

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

In the Matter of a Management Audit of        )	
Aquila, Inc. d/b/a Aquila Networks—MPS    )	Case No. EO-2006-0356
and Aquila Networks—L&P                    )	

**REPORT ON MAY 15, 2006 CONFERENCE AND RECOMMENDATIONS**

Comes now the Staff of the Missouri Public Service Commission (Staff), in response to the Commission's Order of May 15, 2006 directing the parties in this case to file by May 30, 2006 a report on the results of the May 15, 2006 conference, and submits this report. Three parties attended the conference: the Office of the Public Counsel (Public Counsel), Aquila, Inc. (Aquila) and the Staff. As ordered by the Commission, the parties discussed the need for a formal management audit, the purpose and means for conducting such an audit; and recommendations on how the Commission should proceed. On the basis of an agreement reached, during and subsequent to the May 15, 2006 conference, the Staff states, and Public Counsel and Aquila concur, as follows:

1. During and after the May 15, 2006 conference Public Counsel, Aquila and the Staff discussed the nature and scope of the audit sought by Public Counsel in its motion that opened the instant case. They also discussed the need for a formal management audit, the purpose and means for conducting such an audit and arrived at an agreement on recommendations on how the Commission should proceed.

2. During and after the conference the parties agreed to limit the scope of the investigation to examining the impacts on Missouri consumers of Aquila's past decisions regarding 1) incentive compensation; 2) executive compensation; 3) employee bonus payments; 4) pension and other post-employee benefits funding controls; 5) the South Harper generating facility; and, 6)

completing the Staff's ongoing investigation of allegations an individual has made regarding particular activities at Aquila.<sup>1</sup>

3. Attached hereto as Appendix A is the parties' agreement as to the appropriate scope of the investigation, which includes their recommendation as to how the investigation should proceed.

4. Unless the Commission directs otherwise, the Staff plans at this time to investigate the matters set out above, and repeated in Appendix A, and follow the procedure set out in Appendix A in carrying out its investigation and reporting its results.

Wherefore, the Staff, on behalf of the parties, submits the foregoing report on the results of the May 15, 2006 conference, presents the parties' recommendations on how the Commission should proceed and requests the Commission to issue an order defining both the scope of the investigation and the procedure the Staff is to follow in conducting its investigation of Aquila in this case.

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<sup>1</sup> The Staff mentioned its investigation of these allegation in the Direct Testimony of Cary G. Featherstone, marked Exhibit 44 and filed in Case No. ER-2005-0436 on February 27, 2006. At page 60 of that testimony Mr. Featherstone testified:

**INVESTIGATION**

10 Q. Is Staff conducting an investigation of Aquila?

11 A. Yes. Certain allegations have recently come to the attention of Staff. Staff  
12 will request information, perform interviews and possibly conduct depositions of Aquila  
13 personnel to ascertain the nature and validity of these allegations. Staff will bring any  
14 matters it learns to the Commission deemed to be relevant to the on-going operations of  
15 Aquila and that might affect this case or that is important to the Commission's oversight  
16 function of Aquila's operations. To the extent that any matter is needed to be brought to the  
17 Commission's attention in this, Staff will provide additional testimony as necessary.

Respectfully submitted,

**/s/ Nathan Williams**

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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronic mail to all counsel of record this 30<sup>th</sup> day of May 2006.

**/s/ Nathan Williams**

## Appendix A

### Investigation Scope Document

#### Investigation Purpose

The purpose of this investigation is to examine the impact of Aquila, Inc.'s (Aquila) past decisions on its Missouri consumers regarding: 1) incentive compensation; 2) executive compensation; 3) employee bonus payments; 4) pension and other post-employee benefits funding controls; 5) the South Harper generating facility; and, 6) complete the Staff's ongoing investigation of allegations an individual has made regarding particular activities at Aquila investigating.

#### Event that Precipitated Investigation

On March 16, 2006, the Office of the Public Counsel (Public Counsel) filed a motion with the Commission requesting the Commission to direct its Staff to conduct a management audit of Aquila. In its motion, Public Counsel raised concerns regarding Aquila's management decisions in the first five areas listed above. In its April 19, 2006 order scheduling a May 15, 2006 conference to discuss the need for a formal management audit, as well as the purpose and means for conducting the audit, the Commission also expressed concern about the management of Aquila. As a result of that conference, the parties—Aquila, the Public Counsel and the Staff—agreed to the scope of an investigation that includes the specific concerns Public Counsel presented in its March 16, 2006 motion. The parties determined that the comprehensive formal management audit which the Commission on occasion would order in past decades was neither appropriate nor necessary at this time and was not what Public Counsel was requesting. All parties agreed the concerns raised by Public Counsel could effectively be addressed in an investigation of a much narrower scope.

#### Past and/or Future Harm to Missouri Consumers from the Events In Question

Missouri consumers could be harmed to the extent that rates charged to these consumers are overstated and inappropriately include unnecessary costs resulting from Aquila's decisions and actions regarding the areas identified in the Investigation Purpose statement above.

#### Investigation Areas, Work Steps and Purpose

For each of the identified areas of concern, the Staff will

I. *Research and organize presently existing Staff testimony and files regarding the above matters of inquiry.* The purpose of this step is to determine the extent and nature to which prior

Staff efforts bear on the areas in question. For example, in Aquila's most recent rate case, ER-2005-0436, the Staff audited, among other things, five of the six areas identified above.

II. Identify and *Quantify the cost-of-service impacts and potential negative customer service effects, if any.* The purpose of this step is to assess the actual and potential that any of these matters of inquiry has contributed to or may contribute to inappropriate costs in present rates or potential future rates or to adverse impacts on customer service.

III. *Determine the requirements to make reasonable and prudent future utility decisions for each of these matters of inquiry*

a. The purpose of this step is to establish baselines for the *criteria* a utility would be expected to meet regarding its actions in the matters of inquiry in light of the magnitude of potential adverse impacts on the utility's provision of utility service.

b. The second purpose of this step is to permit identification of any deviation from the baseline *criteria* established in immediately preceding "a." above with regard to each matter of inquiry.

IV. *Determine rationale for actions that deviate from baseline criteria in item "III.a" above.*

a. The purpose of this step is to identify the specific reason(s) Aquila acted in the manner in which it did act with regard to each matter of inquiry.

b. This examination will allow an evaluation of the reasonableness of Aquila actions with regard to each matter of inquiry, given Aquila's underlying purpose(s) in taking those actions.

## Investigation Approach

The Staff will begin by assessing information it already has. The Staff will then, by data request, request documents related to each of the initial investigation areas and verify the accuracy of the relevant data it already has. Through these requests the Staff will also seek to identify the employee(s) knowledgeable regarding the creation and use of the responsive documents. After receiving and evaluating this information, the Staff will depose appropriate individuals or utilize court reporters to transcribe Staff interviews of these individuals to determine the accuracy of the Staff's preliminary conclusions and to gather additional information.

When it has sufficient information to support conclusions, the Staff will create a formal written report the Staff will file in Case No. EO-2006-0356. The anticipated general report format is outlined below:

## Report Format

Section A. Executive Summary Including Investigation Conclusions

- Section B. Description Of Concerns Regarding Aquila's Management
- Section C. Actions Taken By Other State Utility Commissions
- Section D. Results Of Examination Of Investigation Areas
- Section E. Commission Authority And Its Options To Address Managerial Deficiencies, If Any, Found By The Staff

### Estimated Completion Date

The Staff estimates it will have a completed final draft report for review by the other parties, Aquila and Public Counsel, by September 15, 2006. The Staff anticipates Aquila will provide to the Staff and Public Counsel its comments to the draft report by Monday, October 16, 2006. The Staff will then prepare its final report and anticipates filing the Staff's final report with the Commission approximately two weeks later on Tuesday, October 31, 2006. The Staff's final report will include the comments received from Aquila. Public Counsel will be free to recommend to the Commission whatever action it believes appropriate, if any.