

**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)
Steam Heat Service Provided to Customers in its)
L&P Missouri Service Area.)

Case No. HR-2005-0450

STAFF’S TRUE-UP AUDIT RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), in accordance with the Commission’s June 1, 2005 order that, inter alia, suspended tariffs filed by Aquila, Inc., and states:

1. In its June 1, 2005 order the Commission ordered Aquila, Inc. to file by Friday, June 17, 2005, in a separate pleading, any request for a true-up audit.

2. In that same order the Commission ordered the Staff and other parties to file by July 1, 2005 their recommendations concerning a true-up.

3. On June 7, 2005 Aquila, Inc. filed its request for a true-up and true-up hearing. In its request Aquila, Inc. requested “a true-up of all significant cost increases and cost decreases that have occurred through November 30, 2005, including but not limited to:

Plant and reserve

Revenues

Cost of fuel and purchased power

Payroll and payroll taxes

Depreciation expense

Corporate allocations.”

4. In its June 1, 2005 order the Commission suspended the tariffs filed by Aquila, Inc. until April 24, 2006, reserved for evidentiary hearings the period January 23-27, 2006 and January 17 to February 3, 2005, and reserved for a true-up hearing February 27, 2006. In light of the time it will take for Aquila, Inc. to close its books and provide that information to the Staff, for the Staff to review and evaluate those books and for the Staff to then prepare and file testimony, the Staff proposes the true-up period end October 31, 2005 rather than November 30, 2005 as proposed by Aquila, Inc.

5. As to the matters to be addressed in the true-up, the Staff proposes the following, more extensive list of items :

RATE BASE:

(1) Plant in service

- a. All plant in service accounts; and
- b. If the Commission decides to treat Aquila's South Harper facility as a power plant owned by Aquila, then, for each unit at the facility, the Commission must determine that the unit is "fully operational and used for service" (Section 393.135 RSMo 2000) before the costs of the unit and related items for which Aquila has received an invoice, approved and authorized payment, recorded payment in its accounts payable system and that are auditable at the time of the true-up audit are included in rate base. The units are scheduled to be operational in the summer of 2005.

(2) Depreciation reserve;

(3) Deferred taxes;

(4) Fuel inventories (oil and coal);

(5) Related cash working capital;

(6) Materials and supplies;

- (7) Prepayments;
- (8) Customer deposits;

CAPITAL STRUCTURE:

- (1) Rate of return – embedded cost of long-term debt, short-term debt and preferred stock (excludes return-on-equity);
- (2) Capital structure.

INCOME STATEMENT:

- (1) Revenues and kWh sales to account for customer growth;
- (2) Payroll – employee levels, current wage rates, payroll related benefits and payroll taxes;
- (3) Fuel prices for gas, oil and freight;
- (4) Purchased power prices;
- (5) System loads;
- (6) Fuel and purchased power expense;
- (7) Rate case expense and MoPSC assessment;
- (8) Lease cost;
- (9) Property insurance;
- (10) Depreciation expense;
- (11) Property taxes – if applicable and appropriate;
- (12) Income tax effects; and
- (13) Allocation factors.

4. To be included in the true-up audit, standard monthly documentation must be available for all applicable items (i.e., monthly operating reports, MPS and L&P ledgers and

supporting invoices) which assure that the item in fact has occurred or is in service, has been booked, payment has been recorded in Aquila's accounts payable system and is auditable at the time of the true-up audit.

5. The true-up should include all major changes to revenue, expenses, rate base and capital structure occurring through the true-up date.

6. The foregoing parameters and items for the true-up are the same as those that the parties in Case No. ER-2001-672, the last Aquila, Inc. general electric rate case with a true-up, jointly proposed with the exception of the reference to the South Harper facility rather than the Aries facility.

WHEREFORE the Staff submits its recommendation concerning a true-up.

Respectfully submitted,

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/s/ Nathan Williams

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 1st day of July 2005.

/s/ Nathan Williams
