

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

In the matter of the Application of Aquila,)	
Inc., Heat Rate Testing and Scheduling)	Case No. EO-2008-0156
Proposal Pursuant to its Authorized Rate)	
Adjustment Mechanism)	

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully recommends approval of the heat rate testing and scheduling proposal filed in this proceeding by Aquila, Inc. ("Aquila" or "Company"). In support thereof, that Staff respectfully states as follows:

On November 9, 2007, Aquila filed a Motion To Establish A Docket For Approval Of Heat Rate Schedule And Testing Plan ("Motion"). Attached to the Motion were heat rate testing procedures and a testing schedule and associated practice manuals for Sibley units 1-3, Greenwood units 1-4, Ralph Green No. 3, Nevada, KCI units 1-2, South Harper units 1-3, Lake Road units 1-7, Jeffrey units 1-3, and Iatan unit 1.

The filing was in response to the Commission's Report And Order in the most recent Aquila general rate increase case (Case No. ER-2007-0004). Exhibit 242, which was admitted into the record in that proceeding, sets forth a heat rate testing agreement between Aquila and the Staff. In relevant part,¹ that agreement states:

¹ Language related to the possibility that the Commission would authorize an Interim Energy Charge has been omitted, as the Commission opted instead for a Fuel Adjustment Clause.

1. If a Fuel Adjustment Clause (“FAC”) . . . is authorized in this proceeding, Aquila agrees to complete the proposed heat rate and/or efficiency schedule and testing plan with written procedures, as described in 4 CSR 240-3.161(2)(P). The proposed schedule and plan with written procedures must be acceptable to the non-Aquila parties to ER-2007-0004.

2. If the Commission approves an FAC in this proceeding, Aquila agrees to complete the action described in paragraph 1 above, at least sixty (60) days before the effective date listed on the tariff for Aquila’s initial FAC filing for the purpose of adjusting an FAC rate pursuant to 4 CSR 240-3.161(7) and 4 CSR 240-20.090(4).

3. If Aquila fails to complete the action described in paragraph 1 above, in conformance with the applicable deadline described in paragraph 2 above, the non-Aquila parties to ER-2007-0004 may jointly or severally recommend that the Commission reject Aquila’s initial FAC adjustment filing.

The Commission found the agreement to be reasonable except for a provision requiring acceptance by all parties, which the Commission considered too onerous. Otherwise guided by Exhibit 242, the Commission ordered, in paragraph 5 of its Report And Order, as follows:

Aquila Inc., shall complete the proposed heat rate and/or efficiency schedule and testing plan with written procedures, as described in 4 CSR 240-3.161(2)(P) that is either agreed to by all parties to this case or has been approved by the Commission no less than sixty (60) days before the effective date listed on the tariff for its initial fuel adjustment clause filing for the purpose of adjusting a fuel adjustment clause rate pursuant to 4 CSR 240-3.161(7) and 4 CSR 240-20.090(4).

On November 27, 2007, Aquila made a filing for the purpose of: (a) amending two of the attachments to its November 9 filing (*i.e.*, “Iatan Unit 1 Data Request” and “Jeffrey Units 1, 2, 3 Data Requests”), and (b) supplementing the November 9 information concerning the Jeffrey Energy Center with a document entitled “Capacity Test Corrections.”

In an order issued December 7, 2007, the Commission directed the Staff to file a recommendation concerning Aquila’s proposed heat rate schedule and testing plan no later than January 3, 2008. Attached hereto as Appendix A is the Staff’s Memorandum recommending Commission approval of the Company’s proposal.

WHEREFORE, for the reasons set forth in the attached Memorandum, the Staff recommends that the Commission issue an Order approving Aquila's heat rate testing and scheduling proposal, as filed on November 9, 2007 and subsequently amended and supplemented on November 27, 2007.

Respectfully submitted,

/s/ **Dennis L. Frey**

Dennis L. Frey
Senior Counsel
Missouri Bar No. 44697

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 20th day of December 2007.

/s/ **Dennis L. Frey**

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EO-2008-0156, In the Matter of Aquila, Inc., Heat Rate Testing
and Scheduling Proposal Pursuant to its Authorized Rate Adjustment
Mechanism.

FROM: Michael E. Taylor, Energy Department – Engineering Analysis

<u>/s/ Lena Mantle</u> <u>12/19/07</u> Energy Department / Date	<u>/s/ Denny Frey</u> <u>12/19/07</u> General Counsel's Office / Date
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Subject: Staff Report and Recommendation

Date: December 19, 2007

STAFF RECOMMENDATION

Staff recommends that the Commission approve the heat rate testing procedures and schedules filed in Case No. EO-2008-0156.

BACKGROUND

When filing a rate case in which an electric utility requests to establish a Fuel Adjustment Clause (FAC), the utility is required to file

A proposed schedule and testing plan with written procedures for heat rate tests and/or efficiency tests for all of the electric utility's nuclear and non-nuclear generators, steam, gas, and oil turbines and heat recovery steam generators (HRSG) to determine the base level of efficiency for each of the units. (4 CSR 240-3.161(2)(P))

In Case No. ER-2007-0004, Aquila requested the establishment of a FAC. In that case, the Staff was not completely satisfied that the testing (as proposed by Aquila) would be performed in an acceptable manner. Subsequently, Aquila and Staff entered into an agreement for Aquila to work with Staff and other interested parties to develop written procedures and a schedule and testing plan for all of Aquila's units (Exhibit No. 242). That agreement provides that if the parties could not reach an agreement concerning heat rate testing, Aquila would file the testing procedures and schedule for Commission

approval. This was to be done at least 60 days prior to Aquila requesting the first adjustment to its FAC. In its Report and Order in the rate case, the Commission found the agreement between Aquila and the Staff to be reasonable except for a provision requiring ultimate agreement of all parties.

DISCUSSION

Based on Exhibit No. 242 in Case No. ER-2007-0004 (Heat Rate Testing Agreement Between Aquila and the Staff of the Missouri Public Service Commission) and the Report and Order in the same case, Aquila developed a heat rate testing plan with written procedures and a testing schedule for the applicable generating units. During the development of the written procedures, Aquila provided Staff an opportunity to review each document. These reviews were conducted by Staff and responses were provided to Aquila through meetings and written comments. All comments were reconciled to the satisfaction of Staff. The documents filed in Case No. EO-2008-0156 are consistent with the final documents that Staff had reviewed during the development/review process. Staff has determined that these documents meet the requirements of 4 CSR 240-3.161(2)(P).

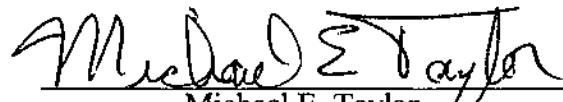
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In the Matter of Aquila, Inc., Heat Rate)	
Testing and Scheduling Proposal)	
Pursuant to its Authorized Rate)	Case No. EO-2008-0156
Adjustment Mechanism)	

AFFIDAVIT OF MICHAEL E. TAYLOR

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael E. Taylor, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.



Michael E. Taylor

Subscribed and sworn to before me this 19th day of December, 2007.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public