

**FILED**<sup>4</sup>

MAY 03 2004

Missouri Public  
Service Commission

*Exhibit No.:* 1026  
*Issues:* Revenue Annualization  
Uncollectibles  
*Witness:* Amanda C. McMellen  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* ER-2004-0034

*Date Testimony Prepared:* January 26, 2004  
*as Modified:* February 27, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**AMANDA C. McMELLEN**

**AQUILA, INC., d/b/a AQUILA NETWORKS-MPS (Electric)**

**CASE NO. ER-2004-0034**

Exhibit No. 1026  
Case No(s). 98-2004-0034  
Date 3-1-04 Rptr TM

*Jefferson City, Missouri*  
*January 2004*

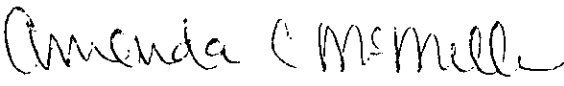
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the matter of Aquila, Inc. d/b/a Aquila Networks )  
L&P and Aquila Networks MPS to implement a ) Case No. ER-2004-0034  
general rate increase in electricity. )

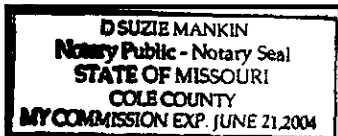
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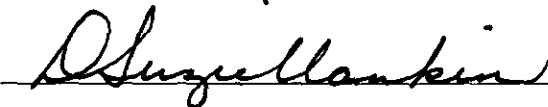
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the following rebuttal testimony as modified on February 27, 2004, in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following rebuttal testimony as modified on February 27, 2004, were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Amanda C. McMellen

Subscribed and sworn to before me this 26<sup>th</sup> day of February 2004.



  
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**CASE NO. ER-2004-0034**

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**REBUTTAL TESTIMONY OF**  
**AMANDA C. McMELLEN**  
**AQUILA, INC., d/b/a AQUILA NETWORKS-MPS (Electric)**

**CASE NO. ER-2004-0034**

Q. Please state your name and business address.

A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. Are you the same Amanda C. McMellen that has previously filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of this testimony?

A. I am addressing certain aspects of the Aquila Networks-MPS (MPS) division of Aquila, Inc. (Aquila or Company), direct filing, including electric revenues and uncollectible (bad debts) expense for MPS.

**REVENUES**

Q. What is Aquila's proposed method to annualize MPS customer growth in this case?

A. Aquila witness Eric L. Watkins explained the Company's proposed method to annualize customer growth to September 30, 2003, on pages 4 through 5 of his direct testimony in this manner:

Rebuttal Testimony of  
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1           A customer annualization adjustment to the test year revenue is made  
2           to reflect additional sales and revenue that will occur in the future  
3           because of projected growth in the number of customers. This method  
4           is simple and requires dividing the weather normalized test year rate  
5           class revenues by average customers, and then multiplying the result  
6           by the projected customers as of September 30, 2003 to obtain  
7           customer annualized revenues. Customers were projected using  
8           MetrixND exponential smoothing models based on trends over the  
9           past 5 years in these historical monthly customers by rate class. The  
10          customer annualization adjustment is the difference between the test  
11          year weather normalized revenues and the customer annualized  
12          revenues projected at September 30, 2003 customer levels.

13          Q.     Has Aquila made any changes to the revenue calculations since the filing of  
14          direct testimony?

15          A.     Yes. The customer counts have been updated to reflect actual September 30,  
16          2003 numbers instead of projections.

17          Q.     What is the Staff's proposed method of calculating the customer annualization  
18          adjustment for MPS?

19          A.     The Staff's method relies on actual customer counts, known and measurable  
20          for each rate class for the test year (January 1, 2002 through December 31, 2002) and the end  
21          of the update period, September 30, 2003. The weather normalized rate class revenues for  
22          each month of the test year are divided by the mid-month customer average. The mid-month  
23          customer average is the average of the number of actual customers in two consecutive  
24          months. The normalized usage per bill is then multiplied by the difference between the  
25          mid-month customer counts and the actual customer count at the end of the September 30,  
26          2003 update period. The customer annualization adjustment is the cumulative result when  
27          each month of the test year is added for a rate class. The main difference between the  
28          Company's method and the Staff's is the Staff's use of mid-month customer average by rate  
29          class instead of the Company's use of the yearly average customer counts by rate class.

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1 Q. Why is it the Staff's position to use the mid-month customer average as  
2 opposed to the yearly average customers in determining the annualization of customer  
3 growth?

4 A. The Staff's approach used an average of beginning and ending customers, or  
5 mid-month customers, for each month to represent both full and partial month customers.  
6 This method is more precise than the annual average used by the Company. Since usage per  
7 customer varies by season, the growth adjustment should measure the change in customers  
8 each month.

9 Q. Are there any other differences in the methods used between the Staff and the  
10 Company?

11 A. Yes. The Staff's and the Company's methods are different for rate codes  
12 MO730 and MO735, Large Power Service (customers with demands in excess of 500 kW).  
13 The Company used the same method for all rate codes, as described earlier in this testimony.  
14 In the Staff's opinion, rate code MO730 and MO735 needed further review. We examined  
15 large customers on a customer specific basis and adjusted for customers coming on and/or  
16 leaving the system and for changes in load/usage not fully reflected in the test year 2002  
17 results.

18 Q. Why did the Staff determine that rate codes MO730 and MO735 needed  
19 further review?

20 A. The Staff believes that average usage adjustments are inaccurate for large  
21 customers. New large customers may have initial erratic load levels and their usage is not  
22 reasonably estimated in the beginning. So, further review is necessary to deal with these  
23 problems.

1 **UNCOLLECTIBLE (BAD DEBT) EXPENSE**

2 Q. How does the Staff's calculation of bad debt expense differ from the Company  
3 for MPS?

4 A. The Staff used a three-year and nine-month average of actual net write-off  
5 rates, multiplied by the Staff's normalized revenue, to calculate bad debt expense. The  
6 Company used a three-year average of actual net write-off rates, multiplied by the Company's  
7 normalized revenue for MPS, to calculate bad debt expense.

8 Q. Why has Aquila used a three-year average in this case for MPS?

9 A. Aquila used a three-year average because they feel it is "the most accurate  
10 representation of the current bad debt trend" (direct testimony of Randall D. Erickson,  
11 page 4). There is no further explanation for the three-year average being used by Aquila.

12 Q. Why has the Staff chosen to use a three-year and nine-month average for bad  
13 debt expense?

14 A. The Staff used the three-year and nine-month average for bad debts to update  
15 this item for the most current information available. In the Staff's opinion, including the nine  
16 months of 2003 best represents the ongoing level of actual net-write-offs. Also, this update  
17 was necessary to remain consistent with the revenues calculation, which was also updated to  
18 September 30<sup>th</sup>.

19 Q. What were the effective uncollectible rates for the MPS electric operations?

20 A. The following represents the uncollectible rates for MPS electric:

21	<u>Year</u>	<u>Uncollectible Rate</u>
22	1998	0.449906%
23	1999	0.324767%
24	2000	0.715976%
25	2001	0.720837%
26	2002	0.956166%
27	9/30/03	0.241961%

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Amanda C. McMellen

1           The three-year average for MPS electric is 0.797660%. The three-year and  
2 nine-month average for MPS electric is 0.658735%. In the Staff's opinion, the use of a  
3 three-year and nine-month average of MPS's uncollectible rate in calculating bad debt  
4 expense best reflects a normal level of bad debt expense for MPS, based on historical results.

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Amanda C. McMellen

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Q. Does this conclude your rebuttal testimony?

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A. Yes, it does.