Exhibit No.:

Issues: Class Cost of Service

Rate Design

Witness: James C. Watkins

Sponsoring Party: Mo Type of Exhibit: Re

MO PSC Staff Rebuttal Testimony

Case No.:

ER-2005-0436

Date Testimony Prepared:

November 18, 2005

MISSOURI PUBLIC SERVICE COMMISSION UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

FILED²

OF

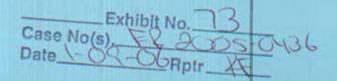
JAMES C. WATKINS



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

CASE NO. ER-2005-0436

Jefferson City, Missouri November 2005



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Aquila, Inc. d/b/a And Networks-MPS and Aquila Networks-L&P, for Authority to File Increase Electric Rates For the Service Provide Customers in the Aquila Networks-and Aquila Networks-L&P Area.	orks-) asing) Case No. ER-2005-0436			
AFFIDAVIT OF JAMES C. WATKINS				
STATE OF MISSOURI)) ss COUNTY OF COLE)	-			
preparation of the following Rebuttal of pages of Rebuttal Testimony in the following Rebuttal Testimony	ge, on his oath states: that he has participated in the Testimony in question and answer form, consisting y to be presented in the above case, that the answers were given by him; that he has knowledge of the and that such matters are true to the best of his			
	James Challen			
	James C. Watkins			
Subscribed and sworn to before me the MARIE RIEO	ais 17 day of November, 2005.			
NOTARY SEAL ES OCIECON	Notary Public			
				

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8	AQUILA, INC. D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS L&P
9 10	CASE NO. ER-2005-0436
11 12	,
13	Q. Please state your name and business address.
14	A. My name is James C. Watkins and my business address is Missouri Public
15	Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri
16	65102.
17	Q. Are you the same James C. Watkins that filed direct testimony in this case
18	on October 18, 2005?
19	A. Yes.
20	Q. What is the purpose of your rebuttal testimony?
21	A. I have reviewed the direct testimony of Barbara Meisenheimer, on behalf
22	of the Office of the Public Counsel, and the direct testimony of Maurice Brubaker, on
23	behalf of Federal Executive Agencies (FEA), Sedalia Industrial Energy Users'
24	Association (SIEUA) and St. Joe Industrial Group (SJIG). The purpose of my testimony
25	is to respond to the direct testimonies of Ms. Meisenheimer and Mr. Brubaker.
26	Rebuttal to Ms. Meisenheimer
27	Q. Would you please summarize Ms. Meisenheimer's direct testimony?
-,	2. Would you please summarize wis. Weisemienner's direct testimony?

Rebuttal Testimony of James C. Watkins 1 Α. Ms. Meisenheimer presents the class cost-of-service study results and rate 2 design recommendations that she filed in Aquila's current "rate design" case, Case No. 3 EO-2002-384. 4 Q. What is your response to Ms. Meisenheimer's testimony? 5 A. Ms. Meisenheimer has not raised any new issues that I have not already 6 addressed in Case No. EO-2002-384. The Staff expects that those issues will be resolved 7 by the Commission in Case No. EO-2002-384. It is not the Staff's intention to relitigate 8 those issues in this case. 9 Rebuttal to Mr. Brubaker 10 Q. Would you please summarize Mr. Brubaker's direct testimony 11 A. Mr. Brubaker repeats his recommendations made in Case No. EO-2002-12 384 regarding the implementation in this case of interclass revenue adjustments. In 13 addition, he addresses the allocation and tracking of fuel costs associated with an Interim 14 Energy Charge (IEC). 15 Q. What is your response to Mr. Brubaker's testimony? 16 A. I have already addressed in Case No. EO-2002-384 Mr. Brubaker's 17 recommendation regarding the implementation of interclass revenue adjustments. The 18 Staff expects that those issues will be resolved by the Commission in Case No. EO-2002-19 384. It is not the Staff's intention to relitigate those issues in this case.

The issue of allocating and tracking fuel costs associated with an IEC is a new cost allocation issue that he did not raise in Case No. EO-2002-384.

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Q. What is Mr. Brubaker's proposal for allocating fuel costs associated with an IEC?

Rebuttal Testimony of James C. Watkins

- A. Mr. Brubaker proposes that those fuel costs be allocated on an equalpercent-of-revenue basis. (Brubaker Direct, p. 5, ll. 1-6.)
- Q. How did Mr. Brubaker propose to allocate fuel costs in Case No. EO-2002-384?
- A. Mr. Brubaker proposed that fuel costs (production-energy costs) should be allocated on an equal-cents-per-kilowatt-hour basis. (Brubaker Direct, Case No. EO-2002-384, p. 16, ll. 7-14, Brubaker Rebuttal, Case No. EO-2002-384, p. 13, ll. 1-13.)
- Q. Is there a need for an allocation methodology for fuel costs in this case that is inconsistent with the allocation methodology used for fuel costs in Case No. EO-2002-384?
- A. That is the logical conclusion, if you assume that the proper amount of fuel costs to be used to determine interclass revenue adjustments is the amount of fuel costs included in permanent rates in Aquila's last rate case, Case No. ER-2004-0034, but any rate increase due to increased fuel costs, or any other factors, should be implemented in this case by an equal percentage increase to the revenues of every class.
 - Q. Are these reasonable assumptions?
- A. No. Mr. Brubaker has not justified why using revenue and cost data, which is limited to the amount of fuel costs included in permanent rates and is based on data from calendar year 2002, updated through September 30, 2003, is an appropriate basis for determining interclass revenue adjustments in this case. Furthermore, even if that data were appropriate for determining interclass revenue adjustments for permanent rates, it does not follow that fuel costs above the level included in permanent rates should

	James C. Watkins	
1	be allocated on an equal percentage basis to maintain the interclass revenue adjustmen	ıts,
2	when only one element of cost of service is included in an IEC.	
3	Q. How should fuel costs included in an IEC be allocated to and recover	red
4	from each customer class?	
5	A. Since the fuel costs in the IEC are the amount of fuel costs in excess of t	the
6	amount recovered in permanent rates, fuel costs included in an IEC should be allocat	ted
7	and recovered on an equal-cents-per-kilowatt-hour basis (adjusted for losses).	
8	Q. Is this position consistent with using an hourly time-of-use (TO	U)
9	allocator to allocate the amount of fuel costs to be recovered in permanent rates?	
10	A. It is not inconsistent because both methods are based on the principle the	hat
11	energy costs are related to energy usage.	
12	Q. Why is an equal-cents-per-kilowatt-hour basis appropriate?	
13	A. It is appropriate primarily because the purpose of an IEC is to provide	foi
14	recovery of increases in fuel and purchased power expense that are related to increases	ir
15	fuel and purchased power prices that increase the cost of energy on a cents per kilowa	att-
16	hour basis. It is not designed for the recovery of higher fuel and purchased pow	vei
17	expense that is related to increased sales. These costs are recovered in permanent rates.	
18	Q. Do you have any further testimony at this time?	

No.