

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

07-AQLG-431-RTS

In the Matter of the Application of Aquila, Inc.,)
d/b/a Aquila Networks-KGO, For Approval of)
the Commission to Make Certain Changes)
in its Rates For Natural Gas Service)

Docket No. _____

Direct Testimony of Timothy H. Hess

Sr. Manager, External Affairs – CO, KS
Aquila, Inc.

STATE CORPORATION COMMISSION

NOV 01 2006

Pro Forma Adjustment #4

 Docket
Room

November 2006

1 **Q. Please state your name and business address.**

2 A. My name is Timothy H. Hess, and my business address is 3845 W. Harry St.,
3 Wichita, Kansas 67213.

4

5 **Q. By whom are you employed and what capacity?**

6 A. I am employed by Aquila, Inc. (Aquila) as Sr. Manager, External Affairs. In this
7 capacity, I am responsible for the natural gas accounts that are assigned to a
8 company representative and the supervision of the respective account
9 management team managing these assigned accounts along with any regulated
10 service agreements between Aquila and these parties. These accounts include
11 commercial, industrial, irrigation, marketers and wholesale customers who
12 receive regulated natural gas services under Aquila's approved tariffs in
13 Colorado and Kansas.

14

15 **Q. Please state your educational background and business experience.**

16 A. I attended the North Dakota State University of Science where I earned a
17 diploma in Environmental Systems in 1978. I received a Bachelor of Science
18 Degree in Business Management from Friends University, Wichita Campus, in
19 1997. I have been employed in the energy industry for 28 years. Prior to joining
20 Aquila, I was employed by Montana Dakota Utilities Company (MDU) from 1978
21 to 1989. While employed by MDU, I worked in both staff and field management
22 positions as a Heating Engineer Assistant, Merchandise Salesperson, Market
23 Development Manager, and Marketing Supervisor. In 1989, after leaving MDU,

1 I was employed by Peoples Natural Gas Company (Division of Aquila, Inc.) in
2 Des Moines, Iowa as the Iowa Large Volume Marketing Director. In 1992, I was
3 transferred to Peoples Natural Gas Company's operations in Wichita, Kansas,
4 as the Large Volume Marketing Director, South Market Region, for Colorado
5 and Kansas. As the Large Volume Marketing Director in both Iowa and Kansas,
6 I was involved in the development and negotiation of gas sales and
7 transportation activities and marketing program development and
8 implementation for residential, multi-family and commercial customers. In
9 1994, I was transferred to Aquila's United Energy Solutions (UES) business unit
10 as Director of Business Accounts. In this capacity I was responsible for the
11 marketing and sale of both non-regulated and regulated electric and gas
12 services to irrigation, small volume and commercial customers in Colorado and
13 Kansas. During 1996 I transferred back to Peoples Natural Gas as the Principal
14 Account Sales Executive for Colorado and Kansas. In this capacity, I was the
15 primary contact and natural gas sales representative of regulated services for
16 the large volume gas customers in Colorado and Kansas. In 1998 I was
17 promoted to Director, Principle Accounts, for Colorado, Kansas, Michigan,
18 Missouri and West Virginia. In this capacity, my responsibilities included
19 management of Aquila's largest electric and natural gas customers along with
20 supervising a team of account representatives in all five states. I was involved
21 in the development of electric and natural gas services. In June 2002, I was
22 transferred to my current position as Sr. Manager, External Affairs.

23

1 **Q. Have you ever testified before any Regulatory Commission?**

2 A. Yes. I have filed testimony in three previous dockets regarding natural gas rates
3 before this Commission.

4

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my direct testimony is to sponsor Pro Forma Adjustment No. 4,
7 which adjusts and annualizes the test year end revenues to account for the loss
8 and/or addition of transportation and large volume sales customers on Aquila's
9 system.

10

11 **Q. Briefly describe Pro Forma Adjustment No. 4.**

12 A. Adjustment No. 4 is the net affect of several changes in the large volume
13 customer class that have occurred during the test year. The changes can be
14 categorized into three groups. The first group includes any new transportation
15 customers. The second group includes any customers that have ended
16 transportation service, by either ending service with the company completely or
17 switching to sales service. The third group includes any customers whose rates
18 have changed. These changes relating to the large volume customer class
19 greatly impact the test year revenues, are easily identified and should be taken
20 into account in setting new rates.

21

1 **Q. Please explain the first group of customers.**

2 A. Aquila added one new transportation account during the test year. This
3 customer did not receive service for the entire twelve-month test period.

4 Therefore, it is necessary to adjust test year revenue and increase test year
5 margins by \$44,480 in order to reflect what the margin would have been had this
6 new transportation customer received service for the entire twelve month test
7 period.

8

9 **Q. Please explain the second group of customers included in the pro forma
10 adjustment.**

11 A. Aquila lost four transportation accounts during the test period. Two customers
12 closed their facilities and the other two customers transferred to sales service.
13 The transportation margin for these four customers, totaling \$8,644, has been
14 removed from the test period.

15

16 **Q. Has the Company made an adjustment to increase sales revenue for the
17 two customers that switched to sales service?**

18 A. Yes. Gas sales revenues have been increased by \$156,060 and gas purchases
19 increased by \$142,885 for a gross margin increase of \$13,175.

20

21 **Q. Please explain the third group of customers included in the pro forma
22 adjustment.**

1 A. Several transportation customers had a rate or load change during the test
2 period. The pro forma adjustment annualizes the margin for these customers.

3

4 **Q. Please explain the rate changes for the customer in this third group.**

5 A. Aquila was successful in renegotiating a discounted transportation agreement
6 with one of its customers. The negotiations resulted in eliminating the discount
7 and increasing the rate to full tariff rate. Additionally, two customers moved
8 from a large volume rate to small volume rate. Also, Aquila competed to retain
9 the transportation service for a Kansas municipality. The city of Lyons, Kansas
10 has the ability to by-pass Aquila to directly connect with Southern Star Interstate
11 pipeline. As a result, Aquila discounted the rate for this customer. Finally, in
12 Docket No. 05-AEGG-039-COC, American Energies Gas Service was
13 authorized to provide wholesale transportation service to the City of
14 Moundridge. Therefore, Aquila anticipates losing half of the load for the City of
15 Moundridge and, accordingly, has reduced test period margins.

16

17 **Q. What is the impact of the rate changes for the third group of customers?**

18 A. The net impact for this third group of customers included in the pro forma
19 adjustment is \$10,326.

20

21 **Q. What is the net affect of changes included in Pro Forma Adjustment no. 4?**

1 A. The net affect of the changes from all three groups is an increase in test year
2 transportation margin by \$46,162 and an increase in gas sales revenues by
3 \$156,090 and gas purchases by \$142,885.

4

5 **Q. Does this conclude your testimony?**

6 A. Yes.

VERIFICATION

STATE OF Kansas)
COUNTY OF Sedgwick) SS:

Timothy H. Hess, being first duly sworn, deposes and says that he is Timothy H. Hess referred to in the foregoing document entitled "Direct Testimony of Timothy H. Hess" before the State Corporation Commission of the State of Kansas and the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

Timothy H. Hess
Timothy H. Hess

SUBSCRIBED AND SWORN to before me this 17th day of October, 2006.

Jennifer Owens
Notary Public

My Appointment Expires:

