Exhibit No.:	
Issues:	Need Analysis
Witness:	Lena M. Mantle
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Surrebuttal Testimony
Case No.:	EA-2006-0309
Date Testimony Prepared:	April 18, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

AQUILA, INC.

CASE NO. EA-2006-0309

Jefferson City, Missouri
April 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Aquila, Inc. for Permission and Approval and a Certificate of Public Convenience and Necessity Authorizing it to Acquire, Construct, Install, Own, Operate, Maintain and otherwise Control and Manage Electrical Production and Related Facilities in Unincorporated Areas of Cass County, Missouri Near the Town of Peculiar	)	Case No. EA-2006-0309

AFFIDAVIT OF LENA M MANTLE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 5 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Lena M Mantle
Lena M. Mantle

Subscribed and sworn to before me this 17th day of April, 2006.

ROSEMARY R. ROBINSON
Notary Public - Notary Seal
State of Missouri
County of Callaway
My Commission Exp. 09/23/2008

Rosemary R. Robinson
Notary Public

My commission expires 9-23-2008

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

AQUILA, INC.

CASE NO. EA-2006-0309

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Lena Mantle that filed rebuttal in this instant case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. Cass County witness Bruce G. Peshoff poses a series of questions in his rebuttal testimony on page 24, line 6 to page 25, line2, that he does not answer. The purpose of this surrebuttal testimony is to provide information responsive to certain of those questions. First, in response to Mr. Peshoff's questions regarding Aquila and the Aries power plant, I provide information on Aquila's access to the Aries power plant. Second, in response to Mr. Peshoff's questions of whether Aquila could have done anything to lessen the need for another electricity generating plant in Cass County, I provide information regarding the type of demand-side management resources that could be used instead of adding electricity generating resources, and the likelihood of Aquila obtaining those demand-side resources.

Aries Power Plant

Q. With regards to the Aries power plant, what questions does Mr. Peshoff ask but not answer in his rebuttal testimony that you wish to address?

A. Beginning on page 24 at line 6, Mr. Peshoff asks, "Did Aquila create its own problem by selling its interest in the Aries plant?" and "Could Aquila's continued ownership of Aries precluded [sic] the need for the South Harper plant?"

Q. How would you answer these questions?

A. The regulated entity never had an interest in the Aries plant. The Aries plant is a merchant plant that was jointly owned by Calpine Corporation and Aquila Merchant Services, Inc, the unregulated subsidiary of Aquila, Inc. In March 2004, Aquila Merchant Services, Inc. transferred its interest to Calpine Corporation. I have attached a copy of the Federal Energy Regulatory Commission's (FERC) Order Authorizing Disposition Of Jurisdictional Facilities to my testimony as Schedule 1. This is the FERC order that authorized the transfer of Aquila Merchant Services, Inc.'s share of the Aries plant to Calpine. This document shows that the ownership and operational structure was very complex and includes Cass County. I am not an expert on the exact ownership structure but Aries was, and still is, an Exempt Wholesale Generator (EWG) with FERC authority to sell wholesale power at market-based rates. This means the plant's capacity and energy may be sold on the energy market. Therefore, Aries plant capacity and energy may be sold to Aquila or to any other buyer. Since this plant is an EWG, selling wholesale power, the Aries plant capacity and energy will be sold to make the greatest profit for the owners of the plant.

The decision of Aquila's unregulated subsidiary to sell its interest in Aries to Calpine was made as a part of the subsidiary's decision to withdraw from the merchant power market. Staff is unaware of either of Aquila's regulated operating divisions in Missouri (Aquila Networks—MPS and Aquila Networks—L&P) participating in the decision-making process to sell the Aries plant.

Demand-Side Resources

Q. What question regarding reducing the need for electricity generating plants does Mr. Peshoff pose that you wish to address?

A. Beginning on page 24 at line 8 of his rebuttal testimony, Mr. Peshoff asks "Is there anything that Aquila could have done to lessen the need for another plant in the County?"

Q. What information can you provide in response to that question?

A. The use of demand-side programs as resources is one way for a utility company to avoid the need for additional capacity and energy. Demand-side resources are utility-sponsored programs where a utility attempts to induce its customers to change the way they use the energy the utility supplies. While demand-side resources might lessen Aquila's need for another plant to serve its Missouri customers, I do not believe those resources could be relied on to displace the capacity and energy of even one of the three 105 MW combustion turbines (CT) at the South Harper site.

Q. Would you please further explain demand-side resources?

A Demand-side resources fall into two broad categories: energy efficiency programs and demand-response programs. Energy efficiency programs emphasize the reduction of energy consumption. For example, a utility may have a program where it supplies a rebate to induce customers to purchase compact fluorescent light bulbs. It is considered a cost-effective resource only if it is cheaper for the utility to provide the rebate and the customer actually installs the light bulbs, therefore using less electricity, than it would be for the utility to build a plant to meet customers' energy needs.

Utilities primarily use combustion turbine units to meet system peaks – high demands for short periods of time. While light bulb programs and most other energy efficiency programs reduce the system peak to some degree, these programs do not significantly reduce the utility's peak. Instead, they reduce energy usage across time. The demand-side programs designed to reduce peak loads are demand response programs. Interruptible and/or curtailable rates are typically demand-response-type programs for large customers. Load management programs that cycle air conditioners or other end-uses for smaller commercial and residential customers are also demand-response programs. Rates that differ given the time of day are also considered demand-response programs for customer classes of all sizes.

Aquila already has curtailable rates and real-time pricing in Missouri for its large customers. It also offers an optional time-of-day pricing tariff to residential customers. However, very few residential customers have chosen to go on this rate. Like other tariffs, these tariffs are based on the utility's actual costs. To induce more customers to use these demand-response based tariffs and thereby reduce Aquila's peaks by using these tools, Aquila would have to change its tariffs so the tariffs would no longer be based on actual costs.

Air conditioner cycling programs typically show the amount of reduction at peak from each customer is approximately 1.2 kilowatts (kW). Taking a capacity of 105 megawatts (or 105,000 kW)—the rated capacity of one CT sited at South Harper, it would take 87,500 homes to replace that one CT. Aquila reported in its 2005 annual report to the Commission it had 197,051 residential customers in 2004. Based on that number of customers, an air conditioning cycling program would have needed a saturation of 44 percent to displace one South Harper CT in 2004. This is a highly unlikely saturation rate for an air conditioner cycling program.

In summary, there are demand-side resources that could reduce Aquila's peak. I do not believe it to be likely that, even if Aquila vigorously pursued such programs, the programs would have reduced the peak demand on electricity from Aquila's Missouri customers to the point that Aquila would not have needed any or all of the three CTs. It is more likely even vigorous implementation of demand-side resources would only reduce the amount of capacity purchases Aquila would need to make at market prices at times of peak demand.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

UNITED STATES OF AMERICA105 FERC ¶ 62,208
FEDERAL ENERGY REGULATORY COMMISSION

MEP Pleasant Hill Operating, LLC
MEP Investments, LLC
Aquila Merchant Services, Inc.
Calpine Corporation
Calpine Energy Services, L.P.

Docket No. EC04-25-000

ORDER AUTHORIZING DISPOSITION OF
JURISDICTIONAL FACILITIES

(Issued December 23, 2003)

On November 19, 2003, MEP Pleasant Hill Operating, LLC (MEP Operating), MEP Investments, LLC (MEP Investments), Aquila Merchant Services, Inc. (Acquila Merchant Services), Calpine Corporation (Calpine) and Calpine Energy Services, L.P. (Calpine Energy Services) (collectively, Applicants) filed a joint application pursuant to section 203 of the Federal Power Act (FPA)[1] requesting Commission authorization to transfer MEP Investments' interest in MEP Pleasant Hill, LLC (MEP Pleasant Hill) to Calpine or its wholly-owned affiliate, and the assignment of Aquila Merchant Services interest in certain power sales agreements to Calpine Energy Services .

MEP Investments and MEP Operating are Delaware limited liability companies and are indirect wholly-owned subsidiaries of Aquila, Inc. (Aquila). Aquila, a Delaware corporation, is an international energy and services company which participates in both regulated and non-regulated activities and serves electric and gas utility customers in Missouri, Kansas, Iowa, Nebraska, Colorado, Michigan and Minnesota. MEP Operating and MEP Investment are both power marketers authorized by the Commission to sell power at market-based rates.

Aquila Merchant Services, an indirect owner of MEP Investments and MEP Operating, directly and through its subsidiaries, markets natural gas and electricity to industrial and wholesale customers in the United Stated and Europe.

Calpine, a Delaware corporation, is an independent power company engaged in the development, acquisition, ownership, and operation of power generation facilities and the sale of electricity, predominantly in the United States.

[1] 16 U.S.C. § 824b (2000).

Calpine Energy Services, a Delaware limited partnership and a wholly-owned subsidiary of Calpine, is a power marketer authorized by the Commission to sell power at market-based rates. Calpine Energy Services does not own or control any electric power generation or transmission facilities and does not have a franchised electric power service area.

MEP Pleasant Hill, a special purpose Delaware limited liability company, is owned by CPN Pleasant Hill, LLC and MEP Investments, each holding a 50 percent equity interest. MEP Pleasant Hill's primary corporate purpose is the construction and operation of the Aries 585 megawatt generating facility which is owned by Cass County, Missouri. MEP Pleasant Hill has leased all rights in the facility from Cass County. MEP Pleasant Hill is a power marketer authorized by the Commission to sell power at market-based rates.

Pursuant to a Memorandum of Understanding dated September 30, 2003, the proposed transaction consist of (1) the transfer and assignment of all of MEP Investment's membership interests in MEP Pleasant Hill to Calpine or a designated Calpine subsidiary and (2) the assignment or termination by Aquila Merchant Services to Calpine Energy Services of Aquila Merchant Services' rights, obligations and liabilities as sellers under certain power sales agreements. Upon consummation of the proposed transaction, MEP Pleasant Hill will become an indirect, wholly-owned subsidiary of Calpine. MEP Pleasant Hill will continue to engage in sales of electric energy at wholesale pursuant to its market-based rate schedule.

Applicants state that the proposed transaction is consistent with the public interest and will have no adverse effect on competition, rates or regulation. With respect to competition, Applicants assert that Calpine and its subsidiaries do not have market power in generation and cannot erect barriers to entry. Applicants also state that the capacity from the facility is committed under long-term agreements.

With regard to the effect on rates, Applicants state that neither Calpine nor any of its affiliates has any captive ratepayers and that all wholesale sales of electric energy from the facility will continue to be made at market-based rates.

With respect to regulation, Applicants state that the Commission's jurisdiction will not be impaired by the proposed transaction.

The filing was noticed on November 25, 2003, with comments, protests, or interventions due on or before December 10, 2003. No protests or comments were filed. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214.

After consideration, it is concluded that the proposed transaction is consistent with the public interest and is authorized, subject to the following conditions:

(1) The proposed transaction is authorized upon the terms and conditions and for the purposes set forth in the application;

(2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of costs, or any other matter whatsoever now pending or which may come before the Commission;

(3) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;

(4) The Commission retains authority under sections 203(b) and 309 of the FPA to issue supplemental orders as appropriate;

(5) Applicants shall make appropriate filings under section 205 of the FPA, as necessary, to implement the transaction; and

(6) Applicants shall notify the Commission within 10 days of the date that the disposition of the jurisdictional facilities has been consummated.

This action is taken pursuant to the authority delegated to the Director, Division of Tariffs and Market Development - West, under 18 C.F.R. 375.307. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. 385.713.

Jamie L. Simler
Director
Division of Tariffs and Market Development - West