

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of an Examination of Class Cost)
of Service and Rate Design in the Missouri)
Jurisdictional Electric Service Operations of)
Aquila, Inc., formerly known as UtiliCorp)
United Inc.)

Case No. EO-2002-384

PREHEARING BRIEF OF THE OFFICE OF THE PUBLIC COUNSEL

I. Introduction

Pursuant to the Public Service Commission's August 23, 2005 Order Regarding Consolidation and Procedural Schedule, the Office of the Public Counsel submits this Prehearing Brief. The format of this brief will follow that of the List of Issues filed on September 30, 2005.

II. Issues

A. Class Cost of Service Issues

1. What is the appropriate method for allocating generation-related costs to customer classes?

Generation facilities related costs should be allocated by the 12-month non-coincident peak (NCP) average and peak method which incorporates an energy and demand related component into the allocator development. This combination method properly recognizes that both demand and energy characteristics of a system's loads are important determinants of generation-related costs.

The 12 month NCP average and peak method allocates costs on the basis of the way in which the various classes "load" the system at various times of the year, as well as the annual energy they use. The average and peak method allocates some generation-

related costs on the basis of energy usage since energy usage is an important consideration in designing a utility's generation plant. Baseload plants are built to serve all loads, not just baseload, and are included in a utility's portfolio to provide fuel savings and fuel diversity. The average and peak method properly assigns incremental production costs to serve the system peaks based on class peak usage characteristics. The energy related component of the allocator is weighted by the load factor. The demand related component of the allocator is weighted by one minus the load factor. An energy allocator should be applied to generation-related costs that vary primarily based on fuel consumption or the amount of time generation units are run.

2. What is the appropriate method for allocating transmission-related costs to customer classes?

Transmission facilities are installed to provide reliable service throughout the year, including periods of scheduled maintenance. They can also substitute for generation and can minimize the costs of generation plant because transmission facilities allow a utility to sell or purchase power. Thus, the appropriate method for allocating transmission-related costs is the same 12-month NCP average and peak method used by Public counsel to allocate generation-related costs.

3. What is the appropriate method for allocating distribution-related costs to customer classes?

Distribution plant equipment generally performs three functions: 1) it reduces high-voltage energy from the transmission system to lower voltages; 2) it delivers energy to

the customer; and 3) it monitors the amounts of energy used by the customer. With the exception of service drops and meters, most of the facilities between the utility customer's point-of-service and the distribution substation are shared facilities that are not directly related to the number of customers. Distribution plant that is clearly related to the number of customers – services, meters, and installations on a customer's premises – are classified as customer-related. All other distribution plant is classified as demand-related or partially demand and partially customer related. Since distribution systems are designed to meet localized peak demand instead of system-wide peak demand, such costs are best allocated based upon non-coincident peak demand.

4. What is the appropriate classification of distribution plant into categories such as primary demand, secondary demand, primary customer-related and secondary customer-related?

The functionalized and classified categories should include primary demand, secondary demand, and secondary customer-related.

5. What are the appropriate methods for allocating administrative and general expenses to customer classes?

Because A&G plant is used in support of all other plant (i.e., production, transmission, and distribution plant), A&G plant should be allocated using a composite gross plant allocator. And because Administrative and General (A&G) expenses are directly related to A&G plant, A&G expenses are allocated on the same basis as A&G plant.

Rate Design Issues

6. Should inter-class revenue adjustments be determined in this case and should inter-class revenue adjustments be implemented in this case?

The Commission can generally determine class cost in this case, but should not implement any inter-class revenue adjustments until after it determines in Case No. ER-2005-0436 what revenue increase, if any, Aquila should be awarded. Deciding this case in isolation may have unanticipated and unacceptable rate impacts when coupled with an overall increase in revenue requirement. Increasing customers' rates in this case, even on a revenue-neutral basis where some rates go up and others down, would violate the requirement that the Commission consider all relevant factors when setting new rates. This is especially important in this case since the cost data we are utilizing is from the period 2001 through 2003.

- A. What are the appropriate inter-class revenue adjustments? Or B. What is the appropriate method to determine them?

As discussed above, no inter-class revenue adjustments are appropriate – indeed any such adjustments would be unlawful if made outside of a general rate case in which all relevant factors are considered.

But in considering how to determine revenue shifts that may be made in Case No. ER-2005-0436, the Commission should bear in mind certain principles. The Commission, in Case No. ER-2005-0436, should move classes no more than half way to the revenue neutral shifts indicated by Public Counsel's Class Cost of Service (CCOS) studies in this case. Even this move should be limited by the amount of any rate increase granted in Case No. ER-2005-0436. If the Commission determines that an overall increase in

revenue requirement is necessary in ER-2005-0436, then no customer class should receive a net decrease as the combined result of: (1) the revenue neutral shift that is applied to that class, and (2) the share of the total revenue increase that is applied to that class.

Limiting inter-class revenue shifts in this manner is the only fair approach. The data used in the parties' CCOS studies is old, and so the results of those studies are by definition not accurate and up-to-date. Furthermore, no party would suggest that (even if the most current data was used) its study is a 100% accurate way of determining cost responsibility. Accordingly, treating any cost of service study as an indicator of an exact target to shoot for is simply the wrong approach. In any given case, the Commission should move in the direction indicated by the CCOS study it adopts, but if it move all the way to the "target" indicated by that CCOS, it very likely will have to move in a different direction in the next case. Such a seesawing of rate shifts is in no customer's interest; incremental moves toward the appropriate rate responsibility determined by the Commission is the best approach.

7. What rate schedules should be combined, eliminated or added?

The rate schedules Aquila currently uses for MPS and L&P customers are appropriate, and there is no need to combine, eliminate or add rate schedules.

8. What changes to the rate structures on each rate schedule are appropriate?

The rate structures Aquila currently uses for MPS and L&P customers are appropriate, and there is no need to change them.

9. How should the appropriate rate values for each rate schedule be determined?

For the residential rate schedules, no changes should be made to the customer charge portion; any increase should be to the variable portion of customers' bills. Public Counsel takes no position on the appropriate rate values for the rate schedules of the other classes.

Respectfully submitted,

OFFICE OF THE Public Counsel

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to the all counsel of record on this 4th ay of November 2005:

/s/ Lewis R. Mills, Jr.
