

**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 Aquila Networks—MPS and Aquila               )  
Networks—L&P Missouri Service Areas.            )

**Case No. ER-2007-0004**  
Tariff No. YE-2007-0001

**LIST OF ISSUES, ORDER OF ISSUES, LIST OF WITNESSES,  
ORDER OF WITNESSES AND ORDER OF CROSS-EXAMINATION**

Comes now the Staff of the Missouri Public Service Commission (“Staff”) on behalf of the parties in the above-captioned case and states:

1. On July 3, 2006, Aquila, Inc. filed with the Public Service Commission (“Commission”) tariff sheets designed to implement a general electric rate increase for service it provides to its Missouri customers in and about Kansas City and St. Joseph, Missouri under the names Aquila Networks—MPS and Aquila Networks—L&P, respectively. The Commission opened Case No. ER-2007-0004 to address that filing.

2. On August 22, 2007, the Commission issued its *Order Adopting Procedural Schedule and Modifying Previously Ordered Test Year* in which it stated, “The parties shall agree upon and Staff shall file a list of the issues to be heard, the witnesses to appear on each day of the hearing, the order in which they will be called, and the order of cross-examination for each witness. Any issue not contained in this list of issues will be viewed as uncontested and not requiring resolution by the Commission.” The Commission, in its first ordered paragraph, fixed March 22, 2007, as the date by which the foregoing is to be filed.

3. The Parties to this proceeding are: Aquila, Inc. (“Aquila”), Staff of the Public Service Commission (“Staff”), The Office of the Public Counsel (“Public Counsel”), Sedalia

Industrial Energy Users' Association ("SIEUA")<sup>1</sup>, AG Processing Inc. ("AGP")<sup>2</sup>, the Federal Executive Agencies ("FEA"), AARP, the Missouri Department of Natural Resources ("DNR"), the City of Kansas City, Missouri ("Kansas City"), the City of St. Joseph, Missouri ("St. Joseph"), the County of Jackson, Missouri ("Jackson County"), Union Electric Company d/b/a AmerenUE ("AmerenUE"), and The Commercial Group ("Commercial Group").<sup>3</sup>

4. Commission Rule 4 CSR 240-2.080(21) provides:

Any list of issues ordered by the commission must contain one (1) or more questions presented for decision, stated in the following form per issue: in three (3) separate sentences, with factual and legal premises, followed by a short question; in no more than seventy-five (75) words; and with enough facts woven in that the commission will understand how the question arises in the case.

(A) The questions must be clear and brief, using the style of the following examples of issue statements, which illustrate the clarity and brevity that the parties should aim for:

1. Example A: The Administrative Procedures Act does not require the same administrative law judge to hear the case and write the final order. ABC Utility Company filed an appeal based on the fact that the administrative law judge who wrote the final order was not the administrative law judge who heard the case. Is it reversible error for one administrative law judge to hear the case and a different administrative law judge to write the final opinion?

2. Example B: For purposes of establishing rates, ABC Utility Company is entitled to include in its costs expenses relating to items that are used or useful in providing services to its customers. ABC Utility Company has spent money to clean up environmental damages resulting from the operation of manufactured gas plants some 70 to 80 years ago. Should ABC Utility Company be allowed to include these expenses among its costs in establishing its future natural gas rates?

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<sup>1</sup> The members of SIEUA are: Pittsburgh Corning Corporation, Waterloo Industries, Hayes-Lemmerz International, EnerSys Inc., Alcan Cable Co., Gardner Denver Corporation, American Compressed Steel Corporation, and ThyssenKrupp Stahl Company.

<sup>2</sup> Although not parties the following are supporting AGP's positions in the service area of Aquila Networks L&P: Triumph Foods, Nestle-Purina, Artesian Company, Albaugh Inc., Ventura Foods, Sara Lee Products Co., Altec Industries, Becker-Underwood, Energizer Battery Co., Laclede Chain Co., Hillyard Products Co., Johnson Controls, LifeLine Foods, LMP Steel, Omnium/Agrilience Co.

<sup>3</sup> The members of the Commercial Group are: JC Penney Corporation, Inc., Lowe's Home Centers, Inc., and Wal-Mart Stores East, LP.

5. The parties are unable to comply with the requirements of Commission Rule 4 CSR 240-2.080(21); however, the Staff has solicited input from all, and obtained input from most, of the parties in preparing the list of issues presented below. Therefore, the Staff requests, pursuant to 4 CSR 240-2.025, for good cause, the Commission waive the requirements of 4 CSR 240-2.080(21).

6. Pursuant to the Commission's order, the Staff, with input from the other parties, has assembled the following statement and order of issues, list and order of witnesses, and order of cross-examination. Under the issue headings are one or more questions. The listing of questions below is not necessarily to be considered as an agreement by any party upon the characterization of the question(s) presented by the issue, or that the question is in fact an issue. As a consequence, more than one characterization of the question(s) presented may appear. Indeed, in the subsequent proceedings and filings of briefs, some parties may argue that they are addressing additional questions or may state that they consider a particular question to not be, or to no longer be, before the Commission for decision. Effort has been made to be non-argumentative in how questions are phrased. The parties do not necessarily agree that their effort has been successful in every instance. No party has been permitted a veto over the content of this document. This "non-binding" listing of issues is not to be construed as impairing any party's ability to argue about any of these issues or related matters, or to restrict the scope of its response to arguments made by other parties.

7. The parties have also reached an understanding, among themselves, that the following witness schedule identifies the earliest date that a particular issue or witness will be expected to be heard or to appear and trial counsel will prepare their cross-examination in reliance upon that schedule. For reasons of trial preparation, neither particular issues nor

particular witnesses shall be advanced from the dates specified to an earlier date unless all parties' counsel are notified and consent to such rescheduling. The parties request that the Commission follow this procedure that the parties have agreed to among themselves.

8. The Staff has developed the below order of issues, list of witnesses and order of witnesses based on input from the parties, attempting to minimize scheduling conflicts and maximize agreement among the parties. However, certain witnesses may testify out of order.

9. Subject to the foregoing, the Staff submits the following:

### **LIST OF ISSUES AND WITNESSES**

#### **REVENUE REQUIREMENT**

##### **Rate of Return**

1. Return on Common Equity: What return on common equity should be used for determining Aquila's rate of return?

##### Alternatively,

- A. What is the appropriate proxy group to be used in calculating Aquila's return on equity?
- B. What is the appropriate model (discounted cash flow, capital asset pricing model, risk premium) to be used in estimating Aquila's return on equity?
- C. In the event that the Commission decides to utilize a DCF model for estimating return on equity, should the Commission utilize a constant growth or multistage DCF model or both?
- D. For any DCF model, what is the appropriate growth rate?
- E. In the event that the Commission decides to utilize a risk premium model for estimating return on equity, what is the appropriate premium to account for the difference in risk between equity and bondholders?
- F. In the event that the Commission decides to utilize a risk premium model for estimating return on equity, what is the appropriate interest rate for utility bonds?
- G. Is an equity add-on appropriate to account for Aquila's construction risk and small company nature?

Samuel C. Hadaway (Aquila)  
David C. Parcell (Staff)  
Michael Gorman (SIEUA / AGP / FEA)  
Russ Trippensee (OPC)

2. Capital Structure: What capital structure should be used for determining Aquila's rate of return?

Samuel C. Hadaway (Aquila)  
David C. Parcell (Staff)  
Michael Gorman (SIEUA / AGP / FEA)

3. Cost of Debt: What cost of debt should be used for determining Aquila's rate of return?

Rich Winterman (Aquila)  
Samuel C. Hadaway (Aquila)  
David C. Parcell (Staff)  
Michael Gorman (SIEUA / AGP / FEA)

#### **Rate Base Issues**

4. Generation Resources: What are the prudent types and amounts of generation resources to include in Aquila Networks-MPS's rate base and for determining the fuel and purchased power expense of Aquila Networks-MPS and Aquila Networks-L&P?

H. Davis Rooney (Aquila)  
Dennis R. Williams (Aquila)  
Robert L. Davis (Aquila)  
Cary G. Featherstone (Staff)  
Charles R. Hyneman (Staff)  
Lena M. Mantle (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA)  
Kevin C. Higgins (Commercial Group)

5. South Harper: What costs related to the South Harper facility, if any, should be included in Aquila Networks-MPS's rate base?

- a. If the costs related to the South Harper facility are not included in Aquila's rate base, should the cost of service reflect an alternative amount?

H. Davis Rooney (Aquila)  
Dennis R. Williams (Aquila)  
Robert L. Davis (Aquila)

Cary G. Featherstone (Staff)  
Charles R. Hyneman (Staff)  
Phillip K. Williams (Staff)  
Kevin C. Higgins (Commercial Group)

6. Accounting Authority Orders: Should the unamortized balance of the accounting authority orders the Commission issued for the Rebuild and Western Coal Conversion of Aquila's Sibley generating facility be included in Aquila Networks-MPS's rate base?

Ron A. Klote (Aquila)  
Phillip K. Williams (Staff)  
Ted Robertson (OPC)

## Expense Issues

7. Allocation of fuel and purchased power between Aquila Networks-MPS and Aquila Networks-L&P: On what basis should Aquila's fuel and purchased power expense be allocated between Aquila Networks-MPS and Aquila Networks-L&P?

Susan Braun (Aquila)  
David Elliott (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA)

8. Fuel and Purchased Power Expense: What amount of fuel and purchased power costs should be included in expenses?

Charles R. Hyneman (Staff)  
David Elliott (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA)

9. Coal Prices: On what prices should Aquila's coal fuel expense be based in setting rates?

- a. Should they be based on Aquila's contract with Consolidated Coal Company or on Aquila's contract with C.W. Mining?

Abby F. Herl (Aquila)  
H. Davis Rooney (Aquila)  
Cary G. Featherstone (Staff)  
Graham A. Vesely (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA)

10. Natural Gas Prices: On what prices should Aquila's natural gas expense be based in setting rates?

H. Davis Rooney (Aquila)  
Trent W. Cozad (Aquila)  
Charles R. Hyneman (Staff)  
Kwang Y. Choe (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA)

11. Off-system Sales Margins: How should off-system sales margins be determined?  
What amount of off-system sales margins should be included in expenses?

Susan K. Braun (Aquila)  
William V. Harris (Staff)  
Kevin C. Higgins (Commercial Group)

12. Depreciation: What depreciation rates should be used for determining Aquila's depreciation expense?

- a. What average service life should be used for determining depreciation rates for Other Production Accounts (Accounts 342 to 346)?

Dennis R. Williams (Aquila)  
Rosella L. Schad (Staff)  
Michael Gorman (SIEUA / AGP / FEA)

## **DEMAND SIDE MANAGEMENT**

13. Should the Demand Side Management programs Aquila proposes be approved?  
If so, who should bear the costs of the programs?

Matt Daunis (Aquila)  
Dennis R. Williams (Aquila)  
Brenda Wilbers (DNR)  
Ryan Kind (OPC)

## **HEDGING**

14. Should the Commission allow rate recovery of the results of Aquila's hedging program?

H. Davis Rooney (Aquila)  
Trent W. Cozad (Aquila)  
Charles R. Hyneman (Staff)  
Cary G. Featherstone (Staff)

## FUEL COST RECOVERY

15. Should the Commission authorize Aquila to use a fuel and purchased power recovery mechanism allowed by 4 CSR 240-20.090?
  - i. What standard should the Commission use in determining whether to allow Aquila to use a fuel and purchased power adjustment mechanism?
  - ii. What portion of fuel and purchased power costs should be recovered by a recovery mechanism rather than by base rates?
  - iii. Should a fuel and purchased power adjustment mechanism include recovery of any demand costs?
  - iv. Should a fuel and purchased power adjustment mechanism require definitive production standards for recovery of fuel and purchased power costs via the mechanism?
- a. FAC: If the Commission authorizes Aquila to use a fuel adjustment clause, how should it be structured?
  - i. What recovery period should be used in the FAC?
  - ii. What line losses adjustment should be included in determining the fuel cost adjustment?
  - iii. How often should the fuel adjustment clause be adjusted?
  - iv. Should the fuel adjustment require a phase-in (cap) for sharp changes in fuel or purchased power costs?
  - v. What heat rate testing of generation plants should be conducted?

Dennis R. Williams (Aquila)  
H. Davis Rooney (Aquila)  
Steve Fetter (Aquila)  
Robert L. Davis (Aquila)  
Cary G. Featherstone (Staff)  
Michael Taylor (Staff)  
Don Johnstone (SIEUA / AGP)  
Maurice Brubaker (SIEUA / AGP / FEA)  
Nancy Brockway (AARP)  
Russ Trippensee (OPC)  
Ryan Kind (OPC)

- b. IEC: If the Commission authorizes Aquila to use an interim energy charge, how should it be structured?
  - i. What natural gas costs/prices should be included in the charge?
  - ii. What coal costs/prices should be included in the charge?



- iii. What purchased power costs/prices should be included in the charge?
- iv. Should the IEC be established and trued-up on a divisional basis (for MPS and for L&P separately) or on a unified basis (MPS and L&P combined)?
- v. Additional items to consider include treatment of off-system sales and hedging program cost/benefits.

Dennis R. Williams (Aquila)  
Cary G. Featherstone (Staff)  
Don Johnstone (SIEUA / AGP)

Alternatively,

Should the Commission authorize Aquila to utilize a fuel and purchased-power recovery mechanism consisting of periodic rate adjustments outside of rate proceedings and/or an interim energy charge to reflect increases and decreases in its prudently incurred fuel and purchased-power costs, including transportation as authorized by law?

## **ORDER OF ISSUES AND WITNESSES**

**Monday, April 2, 2007 9:00 a.m.**

**Make Entries of Appearance**

**Mark Exhibits**

**Take Up Outstanding Matters**

**Opening Statements**

Aquila  
Staff  
Public Counsel  
SIEUA and AGP  
Commercial Group  
FEA  
AARP  
DNR  
Kansas City  
St. Joseph  
Jackson County  
AmerenUE

**Generation Resources / South Harper / South Harper Expenses**

H. Davis Rooney (Aquila)  
Dennis R. Williams (Aquila)  
Robert L. Davis (Aquila)  
Cary G. Featherstone (Staff)  
Charles R. Hyneman (Staff) (April 3, 2007)  
Lena M. Mantle (Staff)  
Phillip K. Williams (Staff) (South Harper Expenses only)  
Maurice Brubaker (SIEUA / AGP / FEA)  
Kevin C. Higgins (Commercial Group)

**Tuesday, April 3, 2007 8:30 a.m.**

Charles R. Hyneman (Staff) (Generation Resources / South Harper / South Harper Expenses)

**Demand Side Management**

Matt Daunis (Aquila)  
Dennis R. Williams (Aquila)  
Brenda Wilbers (DNR)  
Ryan Kind (OPC)

**Accounting Authority Orders (“AAOs”)**

Ron A. Klote (Aquila)

Phillip K. Williams (Staff)  
Ted Roberson (OPC)

### **Depreciation**

Dennis R. Williams (Aquila)  
Rosella L. Schad (Staff)  
Michael Gorman (SIEUA / AGP / FEA)

### **Wednesday-Thursday, April 4-5, 2007 8:30 a.m.**

#### **Allocation of fuel and purchased power between Aquila Networks-MPS and Aquila Networks-L&P**

Susan Braun (Aquila)  
David Elliott (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA)

#### **Fuel and Purchased Power Expense**

Charles R. Hyneman (Staff)  
David Elliott (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA) (Wednesday)

#### **Natural Gas Prices**

H. Davis Rooney (Aquila)  
Trent W. Cozad (Aquila)  
Charles R. Hyneman (Staff)  
Kwang Y. Choe (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA) (Wednesday)

#### **Coal Prices**

Abby F. Herl (Aquila)  
H. Davis Rooney (Aquila)  
Cary G. Featherstone (Staff)  
Graham A. Vesely (Staff)  
Maurice Brubaker (SIEUA / AGP / FEA) (Wednesday)

#### **Hedging**

H. Davis Rooney (Aquila)  
Trent W. Cozad (Aquila)  
Charles R. Hyneman (Staff)  
Cary G. Featherstone (Staff)

## **Off-system Sales Margins**

Susan K. Braun (Aquila)  
William V. Harris (Staff)  
Kevin C. Higgins (Commercial Group)

## **Friday and Monday, April 6 and 9, 2007 8:30 a.m.**

### **Return on Common Equity / Capital Structure / Cost of Debt**

Rich Winterman (Aquila) (Cost of Debt only)  
Samuel C. Hadaway (Aquila)  
David C. Parcell (Staff)  
Michael Gorman (SIEUA / AGP / FEA) (Monday, April 9, 2007)  
Russ Trippensee (OPC)

## **Tuesday, April 10, 2007 8:30 a.m.**

### **Policy**

Jon Empson (Aquila)

### **FUEL COST RECOVERY**

**Should the Commission authorize Aquila to use a fuel and purchased power recovery mechanism allowed by 4 CSR 240-20.090?**

#### **FAC**

Dennis R. Williams (Aquila)  
H. Davis Rooney (Aquila)  
Steve Fetter (Aquila)  
Robert L. Davis (Aquila)  
Cary G. Featherstone (Staff)  
Michael Taylor (Staff)  
Don Johnstone (SIEUA / AGP)  
Maurice Brubaker (SIEUA / AGP / FEA)  
Nancy Brockway (AARP)  
Russ Trippensee (OPC)  
Ryan Kind (OPC)

#### **IEC**

Cary G. Featherstone (Staff)  
Don Johnstone (SIEUA / AGP)

**Wednesday, April 11, 2007 8:30 a.m.**

Open.

**Thursday, April 12, 2007 8:30 a.m.**

Open.

**Friday, April 13, 2007 8:30 a.m.**

Open.

## **ORDER OF CROSS-EXAMINATION**

### **Aquila witnesses**

AmerenUE; DNR; St. Joseph; Kansas City; Jackson County; FEA; Commercial Group; AGP & SIEUA; Staff; Public Counsel, AARP

### **Staff witnesses**

DNR; St. Joseph; Kansas City; Jackson County; Public Counsel; AARP; Commercial Group; FEA; AGP & SIEUA; AmerenUE; Aquila

### **Public Counsel witnesses**

DNR; St. Joseph; Kansas City; Jackson County; Empire; AARP; FEA; AGP & SIEUA; Commercial Group; Staff; AmerenUE; Aquila

### **City of Kansas City witnesses**

DNR; AARP; Jackson County; St. Joseph; Public Counsel; AARP; FEA; AGP & SIEUA Commercial Group; Staff; AmerenUE; Aquila

### **AGP, SIEUA and FEA witnesses**

Commercial Group; AARP; Public Counsel; St. Joseph; Kansas City; Jackson County; DNR; Staff; AmerenUE; Aquila

### **DNR witnesses**

Kansas City; AARP; Jackson County; St. Joseph; Public Counsel; AARP; FEA; AGP & SIEUA; Commercial Group; Staff; AmerenUE; Aquila

### **Jackson County witnesses**

DNR; AARP; Kansas City; St. Joseph; AARP; FEA; AGP & SIEUA; Commercial Group; Public Counsel; Staff; AmerenUE; Aquila

### **AARP witnesses**

DNR; Kansas City; Jackson County; St. Joseph; Public Counsel: AARP; FEA; AGP & SIEUA; Commercial Group; Staff; AmerenUE; Aquila

### **Commercial Group witnesses**

FEA; AGP & SIEUA; AARP; Public Counsel; St. Joseph; Kansas City; Jackson County; DNR; Staff; AmerenUE; Aquila

**WHEREFORE**, on behalf of the parties, the Staff submits the foregoing list of issues and witnesses, order of issues and witnesses, and order of cross-examination.

Respectfully submitted,

Kevin A. Thompson  
General Counsel

**/s/ Nathan Williams**

Nathan Williams  
Deputy General Counsel  
Missouri Bar No. 35512

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Missouri Public Service Commission  
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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronic mail to all counsel of record this 22<sup>nd</sup> day of March 2007.

**/s/ Nathan Williams**