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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

Missouri Public
Service Commission

In the Matter of Aquila, Inc. d/b/a Aquila)	
Networks - MPS and Aquila Networks - L&P)	Case No. ER-2005-0436
for Authority to File Tariffs Increasing)	
Electric Rates for the Service Provided)	
to Customers in the Aquila Networks - MPS)	
and Aquila Networks - L&P Areas)	

MISSOURI DEPARTMENT OF NATURAL RESOURCES' PRE-HEARING
BRIEF

Pursuant to the Commission's Order, the Missouri Department of Natural Resources files its pre-hearing brief in the above-styled matter.

I. INTRODUCTION.

On May 24, 2005, Aquila, Inc., d/b/a Aquila Networks-MPS and Aquila Networks-L&P (the Company) filed tariff sheets that would have resulted in a rate increase for the Company's customers of \$78.6 million, combined. (Randolph Direct, p. 5, l. 12-13.) On May 31, 2005, this Commission entered its Order, which among other things, suspended the proposed tariffs, set a date for interested parties to apply to intervene and set dates for a hearing on the proposed tariffs. On June 20, 2005, the Missouri Department of Natural Resources (Department) filed its application to intervene in the above-styled case, which application the Commission granted on June 23, 2005.

II. BRIEF

The Department filed its Statement of Position on the Issues in this case on December 16, 2005, explaining its position on three of the issues set for hearing in this matter, beginning January 9, 2006. The Department filed the Direct and Surrebuttal Testimony of Anita Randolph, which set out, in more detail, the rationale for the positions taken by the Department in this electric rate case. This brief will summarize those positions and the rationale for those positions.

Background.

The Company's most recent rate case resulted in an Unanimous Stipulation and Agreement, which the parties to that case (including the Department) filed with the Commission March 16, 2004. (Randolph Direct, p. 6, l. 1-2.) This Commission approved the Stipulation on April 22, 2004. (Randolph Direct, p. 6, l. 4-5.) In the approved Stipulation, the Company agreed to fund energy efficiency programs and a low-income weatherization program out of shareholder monies in the amount of \$93,500.00, annually, until the next rate case. (Randolph Direct, p. 6, l. 6-12.)

Unfortunately, the May 24, 2005, tariffs filed by the Company did not include either energy efficiency programs or a low-income weatherization program. (Randolph Direct, p. 5, l. 12-21.) However, in its April 15, 2005, State of Missouri Electric Demand-Side Management Plan, 2006-2010, the Company did propose several programs, including energy efficiency programs with a low-income weatherization component. (Randolph Direct, p. 4, l. 10-23.) The Company also proposed substantial funding for the programs. *Id.*

The Company should continue to work with the DSM Advisory Group it convened to develop and implement energy efficiency programs for its service territory. (Randolph Direct, p. 21, l. 1-7.) Until this effort identifies energy efficiency programs and in an effort to promote the continuation of the programs instituted by the Company as a result of the April 22, 2004, Stipulation, the Department is proposing four programs, including a low-income weatherization program.

Low-Income Weatherization Assistance.

The Department's witness, Anita Randolph, has explained the need for weatherization assistance and the reasons for the need in her direct testimony. (Randolph Direct, p. 7, l. 1-22; p. 8, l. 1-6.) A number of low-income homes are in need of energy efficiency improvements. (Randolph Direct, p. 8, l. 8-9.) Weatherization reduces space heating fuel consumption, is a cost effective means to help low income utility customers pay their energy bills year after year, reduces the amount of state and federal assistance needed to pay higher utility bills; improves prompt payment by utility customers; reduces customer arrearages; and reduces environmental pollution. (Randolph Direct, p. 10, l. 1-12.) Utility companies also benefit from spending funds on weatherization assistance. For example, utilities obtain reductions in working capital expense, in the number of uncollectible accounts and in credit and collection expenses. (Randolph Direct, p. 10, l. 14-19.)

From November 1, 2004, through June 30, 2005, the Company spend approximately \$33,000.00 to weatherize about 13 homes. (Randolph Direct, p. 15, l. 16-19.) Currently, the

Community Action Agencies providing weatherization services within the Company's service territories have approximately 108 low-income customers on their waiting lists to receive weatherization assistance, and more are expected. (Randolph Direct, p. 16, l. 1-4.)

The Department is therefore requesting that the Commission direct the Company to fund a low-income weatherization program to meet the growing need for such programs. (Randolph Direct, p. 16, l. 4-14.) The Department concurs with Staff's recommendation that half of the \$108,000.00 come from the Company, while the remaining fifty percent be added to the Company's cost of service. (Mantle Rebuttal, p. 2, l. 14; Randolph Surrebuttal, p. 4, l. 22-23; p. 5, l. 1-2.) The Department also agrees that the Company should evaluate the program to confirm its benefits and asks that it, as the administrator of the federal Weatherization Assistance Program, be included in that process. (Randolph Direct, p. 4, l. 22-23; p. 5, l. 1-2.) The Office of Public Counsel and Jackson County, Missouri, also concur with the recommendations of Staff. (Office of Public Counsel and Jackson County Statements of Position.)

Energy Efficiency Programs.

The benefits from energy efficiency programs are reductions in energy usage and utility bills, improvements in system reliability and resilience, reductions in expenditures to upgrade utilities' infrastructures, improvements in the ability of businesses to compete, keeping energy dollars in Missouri, increasing customers' discretionary income, preserving natural resources and reductions in pollution. (Randolph Direct, p. 17, l. 21-23; p. 8, l. 1-8.)

The Company does currently offer energy efficiency programs. (Randolph Direct, p. 20, l. 11-21.)

To secure the benefits of energy efficiency programs and build on what the company has already initiated, the Department is requesting that the Commission direct the Company to fund \$100,000.00, annually (until the Commission directs that the funding terminate), to professionally train and certify private sector contractors and to promote and market the Home Performance with Energy Star program. (Randolph Direct, p. 23, l. 1-5.) The Company itself recognizes the benefits to both itself and its customers of a residential audit program. (Randolph Surrebuttal, p. 8, l. 1-16.)

Staff has expressed concerns over the Department's proposal to fund the training and certification of private sector contractors. (Mantle Rebuttal, p. 5, l. 7-17.) The Department believes that the concerns expressed by Staff should be addressed by the Company, Staff, OPC, the Department and any other interested parties as part of the program design and implementation process, which has been the case with other energy efficiency programs approved by the Commission. (Randolph Surrebuttal, p. 7, l. 10-18.)

The Department further requests that the Company re-design and implement a Commercial Audit program to be funded annually at a level of \$100,000, with half of the funds coming from the Company and half from rate payers. (Randolph Surrebuttal, p. 6, l. 11-22.) (The \$75,000.00 figure appearing on page 23, line 13 of Ms. Randolph's Direct Testimony is not correct. The Department apologizes for the confusion caused by using the

two different figures and confirms that its recommendation is for the \$100,000.00 level of funding.)

The Department is also recommending that this Commission direct the Company to fund \$40,000.00 for the Change A Light, Change the World Program. (Randolph Direct, p. 23, l. 21-23.) And Staff agrees with the Department that this program should be funded. Staff proposes that half of the funding for the program come from the Company, and the other half be added to the Company's cost of service and paid for by the Company's customers. The Department agrees with Staff's funding recommendation. (Randolph Surrebuttal, p. 5, l. 5-14.) Staff has indicated that it believes the Department did not adequately explain in Ms. Randolph's direct testimony why funding for the program should increase from the current \$20,000.00 level being paid for by the Company's shareholders. (Mantle Rebuttal, p. 3, l. 16-17.) In her surrebuttal testimony, Ms. Randolph documents the demand for the program in addition to its benefits, which is the Department's rationale for the increased level in funding. (Randolph Surrebuttal, p. 5, l. 16-23; p. 6, l. 1-8.)

Alternative Fuels.

Although it did not present testimony on this issue (Issue Number 34), the Department, as the state agency charged with administering those programs relating to environmental control and the conservation and management of Missouri's natural resources, does urge the full consideration of all fuel alternatives, from an environmental perspective. (Mo Const., Art. IV, Section 47.)

CONCLUSION

For all of the reasons outlined in the Department's direct and surrebuttal testimony, the Department requests that this Commission direct the Company to fund energy efficiency programs set out above, including a low-income weatherization program. The need for these programs is real. As the benefits of these programs are enjoyed by both the utility and its customers, it would be appropriate for both to pay a share. Staff's recommendation that the costs of the programs be divided equally between the rate payer and the Company is a reasonable and fair apportionment of those benefits. Further, the Department does support exploring cost recovery mechanisms for energy efficiency programs in Missouri that encourage utilities to implement such programs.

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to the following this 10th day of January, 2006:

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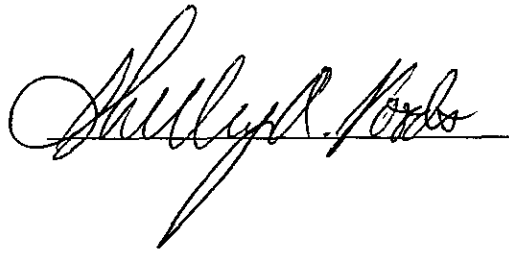
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A handwritten signature in cursive script, reading "Shelly R. Kato", written over a horizontal line.