

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

In the Matter of the Tariff Filing of Aquila, Inc., to)
Implement a General Rate Increase for Retail)
Electric Service Provided to Customers in its MPS)
and L&P Missouri Service Areas.)

Case No. ER-2005-0436

**STAFF’S RESPONSE TO MOTION OF SIEUA, AGP AND FEA TO STRIKE
PREFILED TESTIMONY AND CLASS COST-OF-SERVICE STUDIES**

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its response to the motion of SIEUA, AGP and FEA to strike portions of the prefiled direct testimony of Staff witnesses James Watkins and James Busch, including the Staff’s class cost-of-service study, states:

1. In their motion the movants assert the Commission has already decided that class cost-of-service and rate design issues are to be determined in Case No. EO-2002-384, not Case No. ER-2005-0436, and that portions of the rebuttal testimony of Staff witnesses James Watkins and James Busch violate this decision. The Staff agrees the Commission stated in its August 23, 2005 order its intent to bind the parties in this rate case, Case No. ER-2005-0436, with the decisions the Commission makes on the issues presented to it in the class cost-of-service and rate design case, Case No. EO-2002-384. The Staff disagrees that the Commission has already decided it will use class cost-of-service study results in Case No. EO-2002-384 as a relevant factor for setting rates in Case No. ER-2005-0436.

2. Neither SIEUA, FEA nor Aquila took the position in Case No. EO-2002-384 that the Commission had already decided the following issues each listed in the list of proposed issues they proposed to the Commission in Case No. EO-2002-384 on September 30, 2005—one month after the order the movants cite:

Should inter-class revenue adjustments be determined in this case and should inter-class revenue adjustments be implemented in this case?

A. What are the appropriate inter-class revenue adjustments?

or

B. What is the appropriate method to determine them?

3. For its position on this issue SIEUA states, “Inter-class revenue adjustments should be determined in this case, but implemented in conjunction with the rate increase in Case No. ER-2005-0436.” In its prehearing brief SIEUA addresses this issue beginning on page 30 where it makes an analogy of the class cost-of-service results in Case No. EO-2002-384 as a destination and Case No. ER-2005-0436 as where to implement how to get to that destination.

4. Like SIEUA, in its position statement on the issue and prehearing brief, Aquila speaks in terms of the class cost-of-service results in Case No. EO-2002-384 being a destination and the place to implement getting to that destination being this case. Its position statement on this issue follows: “Inter-class revenue adjustments should be determined in this case, and implemented with the June, 2006, billing cycle, as described in the surrebuttal testimony of Aquila witness J. Matt Tracy. Failure to implement the results of the COS study would waste the efforts expended over the last three years in Case No. EO-2002-0384, and retain cross-subsidies inherent in current rates.”

5. Similarly FEA states in its position statements and brief its position that “inter-class revenue adjustments should be determined in this case [Case No. EO-2002-384], but implemented in conjunction with the rate increase in Case No. ER-2005-0436,” but provides no analysis in support of that position.

6. In contrast, for its position on this issue in Case No. EO-2002-384, the Staff stated, “Changes in the distribution of costs and revenues since Aquila’s last rate case have affected the class revenue shifts that would be required to align revenues with the cost of serving

each customer class. The class cost-of-service studies presented in this case are all based on the distribution of costs and revenues from Aquila's last rate case, Case No. ER-2004-0034. Class revenue shifts should be based on the distribution of costs and revenues determined by the Commission in Aquila's current rate case, Case No. ER-2005-0436, and should be implemented in that case."

7. The Commission has not ruled on whether it will determine inter-class revenue adjustments in Case No. EO-2002-384; therefore, the Staff has not ignored a Commission decision that inter-class revenue adjustments be determined in Case No. EO-2002-384 and used in Case No. ER-2005-436.

8. In the direct testimony of Mr. Watkins prefiled in this case, at page 3, the Staff recommends the Commission do the following: (1) determine the appropriate allocation factors in Case No. EO-2002-384, (2) determine the appropriate cost structure and revenues in Case No. ER-2005-0436 and (3) require the filing in Case No. ER-2005-0436 of the results of a class cost-of-service study based on the foregoing. The Staff's recommendation in this case dovetails with its recommendation in Case No. EO-2002-384.

9. The Staff's proposal in this case is that the Commission determine the appropriate allocation factors in Case No. EO-2002-384, resolve the disputed issues, then take the cost allocation factors and apply them to the costs the Commission determines in this case to determine each class's cost of service. Comparing each class's cost of service to its current revenues in this case will determine the revenue shifts required to equal cost of service.

10. As part of the significance of the Staff's proposal the Commission should note that, as agreed among parties in Case No. EO-2002-384, including Aquila, SIEUA and FEA, cost and revenue data from calendar year 2002, updated for known and measurable changes through

September 30, 2003, were used to generate the class cost-of-service study results the parties sponsored in Case No. EO-2002-384. The cost and revenue data in this case, however, as ordered by the Commission on July 21, 2005, is from the calendar year 2004, updated and adjusted for known and measurable changes through June 30, 2005, and the parties in this case are contesting that cost and revenue data.

11. The Staff has found no pleading by AG Processing, Inc. seeking intervention in Case No. EO-2002-384 nor was the Staff able to find any order where the Commission made it a party to that case. To the best of the Staff's knowledge AG Processing, Inc. is not a party to Case No. EO-2002-384. If so, then AG Processing will not be bound by the results of Case No. EO-2002-384. As an added concern in a similar vein, AARP continues to challenge the Commission's authority to join AARP as a party to Case No. EO-2002-384, without AARP's consent and over its objection. If AARP pursues its position and is successful, it too will not be bound by the results of Case No. EO-2002-384.

12. All the foregoing show the Staff has not raised any class cost-of-service issue in its prefiled direct testimony in this case that the Commission has determined in Case No. EO-2002-384. In its July 21, 2005 order in which it established the procedural schedule in this case, the Commission specifically set a time and date for the filing of direct testimony by all parties other than Aquila, Inc. on the issues of rate design, and class cost-of-service, that time and date being 4:00 p.m. October 28, 2005. The Staff believes it has complied with the Commission's orders.

13. The Staff has not raised in its direct testimony in this case any class cost-of-service or rate design issue that will not be resolved in Case No. EO-2002-384. The Staff produced class cost-of-service study results in this case, using the same Excel spreadsheet model

and the same allocation factors it used in Case No. EO-2002-384. Only the costs and revenues input into the model were changed to reflect the Staff's position on the revenue requirement issues in the Staff's direct testimony filed in this case. Contrary to the claim of SIEUA, AGP and FEA, understanding the Staff's "new" cost of service study requires neither additional discovery nor additional effort.

WHEREFORE the Staff requests the Commission deny the joint motion of SIEUA, AGP and FEA to the extent they ask the Commission to strike portions of the prefiled direct testimony of Staff witnesses James Watkins and James Busch, including the Staff's class cost-of-service study.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 18th day of November 2005.

/s/ Nathan Williams
