

Exhibit No.:

Issues: Capacity Planning,  
And SO<sub>2</sub>

Witness: Andrew N. Korte

Sponsoring Party: Aquila Networks-MPS  
And L&P

Case No.: ER-2005-0436

FILED<sup>2</sup>

FEB 24 2006

Missouri Public  
Service Commission

Before the Public Service Commission  
of the State of Missouri

Surrebuttal Testimony

of

Andrew N. Korte

**\*\*Denotes Highly Confidential Information\*\***

**NP**

Exhibit No. 281MP  
Case No(s). ER-2005-0436  
Date 1-09-06 Rptr 4F

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ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF ANDREW N. KORTE  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

1 Q. Please state your name and business address.

2 A. My name is Andrew Korte. My business address is 10750 East 350 Highway, Kansas  
3 City, Missouri, 64138.

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

5 A. I am employed by Aquila, Inc., ("Aquila") as Vice President Energy Resources, in its  
6 regulated electric utility operations.

7 Q. Are you the same Andrew N. Korte who has previously filed rebuttal testimony in this  
8 proceeding?

9 A. Yes, I am.

10 **EXECUTIVE SUMMARY**

11 Q. What is the purpose of this surrebuttal testimony?

12 A. The purpose of my surrebuttal testimony is to address specific issues in the rebuttal  
13 testimony filed by Staff witness Cary G. Featherstone regarding a new purchase power  
14 contract (commonly referred to as Project X) and in the rebuttal testimony of Office of the  
15 Public Counsel ("OPC") witness Ted Robertson regarding the replacement of the C.W.  
16 Mining coal contract.

17 **PROJECT X**

18 Q. Please summarize your understanding of Mr. Featherstone's testimony.

1 A. Mr. Featherstone has stated that Aquila's Project X activity has exposed Aquila and  
2 ultimately its customers to the energy market place without adequate consideration of the  
3 option to build or acquire generating capacity. Mr. Featherstone has also stated that  
4 Aquila has no intention of building, or even seriously examining this option in a  
5 meaningful way.

6 Q. By way of background, what is "Project X"?

7 A. Project X was a placeholder for a new purchase power contract for 200 MWs beginning  
8 in the Fall of 2005 to replace a portion of a purchased power contract that expired during  
9 the year. At the time of filing of our direct testimony, the specifics of a replacement  
10 purchase power contract had not been finalized and so the necessary purchased power  
11 contract was referred to as "Project X".

12 Q. Does Project X activity expose Aquila and its customers to the energy marketplace  
13 without adequate consideration of the option to build or acquire generation?

14 A. No. Project X activity resulted in a short term purchase power agreement for 200 MW.  
15 The amount of 200 MW is roughly the equivalent of capacity Aquila is required to have on  
16 reserve. That is, Aquila is required to have approximately 200 MW more capacity than it  
17 expects to need. Since the capacity is not needed it is rarely exposed to the marketplace.  
18 Aquila is considering the option of building or acquiring long term capacity in the future.

19 Q. Mr. Featherstone stated that Aquila has no intention of building, or even seriously  
20 examining this option in a meaningful way. How do you respond?

21 A. If by option he means self-build, then Mr. Featherstone's statement is false. Aquila has  
22 recently completed construction of a 315 MW plant showing a commitment to build.

23 Aquila is actively pursuing partnership in the Iatan II coal fired plant. Aquila will soon

1 issue a request for capacity proposals starting in 2008, and will share that request with the  
2 Commission Staff before it is sent out for bids. Proposals received in response, including  
3 an internally developed self-build option, will be evaluated using least cost planning  
4 objectives. The results may or may not produce a self-build result. In summary, it is  
5 prudent for an electric utility, such as Aquila, to purchase capacity when it is anticipated on  
6 the basis of analysis that such a purchase would result in a lower overall revenue  
7 requirement in the long-run. It is important for an electric utility to continually canvass the  
8 market so that it is aware of the options available to it whenever it must decide whether to  
9 meet its load with a supply option or a purchase option.

10 Q. What is your response to Mr. Featherstone's rebuttal testimony reference regarding Aquila's  
11 failure to consider "access to facilities Aquila owns"?

12 A. I believe that Mr. Featherstone is referring to facilities owned or contracted by Aquila  
13 Merchant Service. Aquila has considered these facilities and believes their use as a viable  
14 source of energy would be cost prohibitive. Aquila is concerned that Staff apparently does  
15 not understand that energy from these facilities is not available for use within the MPS  
16 service territory without the incurrence of substantial additional costs which would make  
17 this energy non-competitive with other sources. Differences between short-term and long-  
18 term firm point-to-point transmission service; a host of refused requests for long-term firm  
19 transmission service from similarly situated generating facilities; and, the fact that Aquila  
20 Networks is not a participant in the Regional Transmission Organizations in which such  
21 "facilities" exist are all factors which were apparently not considered when Mr.  
22 Featherstone made this statement.

23 **CONTRACTED COAL PRICES**

1 Q. In OPC witness Robertson's rebuttal testimony on SO<sub>2</sub> Emission Allowances, Public  
2 Counsel has indicated that recovery, from ratepayers, of the incremental costs associated  
3 with the necessity of the Company to obtain coal from new sources after the default of C.W.  
4 Mining on its existing contract should not be allowed. Mr. Robertson also indicated that he  
5 had been advised by the Public Counsel that recovery of new contract costs in rates includes  
6 some risk that C.W. Mining could be relieved of the obligation to pay Aquila. How do you  
7 respond?

8 A. Aquila has been advised by counsel in essence that the Uniform Commercial Code (Article  
9 2) does not allow a breaching seller (C.W. Mining) to require a buyer (Aquila) to mitigate  
10 its cover damages for breach by passing on the costs of cover to customers. Schedule ANK-  
11 1 is a legal opinion letter from Shook, Hardy & Bacon, L.L.P. addressing this issue in more  
12 detail. Based on this letter, it is clear that if the new contract costs are included in rates,  
13 Aquila may still recover from C.W. Mining. Mr. Robertson's understanding is simply in  
14 error.

15 Q. Do you agree with Mr. Robertson's characterization that the potential recovery from a  
16 lawsuit creates a situation whereby double recovery of the increased costs might occur?

17 A. No. Any recovery from litigation would be flowed back to customers to the extent the costs  
18 have been included in rates.

19 Q. Does this conclude your surrebuttal testimony?

20 A. Yes.

Entire Schedule "Highly Confidential"

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

County of Jackson     )  
                                      )  
State of Missouri     )     ss

AFFIDAVIT OF ANDREW N. KORTE

Andrew N. Korte, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Andrew N. Korte;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Andrew N. Korte  
Andrew N. Korte

Subscribed and sworn to before me this 13th day of December, 2005.

Terry D. Lutes  
Notary Public  
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES  
Jackson County  
My Commission Expires  
August 20, 2008