

**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

**Staff's Reply To Aquila's May 30, 2007 Response Regarding
Staff's Recommendation To Reject Tariff Sheets**

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On May 29, 2007, the Staff filed its *Recommendation to Reject Tariff Sheets* ("May 29 Recommendation"), recommending that the Commission reject four (4) compliance tariff sheets filed by Aquila, Inc. ("Aquila")---*i.e.*, original sheet nos. 124, 125, 126 and 127---because, contrary to the Commission's *Report and Order*, these tariff sheets seek to flow through Aquila's newly approved fuel adjustment clause ("FAC") both SO₂ emission allowance costs and monthly interest on FAC costs that are under- and over-recovered during the accumulation period.

2. On May 30, 2007, Aquila filed a responsive pleading titled *Response to Staff's Recommendation to Reject Tariff Sheets, Motion for Clarification of Report and Order, and Motion for Expedited Treatment* ("Response").

3. Aquila asserts in its Response that the "Staff, which opposed the FAC, is attempting to frustrate the intent of the Commission as expressed in the *Report and Order* and financially penalize the Company by delaying the implementation beyond the start of the summer cooling months." The Staff categorically denies Aquila's assertions and finds them

offensive. In its May 29 Recommendation, as well as in previous recommendations concerning Aquila's compliance filings in this case, contrary to Aquila's allegation, the Staff has sought only to convey to the Commission that Aquila's proposed tariff sheets do not comply with the Commission's *Report and Order*, which does not include recovery through the authorized FAC of either SO₂ emission allowances or monthly interest on FAC costs that are under- and over-recovered during the accumulation period. This has been the Staff's sole objective in all of its filings since the Commission issued its *Report and Order*, regardless of any position the Staff may or may not have taken earlier.

4. Undercutting Aquila's position on SO₂ allowances and FAC interest calculations is the fact that Aquila, in response to the Staff's earlier (May 22, 2007) recommendation, has moved off of its position that off-system sales are recoverable through the FAC authorized in the *Report and Order* to acceptance of the Staff's position that they are not.

5. As the Staff explained in its May 29 Recommendation, SO₂ emission allowance costs do not vary directly with kWh sales. Given the Commission's express intention to limit costs included in the FAC to "variable fuel and purchased power costs, including variable transportation costs," it is apparent that the Commission did not intend that SO₂ emission allowance costs be flowed through the FAC.¹ After issuance of the *Report and Order*, the Staff's position that SO₂ allowance costs should be recovered through its proposed fuel adjustment mechanism (the IEC) is irrelevant. The Commission's *Report and Order* simply does not include SO₂ emission allowance costs in the FAC.

6. With respect to the recovery of interest through the FAC, the Commission's *Report and Order* limits the costs to be included in the FAC to variable fuel and purchased

¹ Aquila's attempt to equate the variability of transportation costs with SO₂ costs is irrelevant in light of the fact that the Commission's *Report and Order* specifically provides for the inclusion of transportation costs.

power costs, including variable transportation costs, and does not address interest. In its Response, Aquila claims that staff has misinterpreted the manner in which its proposed tariff sheets would operate, stating that, “interest is computed on a monthly basis on over-collections or under-collections of fuel costs on the deferred fuel cost balance only, not on any interest previously accrued on the deferred fuel charges or credits.” Aquila’s claim, however, fails to address the Staff’s concern. As explained in the Staff’s May 29 Recommendation, the governing statute (Section 386.266.4) and Commission rule (4 CSR 240-20.090(5)(A) and (7)(A)) provide that interest is to be calculated at the true-up audit and prudence review stages, not on the monthly basis as Aquila proposes in its compliance tariffs. If interest is accrued on a monthly basis, then the dollar values that will be included, for example in a true-up audit, may very well include interest charges when otherwise they would not. Moreover, pursuant to the statute and rule, interest would then be applied to any over- or under-collected amount determined during the true-up. Since, under Aquila’s proposed tariff sheets, those amounts would already include interest, the likelihood is that interest would be compounded.

7. Although the *Report and Order* makes no provision for including interest in the FAC calculation, the relevant statutory and regulatory provisions provide that interest under the FAC is to be calculated during the true-up audits and prudence reviews. Positions the parties took before the Commission on any Aquila proposal to calculate interest on a monthly basis are irrelevant now that the *Report and Order* has been issued, and in light of the provisions of the applicable statute and rule.

WHEREFORE, the Staff renews its recommendation that the Commission reject the four (4) proposed tariff sheets (Original Sheet Nos. 124, 125, 126 and 127), filed by Aquila on May 25, 2007.

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 electronically mailed to all counsel of record this 1st day of June 2007.

/s/ Dennis L. Frey