cost and
18 revenue increases proposed in this case have such a disproportionate impact on the
19 customer classes.

20 The study results that the Staff filed in direct testimony are only "incomplete" and
21 "unsupportable" in the sense that the Commission has not yet determined in this case
22 what cost increases Aquila should be allowed to recover from its ratepayers.

Surrebuttal Testimony of
James C. Watkins

1 Q. How do Mr. Tracy's recommendations regarding revenue shifts and rate
2 structure changes relate to Aquila's recommendations filed in the direct testimony of Mr.
3 Gary M. Denny in this case?

4 A. As Mr. Tracy points out on page 2, line 10, of his rebuttal testimony,
5 "Aquila proposes an across the board increase in rates" which is presented in Mr.
6 Denny's direct testimony. Mr. Denny also testifies that proposed tariff sheets were filed
7 to initiate this rate case. Those tariff sheets do not incorporate any revenue shifts among
8 classes, nor do they incorporate any rate structure or language changes. They are simply
9 the current tariffs with all tariff charges increased by the same percentage. Aquila
10 witness Tracy's recommendations are a direct contradiction of Aquila witness Denny's
11 recommendations.

12 **Recommendations**

13 Q. What does the Staff recommend to the Commission in this case for
14 adjusting the rates of each class to move class revenues closer to class cost of service?

15 A. The Staff recommends that the Commission:

16 (1) Adopt the Staff's class cost-of-service study and allocation methods as the
17 basis for determining class revenue responsibility;

18 (2) Consider both shifts in class revenue responsibility and the effects of any
19 overall increase in customer revenue responsibility in determining the impact of rates on
20 individual customers and customer classes;

21 (3) Determine the need for any shifts in class revenue responsibility by:

22 (a) First, determining the overall revenue requirement for Aquila
23 Networks-MPS and the overall revenue requirement for Aquila Networks L&P on
24 an issue-by-issue basis.

Surrebuttal Testimony of
James C. Watkins

1 (b) Second, input those results into the Staff's class cost-of-service model
2 (or other model adopted by the Commission in Case No. EO-2002-384) to
3 determine the cost of serving each class and the revenue shifts required to equate
4 revenues with cost of service.

5 (c) Third, evaluate the need for any revenue shifts by considering the
6 following:

7 (i) Consider only the magnitude of the shifts required for the
8 "major" classes---Residential (RES), Small General Service (SGS), Large
9 General Service (LGS), and Large Power Service (LPS). No revenue
10 shifts should be made to the other classes.

11 (ii) If none of these shifts exceed the accuracy of the model, no
12 shifts should be made. The Staff suggests using 5% as a rule-of-thumb
13 when the load research data is for the same time period as the cost and
14 revenue data. There will be a higher level of error in this case because
15 neither the cost and revenue data from Case No. ER-2004-0034, nor from
16 this case is from the time period in which the load research data was
17 collected.

18 (iii) If no revenue shifts are required, any revenue increase should
19 be accomplished as an equal percentage increase to each rate component
20 on each of the "regular" rate schedule. (The parties have agreed that
21 certain rates should not be changed, *e.g.*, the avoided cost rate paid to
22 cogenerators, etc).

23 (4) The Commission should first consider only the required increases. If class
24 revenue increases are required to bring any class's revenues to within the band, such

Surrebuttal Testimony of
James C. Watkins

1 increases should be limited for each class by the smaller of the amount of the increase
2 that is required to bring class revenues within the band and the amount of increase that
3 could be tolerated by customers in that class in addition to the overall rate increase.

4 (5) After determining the total amount of the increases from the revenue
5 shifts, the Commission should determine the amounts of the corresponding revenue
6 reduction that should go to each class whose revenues should be reduced to align
7 revenues with cost of service. The reduction in revenues should be applied as follows:

8 (a) First, the reduction in revenues should be applied only to those
9 "major" classes outside the band of accuracy determined in (3) (c) (ii) above as an
10 equal percentage of class revenues in excess of the upper limit of the band;

11 (b) If the total amount of the revenue reductions exceeds that amount, it
12 should then be applied to all classes based on each class's adjusted revenues.
13 This will limit the amount of the rate increases required to align class revenues
14 with class cost of service to the amount required to bring class revenues within the
15 band for each class that appears to have revenues in excess of its cost of service.
16 This will prevent the result that, due to the margin of error, some classes receive
17 reductions that cause their revenues, in reality, to fall below cost of service.

18 An Example of this process is shown in Schedule 1.

19 Q. Do you have any further testimony at this time?

20 A. No.

DETERMINATION OF REVENUE SHIFTS
REQUIRED TO
MOVE CLASS REVENUES TOWARD COST OF SERVICE

EXAMPLE

	RES	SGS	LGS	LPS	Lighting	Total
Rate Revenue	\$42,938,459	\$7,797,085	\$19,165,828	\$27,374,278	\$2,288,634	\$99,564,284
Other Revenue	\$4,186,699	\$644,848	\$2,041,424	\$3,238,069	\$135,184	\$10,246,224
Total Revenue	\$47,125,158	\$8,441,933	\$21,207,252	\$30,612,347	\$2,423,818	\$109,810,508
COS	\$52,485,714	\$7,983,078	\$20,685,850	\$31,712,470	\$2,821,405	\$115,688,517
COS - Total Revenue	\$5,360,556	-\$458,855	-\$521,402	\$1,100,123	\$397,587	\$5,878,009
Required % Increase	12.48%	-5.88%	-2.72%	4.02%	17.37%	5.90%
COS - Other Revenues	\$48,299,015	\$7,338,230	\$18,644,426	\$28,474,401	\$2,686,221	\$105,442,293
Required Revenue before rate increase	\$45,606,528	\$6,929,151	\$17,605,070	\$26,887,061	\$2,536,474	\$99,564,284
Required Increase from Current Rates	\$2,668,069	-\$867,934	-\$1,560,758	-\$487,217	\$247,840	\$0
Required % Increase before = % Rate Increase	6.21%	-11.13%	-8.14%	-1.78% Ignore	10.83% Ignore	0.00%
5% above COS	\$48,006,871	\$7,293,844	\$18,531,652			
Increase required	\$496,329					\$496,329
5% below COS	\$43,434,788	\$6,599,192	\$16,766,733			
Reduction Required		-\$503,241	-\$634,176			-\$1,137,417
Share of Reduction		44.24%	55.76%			100%
Available Reduction		-\$219,597	-\$276,732			-\$496,329
Adjusted Rate Revenue	\$43,434,788	\$7,577,488	\$18,889,096			
Deficiency of Adjusted Rate Revenue	5.00%	-8.56%	-6.80%			