

Exhibit No.:

Issues: Dues and Donations,
Advertising, Bad Debt,
Commission Assessment,
Customer Deposit
Interest, Maintenance &
Rate Base Offset

Witness: Randall D. Erickson

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

FILED

APR 28 2004

Direct Testimony

of

Randall D. Erickson

Missouri Public
Service Commission

Exhibit No. 2435

Case No(s) ER-2004-0034

Date 2/23/04 Rptr KF

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF RANDALL D. ERICKSON
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Randall D. Erickson and my business address is 10700 East 350 Highway,
3 Kansas City, Missouri.

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

5 A. I am employed by Aquila, Inc., ("Aquila" or "Company") as a Regulatory Analyst.

6 Q. Please state your educational background and experience.

7 A. I attended MidAmerica Nazarene University in Olathe, KS, where I received Bachelor of
8 Arts Degrees in Accounting and Business Administration. I have eight years of finance
9 experience in the electric utility industry including two years of regulatory experience
10 with Aquila, Inc.

11 Q. What is the purpose of your testimony in this proceeding involving Aquila Networks –
12 MPS ("MPS") and Aquila Networks – L&P ("L&P") operating divisions?

13 A. The purpose of my testimony is to explain and support various adjustments made to Cost
14 of Service and Rate Base.

15 Q. Please identify the adjustments that you are sponsoring.

16 A. I am sponsoring seven cost of service adjustments:

17 Dues and Donations for MPS and L&P (Adjustment CS-60)

18 Advertising for MPS and L&P (Adjustment CS-65)

1 Bad Debt for MPS and L&P (Adjustment CS-35)

2 Missouri Public Service Commission ("Commission") Assessment for MPS and

3 L&P (Adjustment CS-40)

4 Customer Deposit Interest for MPS and L&P (Adjustment CS-45)

5 Maintenance Adjustment – Federal Energy Regulatory Commission ("FERC")

6 Acct 504300 and 730300 for L&P (Adjustment CS-26)

7 and two rate base offsets:

8 Customer Deposits for MPS and L&P (Adjustment No. RBO-10)

9 Customer Advances for MPS (Adjustment No. RBO-20)

10 **COST OF SERVICE**

11 **DUES AND DONATIONS**

12 Q. Please explain Adjustment No. CS-60.

13 A. This adjustment eliminates all dues and donations charged above-the-line to MPS and L&P
14 electric operations except Edison Electric Institute ("EEI") dues. The expenses relating to
15 EEI have been included in the cost of service because they provide a benefit to ratepayers.

16 Q. What benefit does EEI provide to ratepayers?

17 A. EEI fosters the exchange of information on topics such as utility operations and
18 environmental legislation. Member utilities and other interested parties rely upon EEI for
19 authoritative analysis and critical industry data. EEI also conducts forums for member
20 company representatives to discuss issues and strategies to advance the industry and to
21 ensure a competitive position in a changing marketplace.

22 Q. Have any lobbying costs associated with EEI been eliminated from this adjustment?

1 A. Yes. Percentages were obtained from EEI and used to calculate the disallowance of
2 lobbying expenditures for the test year ended December 31, 2002. The percentages are
3 based on EEI's actual lobbying expenditures for calendar year 2001 which were identified
4 as lobbying and political expenditures under the Lobbying Disclosure Act of 1995.

5 **ADVERTISING**

6 Q. Please explain Adjustment No. CS-65.

7 A. This adjustment eliminates all advertising expenses recorded to above-the-line accounts for
8 the test year ending December 31, 2002 except those expenses for informational and safety
9 advertisements that directly benefit MPS and L&P electric customers.

10 Q. What do the informational and safety advertisements consist of?

11 A. The informational and safety advertising expenses remaining in operating expenses relate
12 to news releases, customer bill inserts, newspaper advertisements, and newsletters. News
13 releases, customer bill inserts and newspaper advertisements regarding safety and
14 Company information were distributed twice in the test year.

15 Q. Please describe generally the content of these items.

16 A. These advertisements inform the public of Dig-Rite and Call Before You Dig programs
17 that help residents avoid potential expense and the possibility of serious or fatal injury.

18 **BAD DEBT EXPENSE**

19 Q. What is the purpose of a bad debt adjustment in CS-35?

20 A. A bad debt adjustment updates MPS' and L&P's electric jurisdictional per book bad debt
21 expense to be in line with MPS' and L&P's new weather normalized electric jurisdictional
22 revenue level. The first step annualizes MPS' and L&P's uncollectible account via net

1 write-offs to an annualized level for the test year. The annualized level of bad debt expense
2 is calculated by multiplying the actual average net write-off rate times the adjusted test year
3 level of jurisdictional electric operating revenues.

4 Q. What is the actual average net write-off rate?

5 A. An average rate is used to provide the most accurate representation of the current bad debt
6 trend. With this considered, a five-year average (1998-2002) was used for L&P and a three-
7 year average (2000-2002) was used for MPS.

8 Q. Please continue.

9 A. Next, the new electric jurisdictional bad debt level is compared with the electric
10 jurisdictional per books bad debt expense for MPS and L&P. The difference is the MPS
11 and L&P electric jurisdictional bad debt adjustment.

12 COMMISSION ASSESSMENT

13 Q. Please explain the purpose of Adjustment No. CS-40.

14 A. Adjustment No. CS-40 annualizes the Commission's assessment for the fiscal year
15 beginning July 1, 2002 through June 30, 2003.

16 Q. How was the annualized assessment computed?

17 A. The actual assessment for the fiscal year beginning July 1, 2002 was obtained from the
18 Commission's letter of assessment notice. The total electric assessment, as stated on the
19 letter of assessment notice, was compared to per books data for the test year ending June 30,
20 2002. Since it is known that this cost will be incurred, an adjustment was made for the
21 difference to account for the increase over the prior year's assessment. Current assessments
22 are known and measurable and should be reflected in the rates established in this case.

CUSTOMER DEPOSITS INTEREST

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- Q. How is the customer deposits interest, Adjustment No. CS-45 calculated?
- A. Customer deposits interest is calculated by multiplying an interest percentage by the electric jurisdictional customer deposits. The calculation for customer deposits at December 31, 2002 is discussed in my testimony for rate base offsets.
- Q. What interest rate was used to determine the customer deposits interest and why was this percentage used?
- A. An interest rate of six percent was used.
- Q. Is the Company proposing to change the interest rate currently paid on customer deposits?
- A. Yes, MPS currently pays its electric customers nine and one-half percent interest on customer deposits. L&P's electric customers receive six percent. The Company proposes to change the MPS rate to six percent to provide consistency within Aquila jurisdictions under the Commission's authority and to accurately reflect current economic conditions.

MAINTENANCE ADJUSTMENT – FERC ACCT 504300 AND 730300

- Q. Please explain the purpose of Adjustment No. CS-26.
- A. Adjustment No. CS-26 corrects an error in the allocation of maintenance expense between the L&P electric and steam operations.
- Q. Please explain what caused this error.
- A. The formula used by Aquila to allocate total maintenance expense incorrectly assigned maintenance expense from steam to electric operations, thereby understating test year steam maintenance expense and overstating test year electric maintenance expense.

1 **RATE BASE OFFSET**

2 Q. Please explain the rate base offsets that you are sponsoring in this proceeding.

3 A. I am sponsoring two rate base offsets; customer deposits (Adjustment No. RBO-10) and
4 customer advances (Adjustment No. RBO-20). Both customer deposits and customer
5 advances represent a customer provided source of capital and are used to finance plant
6 investment. Customer deposits and customer advances are negative adjustments to rate
7 base to ensure that a return is not earned on its customer-financed assets.

8 **CUSTOMER DEPOSITS**

9 Q. How were customer deposits computed?

10 A. A thirteen-month average for balances in FERC Account 235 was computed. The time
11 periods used were December 2001 through December 2002 which coincides with the test
12 year ending December 31, 2002.

13 Q. What is the significance of using a thirteen-month average?

14 A. The use of a thirteen-month average is a better measure than the investment at any one
15 single month since the monthly amounts fluctuate and no single month is representative.
16 The application of thirteen-month averaging has been used by Aquila and the Commission
17 Staff in previous cases involving MPS and L&P.

18 Q. Please explain the utility allocation of this adjustment.

19 A. The charge department was used to differentiate between electric, gas, and common.
20 Amounts in common departments were allocated based on the electric and gas totals for
21 customer deposits. Since customer deposits are supplied from retail customers, a 100%
22 jurisdictional factor is then applied to the adjusted customer deposits balance.

CUSTOMER ADVANCES

1

2 Q. What was the rate base treatment used to compute customer advances?

3 A. Similar to customer deposits, a thirteen-month average was also used to compute
4 customer advances. The monthly balances averaged for FERC account 252 were for the
5 months of December 2001 through December 2002. The thirteen-month average balance
6 was then separated by utility (electric, gas, and common) based on charge department.
7 Amounts in common departments were allocated based on the electric and gas totals for
8 customer advances. As with customer deposits, advances are supplied from retail
9 customers; therefore, a 100% jurisdictional factor was applied.

10 Q. Does this complete your direct testimony?

11 A. Yes.

