

**AQUILA NETWORKS - MISSOURI  
INTEGRATED RESOURCE PLAN**

**February 2007**

**Submitted to the  
MISSOURI PUBLIC SERVICE COMMISSION**

**PART 6  
NONTRADITIONAL ACCOUNTING FOR  
DEMAND-SIDE RESOURCE COSTS**

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## **6.1 INTRODUCTION**

### **6.1.1 Objectives**

The Commissions rules provide that the utility may include a request for nontraditional accounting procedures and information regarding any associated ratemaking treatment to be sought by the utility for demand-side resource costs (4 CSR 240-22.080(2)). This section includes such a request.

In summary, Aquila is proposing that demand-side costs incurred be placed in a regulatory asset account and amortized over a 10 year period. The regulatory asset account would be treated as a component of rate base. In ratemaking, Aquila would include in rates both the amortization amount as a cost of service, and a return on the unamortized balance in the regulatory asset account.

## **6.2 PROPOSAL**

### **6.2.1 Requirements of 4 CSR 240-22.080(2)(A)**

This request is limited to the demand-side programs that are included in our implementation plan.

### **6.2.2 Requirements of 4 CSR 240-22.080(2)(B)1**

Aquila is proposing that demand-side costs incurred be placed in a regulatory asset account and amortized over a 10 year period. The regulatory asset account would be treated as a component of rate base. In ratemaking, Aquila would include in rates both the amortization amount as a cost of service, and a return on the unamortized balance in the regulatory asset account. The costs would include the costs of developing, implementing and evaluating customer energy efficiency and demand response programs.

### **6.2.3 Requirements of 4 CSR 240-22.080(2)(B)2**

Aquila is proposing nontraditional accounting and ratemaking treatment in order to eliminate disincentives to implementing demand-side programs.

While the utility is required to consider demand-side efficiency and energy management measures on an equivalent basis with supply-side resources (4 CSR 240-22.010(2)(A)), there is uncertainty as to whether the utility will be allowed to recover costs on an equivalent basis with supply-side resources. Parties in prior rate cases have argued that none of the costs of demand-side programs should be paid by ratepayers. Other parties in prior cases, including the Commission Staff, have argued that only 50% of demand-side program costs should be paid by ratepayers. This is not how supply side resource costs are treated. For example, it would be very unusual for the Commission to disallow 50% of the prudent construction costs or energy costs of a coal-fired power plant.

When a power plant is built, the utility's debt and equity investors advance funds for a plant that will provide energy for the next 30 years or longer. The utility investors earn a return on the use of their funds. Many of the demand-side programs will also help the utility serve load by reducing usage for many years. An example is a home insulation program. Many of the costs related to demand-side programs are typically treated as an expense. No return is earned on these expenses. Even though both a supply-side plant and a demand-side program can help to serve load over a number of years, only the supply-side will typically earn a return.

The demand-side programs reduce the revenue growth prospects for the utility. Growth can help to offset regulatory lag created by inflation. Therefore, reduced growth can increase regulatory lag and make it more difficult to achieve and maintain an authorized return. Thus, a reduction in revenue growth could, in effect, reduce profits.

Aquila has proposed nontraditional accounting and ratemaking treatment in order to partially address these problems.

#### **6.2.4 Requirements of 4 CSR 240-22.080(2)(B)3**

Aquila's proposal partially addresses these problems. Under Aquila's proposal, the utility will be allowed to recover demand-side costs on an equivalent basis with supply-side resources.

Like supply-side resources, it clarifies that costs of demand-side programs will be eligible for full recovery—not 50%, not 0%. Like supply-side resource costs, the program costs will still be subject to prudence reviews.

Like supply-side resources, costs are paid for by the ratepayer over a number of years. The construction cost of a power plant is spread equally over a number of years through depreciation. The depreciation is included in cost of service. Under Aquila's proposal the demand-side costs are amortized over a number of years (ten). The amortization is included in cost of service.

Like supply-side resources, funds used for demand-side programs will earn a return. The undepreciated balance of supply-side resources is included in rate base and earns a return. Likewise under Aquila's proposal, the unamortized balance of funds spent on demand-side programs will be included in rate base and earn the very same return.

Aquila's proposal only partially addresses the problem of demand-side programs. At this time, it does not address the problem of reduced growth. This proposal does not include the recovery of lost revenues.

#### **6.2.5 Requirements of 4 CSR 240-22.080(2)(B)4**

Table 6-1 shows a quantitative comparison of the utilities expected earnings over the next three years with and without the proposed nontraditional accounting and ratemaking treatment. For simplicity I have included only the revenue requirements and costs related to the demand-side programs. Also for simplicity, I have assumed all expenditures take place at the beginning of the year, rather than ratably over the year.

**Table 6-1**  
**Comparison of DSM Treatment Alternatives**

Amounts in Thousands	Traditional			Proposed		
	2007	2008	2009	2007	2008	2009
Rate Base, Beginning	0	0	0	6,575	15,041	26,926
Rate Base, Ending	0	0	0	5,918	13,471	24,010
Revenue Requirement	6,575	9,124	13,454	1,508	3,515	6,398
Program Costs/Amortization	6,575	9,124	13,454	658	1,570	2,915
Interest Expense	0	0	0	268	612	1,096
Taxes	0	0	0	224	512	916
Net Income	0	0	0	359	822	1,471