

**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) Case No. ER-2005-0436
Retail Electric Service Provided to Customers)
In its MPS and L&P Missouri Service Areas)

In the Matter of the Tariff Filing of Aquila, Inc.)
To Implement a General Rate Increase for) Case No. HR-2005-0450
Retail Steam Heat Service Provided to)
Customers in its L&P Missouri Service Area)

AQUILA'S STATEMENTS OF POSITIONS ON ISSUES

Comes now Aquila, Inc., by counsel, and respectfully submits to the Missouri Public Service Commission ("Commission") its Statements of Positions on the Issues in these cases, as follows:

These Statements of Positions on the Issues follows the List of Issues Aquila anticipates will be filed by the Commission Staff.

POSITIONS

Rate of Return (Steam and Electric)

1. Return on Common Equity

Issue Description: What return on common equity should be used for determining Aquila's rate of return?

Aquila Position: Aquila should be authorized to earn a return of at least 11.50 % on its common equity.

Aquila Witness: ER-2005-0436
Sam Hadaway, Direct testimony, pages 22-45
Sam Hadaway. Rebuttal testimony, pages All
Sam Hadaway Surrebuttal testimony, pages All

HR-2005-0450

Sam Hadaway, Direct testimony, pages 22-46
Sam Hadaway. Rebuttal testimony, pages All
Sam Hadaway Surrebuttal testimony, pages All

2. Capital Structure

Issue Description: What capital structure should be used for determining Aquila's rate of return?

Aquila Position: The appropriate capital structure to use in calculating Aquila's cost of capital is a capital structure based on the capital structures of a group of 29 investment grade companies, an approach which comports with the principles of the *Hope* and *Bluefield* cases, and is as follows:

Common Equity 51.80 %

Long Term Debt 48.20 %

Aquila Witness: ER-2005-0436

Sam Hadaway, Direct testimony, pages 8-17
Sam Hadaway. Rebuttal testimony, pages All
Sam Hadaway Surrebuttal testimony, pages All

HR-2005-0450

Sam Hadaway, Direct testimony, pages 8-17
Sam Hadaway. Rebuttal testimony, pages All
Sam Hadaway Surrebuttal testimony, pages All

3. Cost of Debt

Issue Description: What cost of debt should be used for determining Aquila's rate of return?

Aquila Position: Aquila Networks-MPS cost of debt is 6.70%. Aquila Networks-L&P cost of debt is 7.96%. If the Commission adopts Aquila's corporate capital structure for purposes of these cases then Aquila agrees with the Staff cost of debt calculation which is 7.445%.

Aquila Witness: ER-2005-0436
 Sam Hadaway, Direct testimony, pages 7-8

 HR-2005-0450
 Sam Hadaway, Direct testimony, pages 8-9

Rate Base Issues (Electric only unless otherwise indicated)

4. Generation Resources

Issue Description: What are the prudent types and amounts of generation resources to include in Aquila Networks-MPS's rate base?

Aquila Position: Aquila's Networks-MPS current generation resource mix is prudent and should be included in rate base.

Aquila Witness: Jerry Boehm, Direct testimony, pages 3-8
Jerry Boehm, Rebuttal testimony, pages 2-6
Andrew Korte, Rebuttal testimony, pages 2-5
Nancy Heller Hughes, Surrebuttal testimony, All
Terry Hedrick, Surrebuttal testimony, pages 1-4
Dennis Williams, Surrebuttal testimony, page 15-21

5. South Harper

Issue Description: What costs related to the South Harper facility, if any, should be included in Aquila Networks-MPS's rate base?

- a. When should allowances for funds used during construction be treated as beginning and ending, and what is the appropriate AFUDC rate?
- b. What cost for test power should be treated as being included in Aquila Networks-MPS's rate base?
- c. Should the costs of fee and professional services payments Aquila made to or for the benefit of the City of Peculiar for Aquila to enter into a Chapter 100 financing arrangement with the City of Peculiar be included in Aquila Networks-MPS's rate base?
- d. South Harper Exclusions – should various legal, consulting and other costs included by Aquila as costs of construction be allowed rate base treatment?
- e. If the costs related to the South Harper facility are not included in Aquila's rate base, should the cost of service reflect an alternative amount?
- f. What total cost for the combustion turbines and related equipment transferred to Aquila, Inc. from Aquila Equipment, LLC and installed at Aquila's South Harper facility should be included in Aquila Networks-MPS's rate base?

Aquila Position: The South Harper power plant investment should be included in rate base.

- a. AFUDC should begin November 2004 and end August 11, 2005, which is the date the plant met the Staff in-service criteria. The AFUDC rate utilized by Aquila is in accordance with the FERC requirements.
- b. The cost of test power net of revenue received selling the power used at South Harper through August 11, 2005 should be capitalized.
- c. Yes. The fees and professional services payments made to the City of Peculiar regarding Chapter 100 financing should be included in rate base.
- d. Aquila has settled with Staff what items should be included in rate base relating to various legal, consulting and other costs. OPC is taking issue with additional items including the cost of the extension of the berm and trees on top of the berm which costs Aquila believes should be included in rate base.
- e. Aquila believes the South Harper is used and useful and should be included in rate base. The current investment in South Harper is the best proxy for the plant so no alternative amount is needed.
- f. Aquila believes the fair market value of the involved assets to be \$70,796,890. For purposes of this rate proceeding, Aquila has introduced in its Aquila Networks-MPS rate base for these assets the sum of \$66,760,000.

Aquila Witness: Susan Braun, Direct testimony, page 8
Davis Rooney, Rebuttal testimony, pages 18-31
Dennis R. Williams, Surrebuttal testimony, pages 15 – 21
Nancy Heller Hughes, Surrebuttal testimony, all

6. AAO's

Issue Description: Should the unamortized balance of the accounting authority orders the Commission issued for the Rebuild and Western Coal Conversion of Aquila's Sibley generating facility be included in Aquila Networks-MPS's rate base?

Aquila Position: The unamortized AAO balances relating to the Rebuild and Western Coal Conversion at the Sibley power plant should be included in rate base.

Aquila Witness: Dennis Williams, Rebuttal testimony, page 15-20
Dennis Williams, Surrebuttal testimony, page 2-9

7. Deferred Taxes – AAO

Issue Description Should deferred income taxes associated with the Sibley and Ice Storm accounting authority orders be determined and applied as an offset to Aquila Network-MPS's rate base?

Aquila Position: If the unamortized balance is included in rate base then deferred taxes should be included as an offset to rate base. If the balance is excluded from rate base i.e. ice storm then the associated deferred taxes should not be included as an offset to rate base.

Aquila Witness: Davis Rooney, Rebuttal testimony, pages 15-18
Davis Rooney, Surrebuttal testimony, pages 13-24

8. Deferred Tax Balances (Electric and Steam)

Issue Description: Should certain deferred tax timing differences be included in the accumulated deferred tax balances (added/deducted) from plant in service I the determination of rate base?

The Staff would state the issue as follows:

Should deferred tax debit balances related to non-rate base accruals and reserves be included in the accumulated deferred income tax balances deducted from plant in service in the determination of Aquila Networks-MPS's and Aquila Networks-L&P's rate bases?

Aquila Position: No. The deferred taxes relating to the timing differences have already been included in the cash working capital calculation.

Aquila Witness: ER-2005-0436
Ronald Klote, Direct testimony, pages 32-33
Davis Rooney, Surrebuttal testimony, pages 11-13

HR-2005-0450
Ronald Klote Direct testimony, pages 17-18

9. Accounts Receivable Program

Issue Description: Should customer accounts receivable be treated as being sold for purposes of determining Aquila Network-MPS's and Aquila Networks-L&P's cash working capital included in rate base?

Aquila Position: No. Aquila does not sell MPS and L&P customer account receivables under the plan that Staff used to make the associated adjustment.

Aquila Witness: Dennis Williams, Rebuttal testimony, pages 2-8

10. 20 West 9th (Electric and Steam)

Issue Description: What cost should be included in Aquila Networks-MPS's and Aquila Networks-L&P's rate bases for Aquila's 20 West 9th headquarters/annex?

Aquila Position: Aquila believes all the 20 West 9th headquarters/annex costs should be included in rate base.

Aquila Witness: Jon Empson, Rebuttal testimony, pages 1-6

11. SO₂:

Issue Description: What level of SO₂ emission costs should be included in rate base?

Aquila Position: Aquila agrees with the Staff position to use a 13 month average of SO₂ costs to be used in rate base.

Aquila Witness: Susan Braun, Direct testimony, pages 15-16
Andrew Korte, Surrebuttal testimony, page 4

Expense Issues (Electric only unless otherwise indicated)

12. SO₂:

Issue Description: What level of SO₂ emission costs should be included in expense?

Aquila Position: Aquila agrees with Staff position that 19,874 SO₂ allowances for MPS and 8,262 SO₂ allowances for L&P are appropriate levels for Aquila.

Aquila Witness: Ronald Klote, Direct testimony, pages 6-8
Andrew Korte, Surrebuttal testimony, page 4

13. Generation Resources:

Issue Description: What are the prudent types and amounts of generation resources for determining fuel and purchased power expense for Aquila Networks-MPS and Aquila Networks-L&P?

Aquila Position: Aquila's Networks – MPS and L&P current generation resource mix is prudent for dispatching Aquila load and should be included in calculating fuel costs for this case.

Aquila Witness: Jerry Boehm, Direct testimony, pages 3-8
Jerry Boehm, Rebuttal testimony, pages 2-6
Andrew Korte, Rebuttal testimony, pages 2-5
Nancy Heller Hughes, Surrebuttal testimony, All
Terry Hedrick, Surrebuttal testimony, pages 1-4
Dennis Williams, Surrebuttal testimony, page 15-21

14. Spot Market:

Issue Description: How should prices for power Aquila purchases on the spot market be determined?

Aquila Position: Aquila utilized the national and regional market data from Global Energy Decisions and used MIDAS Gold analysis package to determine spot market prices.

Aquila Witness: James Okenfuss, Direct testimony, pages 3-8
Jerry Boehm, Surrebuttal testimony, pages 6-9

15. Purchased Power:

Issue Description: How should prices for power based on purchased power contracts be determined?

Aquila Position: Aquila believes that the actual charges set out in the signed purchased power contracts for purchased power should be used to determine the prices to be included in rates.

Aquila Witness: Mike Apprill, Direct testimony, pages 2-7
Jerry Boehm, Direct testimony, pages 4-8
Andrew Korte, Rebuttal testimony, pages 8-11
Andrew Korte, Surrebuttal testimony, pages 1-3

16. Coal Prices: (Electric and Steam)

Issue Description: On what prices should Aquila's coal fuel expense be based in setting rates?

Aquila Position: Aquila believes that the actual charges set out in the signed coal contracts should be used to determine the prices to be included in rates.

Aquila Witness: ER-2005-0436
Jerry Boehm, Direct testimony, pages 11-17
Jerry Boehm, Rebuttal testimony, pages 3-4
Andrew Korte, Rebuttal testimony, pages 5-8
Andrew Korte, Surrebuttal testimony, pages 3-4

HR-2005-0450
Jerry Boehm, Rebuttal testimony, pages 3-4

17. Natural Gas Prices: (Electric and Steam)

Issue Description: On what prices should Aquila's natural gas expense be based in setting rates?

Aquila Position: Aquila utilized the 3 month rolling average, (Oct 1 to Dec 31, 2004) 12 month strip NYMEX future prices for 2006 in its initial filing. This price was \$6.571. Updating the 3 month rolling average to June 1 to August 31, 2005 pre Katrina NYMEX future prices for 2006 calculates an annual price of \$8.42.

Aquila Witness: ER-2005-0436
Jerry Boehm, Direct testimony, pages 8-11
Andrew Korte, Rebuttal testimony, pages 11-13
Jerry Boehm, Surrebuttal testimony, pages 1-6

HR-2005-0450
Tim Nelson, Direct testimony, pages 7-8
Andrew Korte, Rebuttal testimony, pages 5-7
Jerry Boehm, Surrebuttal testimony, pages 1-3

18. Fuel Oil Prices: (Electric and Steam)

Issue Description: On what price should Aquila's fuel oil in expense be based in setting rates?

Aquila Position: Aquila believes current market price for fuel oil is the appropriate price to use for setting rates.

Aquila Witness: Andrew Korte, Rebuttal testimony, page 13

19. 20 West 9th: (Electric and Steam)

Issue Description: What expense for Aquila's 20 West 9th headquarters/annex should be used in setting Aquila Networks-MPS's and Aquila Networks-L&P's rates?

Aquila Position: Aquila believes all the 20 West 9th headquarters/annex costs should be included in expense.

Aquila Witness: Jon Empson, Rebuttal testimony, pages 1-6

20. SERP: (Electric and Steam)

Issue Description: Are the costs of Aquila's supplemental employee retirement plan (SERP) an expense Aquila should recover from Aquila Networks-MPS and Aquila Networks-L&P ratepayers?

Aquila Position: Yes. Without the SERP program, executives would lose retirement benefits under limitations imposed by the IRS code that apply to qualified retirement programs that are in place at Aquila.

Aquila Witness: **ER-2005-0436**
Philip M. Beyer, Rebuttal testimony, pages 1-6

HR-2005-0450
Philip M. Beyer, Rebuttal testimony, pages 1-6

21. L&P Transition Costs:

Issue Description: Are the transition costs of the merger of St. Joseph Light & Power Company with Aquila an expense Aquila should recover from Aquila Networks-MPS and Aquila Networks-L&P ratepayers?

Aquila Position: Yes. The cost to achieve the merger such as computer system development, benefit plans combined, etc should be included in rates as long as adequate savings have been met to off-set those costs.

Aquila Witness: H. Davis Rooney, Direct testimony, pages 6-9
H. Davis Rooney, Rebuttal testimony, pages 8-15
H. Davis Rooney, Surrebuttal testimony, pages 2-10

22. FAS 106 Funding: (Electric and Steam)

Issue Description: How should Aquila's FAS 106 funding deficiency, if any, be addressed in this case?

The Staff would state the issue as follows
How should Aquila's FAS 106 funding deficiency be addressed?

Aquila Position: There is no FAS 106 "funding deficiency."

Aquila Witness: None

23. FAS 106 Funding: (Electric and Steam)

Issue Description: Should the computation of Aquila's FAS 106 funding deficiency, if any, include the time value of the delay in the contributions to the fund?

The Staff would state the issue as follows:

FAS 106 Funding: Should the computation of Aquila's FAS 106 funding deficiency, include the time value of the delay in the contributions to the fund?

Aquila Position: No. The expected earnings would have decreased any funding which would off-set the computations of the time value of money.

Aquila Witness: Richard Winterman, Surrebuttal testimony, All

24. South Harper Expenses:

Issue Description: What expenses related to the South Harper facility should Aquila recover from Aquila Networks-MPS's ratepayers?

- a. PILOTS: Should the cost of payments-in-lieu-of-taxes (PILOTS) made as part of a Chapter 100 financing arrangement in connection with the South Harper facility be included as an expense Aquila recovers from Aquila Networks-MPS's ratepayers?
- b. Property Taxes: Should the cost of property taxes on the South Harper facility be included as an expense Aquila recovers from Aquila Networks-MPS's ratepayers?
- c. Fees: Should the amortization of costs of fee and professional services payments Aquila made to or for the benefit of the City of

Peculiar for Aquila to enter into a Chapter 100 financing arrangement with the City of Peculiar in connection with the South Harper facility be included as an expense Aquila recovers from Aquila Networks-MPS's ratepayers?

Aquila Position: The expenses related to the South Harper facility should be included in rates.

- a. Yes. Chapter 100 financing is the least cost option to the customers.
- b. If PILOT payments are disallowed then the associated property taxes should be included in expense for this case.
- c. Yes. The costs of fees and professional services payments made to the City of Peculiar regarding Chapter 100 financing should be included in rates.

Aquila Witness: H. Davis Rooney, Direct testimony, pages 4-6
H. Davis Rooney, Rebuttal testimony, pages 2-7 and 18-24

25. Corporate Restructuring: (Electric and Steam)

Issue Description: Should there be a disallowance of corporate restructuring expenses for Aquila Networks-MPS and Aquila Networks-L&P and, if so, in what amount?

Aquila Position: No. Corporate restructuring expenses are no longer an issue between Staff and Aquila.

Aquila Witness: Dennis R. Williams, Surrebuttal testimony, pages 10-13

26. Low Income Weatherization Assistance:

Issue Description: Should an amount for low-income customer weatherization and assistance programs be included in Aquila Networks-MPS's and Aquila Networks-L&P's cost of service? If so, what amount should be included, how should it be funded, which programs should be included, and what kind of review should be ordered by the Commission?

Aquila Position: As long as the costs for the involved programs are added to the current cost of service then Aquila is not opposed to the programs.

Aquila Witness: Matthew E. Daunis, Rebuttal testimony, pages 2-3

27. DSM:

Issue Description: Should an amount for energy efficiency services to residential and commercial customers be included in Aquila Networks-MPS's and Aquila Networks-L&P's cost of service? If so, what amount should be included, how should it be funded, which programs should be included, and what kind of review should be ordered by the Commission?

Aquila Position: As long as the costs for the involved programs are added to the current cost of service then Aquila is not opposed to the programs.

Aquila Witness: Matthew E. Daunis, Surrebuttal testimony, pages All

Class Cost of Service/Rate Design Issues (Electric)

28. Rate Design/Cost of Service:

Issue Description: What is the appropriate way to adjust class revenues for any revenue increase that results from this case?

The Staff would state the issue as follows:

How should the Commission determine what, if any, shifts in class revenues for Aquila Networks-MPS and Aquila Networks-L&P should be made in this case?

How should any revenue increase for Aquila Networks-MPS or Aquila Networks-L&P that results from this case be implemented in rates?

Aquila Position: Aquila proposes an across the board increase in rates, with exceptions for lighting mounting option and the Cogeneration Purchase Schedule, and consolidation of the Economic Development Rider.

Aquila Witness: Gary Denny, Direct testimony, pages 1-3
J. Matt Tracy, Rebuttal testimony, pages 1-8

Reliability Issues (Steam)

29. Service Reliability: (Steam)

Issue Description: Should Aquila be directed to study any alleged recent reliability problems on its steam system, identify solutions, and report its findings to the Commission and interested parties?

Aquila Position: No. Aquila's steam operations are reliable.

Aquila Witness: HR-2005-0450
Glenn Keefe, Surrebuttal testimony, pages All

30. System Resource Study and Plan: (Steam only)

Issue Description: Should Aquila be directed to perform a study of steam production resources to include the results of the reliability review and to identify economical alternatives for the provision of steam service, and report its findings to the Commission and interested parties?

Aquila Position: Aquila is currently studying alternatives for its steam production resources and will discuss the results with the Commission and interested parties upon its completion.

Aquila Witness: None

Fuel Cost Recovery (Electric)

31. IEC:

Issue Description: If the Commission adopts an interim energy charge, how should it be structured?

- a. What natural gas costs/prices should be included in the charge?
- b. What coal costs/prices should be included in the charge?
- c. What purchased power costs/prices should be included in the charge?
- d. What SO₂ emission credits should be included in the charge?
 - (i) Should Aquila be required to use pet coke as a fuel to reduce SO₂ emissions?
- e. Should the IEC be established and tried-up on a divisional basis (for MPS and for L&P separately) or on a unified basis (MPS and L&P combined)?
- f. Additional items to consider include treatment of off-system sales and hedging program cost/benefits.

Aquila Position: Aquila is open to discussions to determine the appropriate structure of an IEC in the context of a settlement with all the parties in the case.

Aquila Witness: Dennis Williams, Rebuttal testimony, pages 13-14
Dennis Williams, Surrebuttal testimony, pages 22-25

32. IEC Rate Design:

Issue Description: If the Commission adopts an interim energy charge, how should the cost of the charge be allocated to customer classes in setting rates?

- a. How should natural gas costs be allocated to customer classes?
- b. How should coal costs be allocated to customer classes?
- c. How should purchased power costs be allocated to customer classes?
- d. How should SO₂ emission credits be allocated to customer classes?
- e. How should off-system sales and hedging program cost/benefits be allocated to customer classes?

Aquila Position: Aquila is open to discussions to determine the appropriate structure of an IEC in the context of a settlement with all the parties in the case.

Aquila Witness: None

Analysis of Fuel Options (Steam and Electric)

33. Fuel:

Issue Description: Should Aquila have considered alternatives to high Btu Western Coal for burning at Sibley and Lake Road, including petroleum coke and various emission control options?

Aquila Position: Aquila has considered different fuel alternatives for Sibley and Lake Road but pet coke would create additional costs because of its SO₂ emissions and operating issues.

Aquila Witness: ER-2005-0436
Glenn Keefe, Rebuttal testimony, pages 2-5
HR-2005-0450, Rebuttal testimony, pages 2-5

WHEREFORE, Aquila respectfully requests that the Commission consider the above statements of positions on issues.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "James C. Swearingen", is written over a horizontal line. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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ATTORNEYS FOR AQUILA, INC.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was delivered by first class mail or by hand delivery, on this 23rd day of December, 2005, to the following:

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