

Exhibit No.:  
Issues: Class Cost of Service  
Rate Design  
Witness: James C. Watkins  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case No.: ER-2005-0436  
Date Testimony Prepared: November 18, 2005

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**REBUTTAL 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  
November 2005**

**FILED<sup>2</sup>**

**FEB 24 2006**

**Missouri Public  
Service Commission**

Exhibit No. 73  
Case No(s) ER 2005-0436  
Date 1-05-06 Rptr XF

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

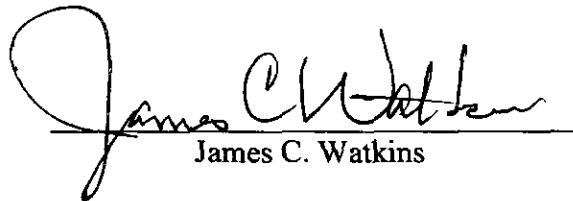
In the Matter of Aquila, Inc. d/b/a Aquila )  
Networks-MPS and Aquila Networks- )  
L&P, for Authority to File Increasing )  
Electric Rates For the Service Provided to )  
Customers in the Aquila Networks-MPS )  
and Aquila Networks-L&P Area. )

Case No. ER-2005-0436

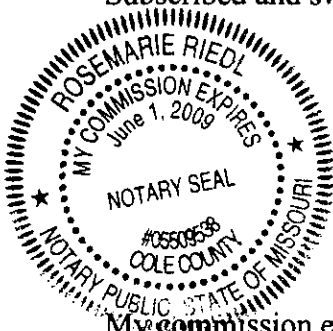
**AFFIDAVIT OF JAMES C. WATKINS**

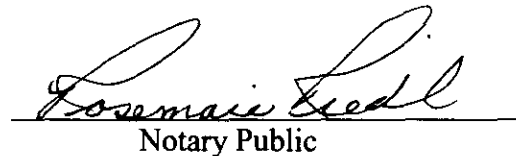
STATE OF MISSOURI     )  
                                      ) ss  
COUNTY OF COLE     )

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of \_\_\_\_ pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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 17<sup>th</sup> day of November, 2005.



  
Notary Public

My commission expires June 1, 2009<sup>re</sup>

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1           A.     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.

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.

10 Q. Would you please summarize Mr. Brubaker's direct testimony

15 Q. What is your response to Mr. Brubaker's testimony?

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

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Rebuttal Testimony of  
James C. Watkins

1           A.     Mr. Brubaker proposes that those fuel costs be allocated on an equal-  
2 percent-of-revenue basis. (Brubaker Direct, p. 5, ll. 1-6.)

3           Q.     How did Mr. Brubaker propose to allocate fuel costs in Case No. EO-  
4 2002-384?

5           A.     Mr. Brubaker proposed that fuel costs (production-energy costs) should be  
6 allocated on an equal-cents-per-kilowatt-hour basis. (Brubaker Direct, Case No. EO-  
7 2002-384, p. 16, ll. 7-14, Brubaker Rebuttal, Case No. EO-2002-384, p. 13, ll. 1-13.)

8           Q.     Is there a need for an allocation methodology for fuel costs in this case  
9 that is inconsistent with the allocation methodology used for fuel costs in Case No. EO-  
10 2002-384?

11          A.     That is the logical conclusion, if you assume that the proper amount of  
12 fuel costs to be used to determine interclass revenue adjustments is the amount of fuel  
13 costs included in permanent rates in Aquila's last rate case, Case No. ER-2004-0034, but  
14 any rate increase due to increased fuel costs, or any other factors, should be implemented  
15 in this case by an equal percentage increase to the revenues of every class.

16          Q.     Are these reasonable assumptions?

17          A.     No. Mr. Brubaker has not justified why using revenue and cost data,  
18 which is limited to the amount of fuel costs included in permanent rates and is based on  
19 data from calendar year 2002, updated through September 30, 2003, is an appropriate  
20 basis for determining interclass revenue adjustments in this case. Furthermore, even if  
21 that data were appropriate for determining interclass revenue adjustments for permanent  
22 rates, it does not follow that fuel costs above the level included in permanent rates should

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1 be allocated on an equal percentage basis to maintain the interclass revenue adjustments,  
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 recovered  
4 from each customer class?

5 A. Since the fuel costs in the IEC are the amount of fuel costs in excess of the  
6 amount recovered in permanent rates, fuel costs included in an IEC should be allocated  
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 (TOU)  
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 that  
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 for  
14 recovery of increases in fuel and purchased power expense that are related to increases in  
15 fuel and purchased power prices that increase the cost of energy on a cents per kilowatt-  
16 hour basis. It is not designed for the recovery of higher fuel and purchased power  
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?

19 A. No.