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 for the Services Provided to Customers in the Aquila Networks - MPS and Aquila Networks - L&P Service Areas	)	Case No. ER-2007-0004

AQUILA INC.'S STATEMENT OF POSITION ON THE ISSUES

COMES NOW Aquila, Inc. ("Aquila") and hereby offers the following statement of its position on the issues presented:

I. Introduction

II. Revenue Requirement

A. Rate of Return

1. Cost of Capital

a. Return on Common Equity

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

A return on common equity of 11.25% should be used for determining Aquila's rate of return in this proceeding.

b. Capital Structure

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

Although the issues of return on common equity and cost of debt are contested, there does not appear to be any dispute regarding capital structure. The following tables reflect Staff's proposed capital structure, Aquila's proposed return on equity and cost of debt components, and the resulting overall rates of returns for the two Missouri operating divisions:

Missouri Public Service (MPS)

Capital Components	Ratio	Cost	Weighted Cost
Debt	51.83%	6.668%	3.456%
Common Equity	48.17%	11.25%	5.42%
TOTAL	100.0%		8.876%

St. Joseph Light & Power (L&P)

Capital Components	Ratio	Cost	Weighted Cost
Debt	51.83%	7.698%	3.99%
Common Equity	48.17%	11.25%	5.42%
TOTAL	100.0%		9.41%

c. Cost of Debt

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

The cost of debt for the Aquila Networks-MPS division is 6.668 percent, and the cost of debt for the Aquila Networks-L&P division is 7.698 percent. The weighted cost of debt for the Aquila Networks-MPS and Aquila Networks-L&P are 3.456% and 3.99%, respectively, as reflect in the tabulation above.

B. Rate Base Issues

1. Generation Resources

What are the prudent types and amounts of generation re-courses to include in Aquila Networks-MPS's rate base and for determining the fuel and purchased power expense of Aquila Networks-MPS and Aquila Networks-L&P?

The generation resources to include in Aquila Networks-MPS's rate base and for determining the fuel and purchased power expense of Aquila Networks-

MPS and Aquila Networks-L&P should include all generating resources (including the South Harper peaking facility which was placed in commercial operation in the summer of 2005 and has been dispatched to supply peaking power in the Aquila Network-MPS service territory) and all long-term purchased power contracts for both divisions including an additional 300 MW of firm capacity executed prior to year-end 2006. The Commission should not impute into the Aquila Networks-MPS generation portfolio two (2) imaginary 105 MW combustion turbine as has been recommended by its staff.

2. South Harper

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

Aquila does not believe this is an issue with respect to which any revenue requirement is associated such that a resolution by the Commission is necessary. To the contrary, this is a subsidiary matter that is subsumed under the immediately preceding issue statement.

3. Accounting Authority Orders

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?

Yes. The Commission previously has authorized a return on the unamortized balance of these accounting authority orders and recovery of associated amortization expense in a manner consistent with the treatment proposed by Aquila in this case. No good cause has been presented to justify a different outcome in this case.

C. Expense Issues

1. Allocation of fuel and purchased power between Aquila Networks-MPS and Aquila Networks - L&P

On what basis should Aquila's fuel and purchased power expense be allocated between Aquila Networks-MPS and Aquila Networks-L&P?

Aquila believes this issue has been settled or otherwise resolved.

2. Fuel and Purchased Power Expenses

What amount of fuel and purchased power costs should be included in expenses?

3. Coal Prices

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

Aquila's fuel expense should reflect its actual annualized cost for high-Btu bituminous coal for the 2005 test year and should reflect fuel expense and base rates on the contract price with coal supplier Consolidated Coal Company which operates the Emery Mine in Utah. The Commission should not calculate Aquila's fuel expense for the period in which rates will be in effect the cost of coal at a contract with C.W. Mining Company which terminated the contract in early 2005 and pursuant to which Aquila has not received any coal deliveries since April of 2005.

4. Natural Gas Prices

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

The Commission should include in Aquila's natural gas expense, Aquila's proposed gas prices, as updated through the update period. Aquila's updated proposed gas prices reflect a weighted cost of commodity gas for Aquila's owned generation identified on page 12, line 3 of the surrebuttal testimony of Aquila witness H. Davis Rooney.

5. Off-System Sales Margins

How should off-system sales margins be determined? What amount of off-system sales margins should be included in expenses?

Aquila believes this issue has been settled or otherwise resolved.

6. Depreciation

What depreciation rates should be used for determining Aquila's depreciation expenses?

Aquila believes that currently authorized depreciation service lives and depreciation rates should be retained and that the company perform a depreciation study of all functional plant assets to be submitted in its next rate case. Aquila opposes isolated adjustments to the average service life of its other production plant accounts.

III. Demand Side Management

Should the Demand Side Management programs Aquila proposes be approved? If so, who should bear the costs of the programs?

Aquila believes this issue has been settled or otherwise resolved.

IV. Hedging

Should the Commission allow rate recovery of the results of Aquila's hedging program?

Yes. Aquila's hedging program is prudent. It in effect reduces gas volatility by averaging gas costs over a period of months. Consistent with the Stipulation and Agreement authorized by the Commission in Aquila's last rate case, Case No. ER-2005-0436, Aquila recorded its hedge settlements above-the-line. Aquila has included in its proposed costs, the actual hedge contracts in place at December 31, 2006 for 2007 valued at Aquila's proposed price of gas. If a different price of gas is ordered, the hedge value should also be adjusted.

V. Fuel Cost Recovery

Should the Commission authorize Aquila to use a fuel and purchased power recovery mechanism allowed by 4 CSR 240-20.090?

The fuel and purchased power cost recovery mechanism that proposed by Aquila in this case should be adopted. It fully complies with the requirements of Section 386.266, RSMo, and with 4 CSR 240-3.161 and 4 CSR 240-20.090, and is designed to both provide Aquila with a reasonable opportunity to earn a fair rate of return and to protect customers by ensuring, through annual true-ups of costs and periodic prudence reviews, that only prudently-incurred fuel and purchased power costs are passed through the recovery mechanism.

Respectfully submitted,

BRYDON SWEARENGEN & ENGLAND, P.C.

By:

/s/ Paul A. Boudreau

Paul A. Boudreau #33155
BRYDON, SWEARENGEN & ENGLAND
312 East Capitol Avenue
P. O. Box 456
Jefferson City, Missouri 65102-0456
Phone: (573) 635-7166
Fax: (573) 635-0427
Emails: paulb@brydonlaw.com

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 29th day of March, 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@wdspc.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
comleym@ncrpc.com
For the City of Kansas City, MO

Capt. Frank Hollifield
AFCESA/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
Kurtz@smithlewis.com
For AmerenUE

Major Sloan M. P. Pye
101 West Market, Ste. 301
Warrensburg, MO 64093
For Federal Executive Agencies

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

Koriambanya S. Carew
The Commercial Group
2400 Pershing Road
Crown Center
Kansas City, MO 64108

Jeremiah D. Finnegan
City of Kansas City, Missouri
3100 Broadway, Suite 1209
Kansas City, MO 64111

__ _____/s/ Paul A. Boudreau___
Paul A. Boudreau