

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

In the Matter of the Tariffs of Aquila, Inc.,)	
d/b/a Aquila Networks - MPS and Aquila)	
Networks - L&P Increasing Electric Rates)	Case No. ER-2007-0004
for the Services Provided to Customers in)	
the Aquila Networks – MPS and Aquila)	
Networks – L&P Service Areas.)	

**REPLY OF AQUILA, INC. TO SUPPLEMENTAL OBJECTION
TO PROPOSED TARIFF FILED BY SIEUA AND AGP**

Aquila, Inc. (“Aquila” or “Company”), by its counsel, hereby responds to the “Supplemental Objection to Proposed Tariff Filed by SIEUA and AGP” that was filed on May 29, 2007. For the reasons stated herein, the Company asks the Missouri Public Service Commission (“Commission”) to reject SIEUA/AGP’s supplemental objection. In so doing, however, Aquila notes that the tariff sheets to which SIEUA/AGP objects were withdrawn on May 25, 2007, and substitute tariff sheets were filed in lieu thereof. The substitute tariff sheets were filed pursuant to the *Order Granting Expedited Treatment, Approving Certain Tariff Sheets and Rejecting Certain Tariff Sheets*, which was issued, by delegation, on May 25, 2007.

OFF-SYSTEM SALES

1. SIEUA/AGP correctly notes that 4 CSR 240-20.090(1)(B)(1) and (2) provide that: (a) if off-system sales revenues are not reflected in a fuel adjustment clause (“FAC”) approved by the Commission, then only fuel and energy costs incurred to serve a utility’s retail customers should be collected from customers; and (b) if off-system sales revenues are included in a FAC, then fuel and energy costs incurred to serve both retail customers and those incurred to provide the off-system sales can be collected from customers.

2. Aquila understands and accepts the requirements of this rule and intends to administer its FAC in accordance with that rule, as well as all other rules adopted by the Commission to govern the administration of fuel cost recovery mechanisms for Missouri electric utilities. And nothing in the Company's proposed tariff sheets suggests otherwise. Therefore, SEIUA/AGP's contention that the tariff sheets filed by Aquila to implement the approved FAC are in violation of the Commission's rules is unfounded.

INTEREST ON DEFERRED FUEL AND ENERGY COSTS

3. SIEUA/AGP also contends that the tariff sheets filed by Aquila should be rejected because they fail to specify the rate of interest that will be accrued by the Company on under-collected fuel and energy costs or credited to customers for over-collections of those costs. But that contention is demonstrably untrue, because on Original Sheet 124 of its proposed tariff appears the following sentence: "Interest shall be calculated at a rate equal to the weighted average interest rate paid on short-term debt, applied to the month-end balance of deferred energy costs." That is precisely the rate of interest prescribed in Section 386.266(4)(2), RSMo, as well as in 4 CSR 240-20.090(5)(A).

4. As with the legal requirements governing off-system sales, Aquila understands and accepts the requirements of both the statute and the Commission's rule and intends to administer its FAC in accordance with those requirements. Therefore, SEIUA/AGP's contentions that the tariff sheets filed by Aquila to implement the approved FAC are: (a) in violation of applicable law; (b) are not specific enough to allow consumers to know what interest rate applies to costs subject to the FAC; and (c) are not specific enough to allow resolution of future disputes regarding the appropriate assessment of interest charges are unfounded.

5. SIEUA/AGP's argument that the Commission's May 17, 2007, Report and Order do not allow Aquila to incur and collect interest on fuel and energy costs that are

deferred for collection through the FAC also is unfounded. Aquila has proposed throughout this case to accrue interest on deferred fuel and energy costs. Exemplar tariff sheets that accompanied the direct and surrebuttal testimonies of the Company's witness Dennis Williams clearly state, in language identical to that included in the proposed compliance tariff sheets that Aquila recently filed, that interest would be accrued on deferred costs and that the rate of interest would be the Company's weighted average cost of short-term debt. This would allow Aquila to recover its cost of money for under- collections, thereby assuring the Company a sufficient opportunity to earn a fair return on equity, as required by law. But it would also allow customers to receive the same benefit for over-collected costs.

WHEREFORE, for the reasons stated above, Aquila asks the Commission to reject each and all of the objections raised by SIEUA/AGP and to accept the compliance tariff sheets filed by the Company to implement the FAC approved by the Commission in its *Report and Order*.

Respectfully submitted,

/s/ L.Russell Mitten

L. Russell Mitten MBE #27881
Paul A. Boudreau MBE #33155
BRYDON, SWEARENGEN & ENGLAND P.C.
312 E. Capitol Avenue
P. O. Box 456
Jefferson City, MO 65102
(573) 635-7166 voice
(573) 634-7431 facsimile
Email: rmitten@brydonlaw.com

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, electronic mail or hand delivery, on the 30th day of May, 2007, to the following:

Nathan Williams
Deputy Counsel
Missouri Public Service Commission
200 Madison Street, Suite 800
P.O. Box 360
Jefferson City, MO 65102-0360
nathan.williams@psc.mo.gov

Mike Dandino
Office of the Public Counsel
Governor Office Building
200 Madison Street, Suite 650
P.O. Box 2230
Jefferson City, MO 65102-2230
mike.dandino@ded.mo.gov

Mary Ann Young
William D. Steinmeier
P.O. Box 104595
2031 Tower Drive
Jefferson City, MO 65102
myoung0654@aol.com
wds@wdspsc.com
For the City of St. Joseph, MO

Stuart W. Conrad
3100 Broadway, Suite 1209
Kansas City, MO 64111
Stucon@fcplaw.com
For SIEUA and AG Processing, Inc.

Thomas M. Byrne
AmerenUE
1901 Chouteau Avenue
P.O. Box 66149 (MC 1310)
St. Louis, MO 63166-6149
tbyrne@ameren.com
For AmerenUE

John Coffman
871 Tuxedo Blvd
St. Louis, MO 63119
john@johncoffman.net
For AARP

Mark W. Comley
601 Monroe Street, Suite 301
P.O. Box 537
Jefferson City, MO 65102-0537
comley@ncrpc.com
For the City of Kansas City, MO

Capt. Frank Hollifield
AFCEA/ULT
139 Barnes Drive, Ste. 1
Tyndall Air Force Base, FL 32406
frank.hollifield@tyndall.af.mil
For Federal Executive Agencies

James B. Lowery
David M. Kurtz
Smith Lewis, LLP
111 South Ninth St., Suite 200
P.O. Box 918
Columbia, MO 65202-0918
lowery@smithlewis.com

Koriambanya S. Carew
The Commercial Group
2400 Pershing Road
Crown Center
Kansas City, MO 64108
carew@bscr-law.com

Kurtz@smithlewis.com
For AmerenUE

Shelley Woods
Missouri Department of Natural
Resources
P.O. Box 899
Jefferson City, MO 65102-0899
Shelley.woods.@ago.mo.gov
For Missouri Department of Natural
Resources

Jeremiah D. Finnegan
City of Kansas City, Missouri
3100 Broadway, Suite 1209
Kansas City, MO 64111
jfinnegan@fcplaw.com

/s/ L. Russell Mitten