

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Resource Plan of Aquila, Inc.,)	
d/b/a Aquila Networks-MPS and Aquila)	Case No. EO-2007-0298
Networks L&P Pursuant to 4 CSR 240-22)	

DOGWOOD ENERGY, LLC’S COMMENTS REGARDING DEFICIENCIES

COMES NOW DOGWOOD ENERGY, LLC (“Dogwood”) and respectfully submits its Comments Regarding Deficiencies in the proposed resources plan of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks L&P (“Aquila”). Based upon that review Dogwood has identified the following issues and deficiencies;

Aquila’s use of both Power Purchase Agreements (“PPAs”) in its preferred Integrated Resource Planning (“IRP”) proposal and Requests for Proposals (“RFPs”) to assist with the determination of the best supply options is commendable and prudent. If Aquila has not done so already, it should commit to continued use of RFPs for assessing proposed IRP plans in the future and entering into PPAs to support such plans. Longer term PPAs, tolling agreements and asset purchases should also be explicitly considered as alternatives to Aquila building new capacity itself to make sure that all reasonable options have been considered and thoroughly explored.

While Aquila appears to state that coal-fired plants and gas-fired combustion turbine (“CT”) peaking technologies are preferred for its resource planning efforts,¹ its IRP filing documents in significant detail that gas-fired combined cycle (“CC”) technologies are also

¹ See Executive Summary at p. 8 wherein Aquila states, “that the proven technologies based on coal-fueled systems and combustion turbine systems prove to be the leaders in cost effective supply sources.”

desirable as part of Aquila's capacity mix, if not preferable to CTs, and that in the near-term the cost difference between adding CC and CT technologies is marginal.² In fact, Aquila's Optimal Supply-Side Only Resource plan includes only CC capacity additions in the near term, not CT additions.³ In addition, Aquila's filing shows that CC technology is more robust over a wider range of energy output in the 5% to 30% capacity factor range than CT and wind technologies⁴, which is an important non-price factor that should be explicitly considered as part of Aquila's resource plan.⁵

Aquila should evaluate in more detail any and all options available to mitigate the potential rate shock implications of adding a new CT in 2010 at the same time it contemplates incurring additional costs for Iatan 2 and environmental projects.⁶ It may be more beneficial to retail customers in Missouri for Aquila to mitigate potential rate increases by extending its proposed initial PPAs for an additional year and instead adding CT or CC capacity to its portfolio in 2011.⁷

There are some assumptions and inconsistencies in Aquila's IRP filing that should be explored and possibly revised. For example, the CT additions shown in Aquila's preferred

² See Executive Summary at pp. 18 and 23. However, it is also important to note that a significant difference between Aquila's proposed Least Cost / Preferred resource plan and the other alternative resource plans ("ARPs") listed in Table ES-9 on page 18 is the Preferred plan's increased reliance on PPAs during the period from 2014 to 2021. An important question for Aquila to answer is whether the costs of the other ARPs could be reduced by similarly increasing their reliance on PPAs starting in 2014.

³ See Part 2 Supply-Side Resource Analysis at pp. 30-33.

⁴ See Part 2 Supply-Side Resource Analysis, Table 2-7 at p. 27. The Generic CC technology is the second best option at both the 5% and 30% capacity factors analyzed. The Generic 7EA CT technology, which is the best option at a 5% capacity factor by a slight margin, is the sixth best option at a 30% capacity factor. Similarly, the Generic Wind technology, which is the best option at a 30% capacity factor by a slight margin, is the worst option at a 5% capacity factor.

⁵ See 4 CSR 240-22.010 Section C 3

⁶ See Executive Summary at pp. 20-21.

⁷ Two of Aquila's ARPs, as shown in Table ES-9 on page 18 of the Executive Summary, incorporate CC technologies in 2011 rather than CTs in 2010. As has been described by Aquila, the cost differences between those plans and Aquila's preferred plan are marginal, while the generation addition timing anticipated by the two ARPs may provide additional benefits to Aquila's customers by potentially mitigating impacts of rate increases, and as shown in Table ES-10 on page 20 of the Executive Summary the maximum single year increase in revenue requirements (in 2010) is reduced by \$14.2 million.

scenario do not appear to be the right size for the CT technologies that Aquila states may be the best in the near future.⁸ Also, Aquila fails to mention that coal prices have a significant effect on its analyses, but mentions other factors that have a similar or lesser effect.⁹ Based on a review of Aquila's confidential information by Dogwood's consultants for this matter at ICF International, it appears that the construction costs and PPA capacity price assumptions used by Aquila for its base case scenario may be too low given current market conditions.

Finally, in its IRP filing, Aquila references that it did not consider generating unit retirement options in its filing, but that a Black & Veatch study on potential generating unit additions, retirements and modifications would be available in the near future.¹⁰ Since this information is important to Aquila's resource planning effort, Aquila should supplement its IRP filing with this, and any other, information on capacity additions or modifications when it becomes available, and it should explicitly discuss the impacts on its proposed IRP of any potential generating unit retirement options.

WHEREFORE, Dogwood anticipates working with Aquila and the other parties to address and resolve all of the issues identified by the parties within the next forty-five (45) days.

⁸ The CT capacity additions shown in Aquila's resource plans in Table ES-9 are for 75 MW increments, which is consistent with GE 7EA peaking turbines, not the GE LMS100 and Siemens Super Peaker referenced by Aquila on page 19 of the Executive Summary.

⁹ On page 16 of its Executive Summary, Aquila references four factors that "consistently exhibited the most downside risk among the ARPs." However, Aquila did not include coal prices as one of those factors, even though based on Aquila's charts, it appears that coal prices are just as significant as the other factors referenced.

¹⁰ See Part 2 Supply-Side Resource Analysis at pp. 4-5.

Respectfully submitted,

LATHROP & GAGE, L.C.

Dated: June 19, 2007

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CERTIFICATE OF SERVICE

I hereby certify that a correct copy of the foregoing was sent via U.S. Mail or electronic transmittal on this 19th day of June, 2007, to:

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