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January 30, 2004

Mr. Denny Williams
Aquila, Inc.
10700 East Highway 350
Kansas City, MO 64138

GMO Exhibit No. 5546
Date 2-15-11 Reporter FWJ
File No. ER-2010-0356

Dear Mr. Williams:

Biannual resource planning update meetings with the Staff were begun in 1999 as a negotiated replacement to the resource planning process requirements in 4 CSR 240-22. At that time, restructuring of the electric industry was occurring in many states and had been proposed in the Missouri Legislature. It was also a time when investor-owned utility plans for building in Missouri were limited to gas-fired generation, such as combustion turbines or combined cycle units that could be built quickly as they were needed with reduced capital investment compared to base load units that require a large capital investment and have a long lead-time to build.

Staff recognizes that the meeting on January 27, 2004, between Aquila and Staff was focused on a five-year planning horizon and how Aris might fit into that plan and not a resource-planning meeting like the one that is currently scheduled for February 9, 2004. Staff nonetheless found that many of the issues discussed in this meeting were highly correlated with issues that are normally discussed during resource planning meetings. The information provided in the January 27, 2004, meeting, in Staff's opinion, warrants a letter that emphasizes the concerns that were expressed by Staff at the meeting regarding the resource planning information provided. At this meeting Aquila told Staff that the optimal resource plan for a five-year least NPV analysis, after including other factors, was construction of three new natural gas simple cycle combustion turbines and a purchase power agreement. While a five-year analysis might be appropriate for making short-term decisions regarding how best to fill in between long-term capacity additions, Staff does not believe that a five-year planning period is sufficiently long for a Missouri utility to make determinations as to what is its optimal resource plan. Staff was also told that the three combustion turbines would be bought at cost. Staff understands that these units were initially purchased for or by an affiliate of Aquila.

In this meeting Staff requested the information that identifies the supply options that were screened out of the analysis with the data supporting the decision to eliminate these approaches from further review. Aquila indicated that it would provide Staff with this information. Other information regarding the Company's analysis of its twenty-year resource plan and transmission issues would be provided at the February 9 resource-planning meeting. This information is vital for the Staff to evaluate the reasonableness of Aquila's near-term plans.

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Staff understands that purchase power agreements, gas-fired simple and combined cycle combustion turbines and other types of peaking and intermediate sources of capacity and energy can be appropriate options in a prudent resource plan. However, such a conclusion cannot be supported unless the plan is based on a valid long-term analysis that includes base-load generation capacity and energy. Resource plans that are not based on a valid analysis of base-load generation capacity and energy will not result in reliable service at reasonable rates.

Aquila noted in the January 27th meeting that the lead-time on a base-load coal-fired power plant could be six or more years. Aquila's indication that it would be appropriate for them to be part owner/operator of a coal fired power plant by 2010-2011 means that Aquila, and any possible partners, must move forward with an RFP, potential site selection, begin the permitting process and begin assessing transmission constraints and needed upgrades to implement such a plan. Delays in these areas will likely result in Aquila being more dependent on natural gas fired generation and take Aquila further from an optimal mix of generation sources. Equally, delays in planning for base-load generation could force Aquila to become dependent on purchase power agreements for longer periods of time, thereby unnecessarily exposing the Company's regulated utilities to the volatility of market-based prices as well as risks from contract defaults.

Aquila should not assume that the Staff's position is that it is only prudent to add base-load generation when the difference between owned and contracted generation sources is short of anticipated peak load by at least the number of megawatts that are planned to be added by the new unit or long term contract. Staff recognizes that economical base-load generation additions may occur in amounts that exceed the immediate capacity need. However, the Staff does expect Aquila to pursue sales contracts to sell this excess capacity in the short term until Aquila grows into this capacity. From Staff's meetings with other load serving entities in Missouri it is clear that it is time that preliminary discussions on building additional base-load generation in Missouri move toward development of potential partnerships, selection of potential sites and in-depth evaluations of costs, financing and potential in-service dates. If these in-depth evaluations show that additional base-load generation is an appropriate resource addition, these generation source additions should be actively pursued without delay.

If you have any questions on this or wish to discuss this further, please do not hesitate to call me at (573) 751-2978 or Wess Henderson at (573) 751-7435.

Sincerely,



Warren T. Wood, PE
Energy Department Manager
Missouri Public Service Commission

cc: Lena Mantle – Engineering Supervisor, MoPSC Staff
Bob Schallenberg – Utility Services Division Director, MoPSC Staff