



MISSOURI PUBLIC SERVICE COMMISSION

SCHEDULES KM-d1 THROUGH KM-d18

**EVERGY MISSOURI WEST, INC.,
d/b/a Evergy Missouri West**

CASE NO. ER-2024-0189

*September 15, 2025
Jefferson City, Missouri*

**** Denotes Confidential Information ****

Keith Majors
Case Participation

Cases to which I have been assigned and have filed testimony, Staff report, or memorandum are shown in the following table:

Utility	Case Number	Issues	Exhibits
Spire Missouri	GR-2025-0206	ISRS	Staff Memorandum
Spire Missouri	GR-2025-0107	Revenue Requirement, Plant Investment	Direct Testimony
Spire Missouri	GR-2025-0026	ISRS	Staff Memorandum
Ameren Missouri Gas	GR-2024-0369	Policy	Rebuttal
Ameren Missouri Electric	ER-2024-0319	Rush Island, Storm Costs	Direct Testimony
Evergy West	ER-2024-0189	Transmission Expense, Plant Investment	Direct, Rebuttal, Surrebuttal Testimony
Spire Missouri	GA-2024-0257	CCN	Staff Memorandum
Ameren Missouri Electric	EF-2024-0021	Policy, Retired Plant Securitization	Rebuttal, Surrebuttal Testimony
Confluence Rivers	WR-2023-0006 & SR-2023-0007	Policy, Revenue Requirement	Direct, Rebuttal, and Surrebuttal Testimony
Ameren Missouri Electric	ER-2022-0337	Revenues, Allocations, Bad Debt, Rush Island	Direct, Rebuttal, and Surrebuttal Testimony
Spire Missouri	GO-2022-0171	ISRS	Staff Memorandum
Evergy Metro and Evergy West	ER-2022-0129 & ER-2022-0130	Revenues, Jurisdictional Allocations, Bad Debt, Sibley Retirement	Direct, Rebuttal, Surrebuttal Testimony
Ameren Missouri Gas and Electric	ER-2021-0240 & GR-2021-0241	Facilities Transactions	Surrebuttal Testimony
Spire Missouri	GR-2021-0108	Corporate Allocations, Rate Case Expense	Staff Report, Rebuttal, Surrebuttal
MAWC	SA-2021-0074	CCN	Staff Memorandum
Evergy Metro and Evergy West	EO-2021-0032	Various	Staff Report
Spire Missouri	GO-2021-0030 & GO-2021-0031	ISRS	Staff Memorandum
Raytown Water	WR-2020-0264	Various	Staff Memorandum
Summit Natural Gas	GA-2020-0251	CCN	Staff Memorandum
Liberty Utilities	WM-2020-0174	CCN	Staff Memorandum
Missouri American Water Company (MAWC)	WA-2019-0366	CCN	Staff Memorandum

Ameren Missouri Electric	ER-2019-0335	Allocations, Affiliation Transactions	Staff Report
MAWC CCN	SA-2019-0367	CCN	Staff Memorandum
United Services	SA-2019-0161	CCN	Staff Memorandum
KCP&L & KCP&L GMO	ER-2018-0145 & ER-2018-0146	Synergy and Transition Costs Analysis, Transmission Revenue and Expense	Staff Report
Laclede Gas and Missouri Gas Energy	GR-2017-0215 & GR-2017-0216	Synergy and Transition Costs Analysis, Corporate Allocations	Staff Report, Rebuttal, Surrebuttal
KCP&L & KCP&L GMO	ER-2016-0156 & ER-2016-0285	Income Taxes, Pension & OPEB	Staff Report, Rebuttal, Surrebuttal
KCP&L & KCP&L GMO	EO-2016-0124	Pensions, Rate Comparison	Staff Report
KCP&L & KCP&L GMO	EC-2015-0309	Affiliate Transactions, Allocations	Surrebuttal Testimony
KCP&L	ER-2014-0370	Income Taxes, Pension & OPEB, Revenues	Staff Report, Rebuttal, Surrebuttal
KCP&L	EU-2015-0094	DOE Nuclear Waste Fund Fees	Direct Testimony
KCP&L	EU-2014-0255	Construction Accounting	Rebuttal Testimony
Veolia Kansas City	HR-2014-0066	Income Taxes, Revenues, Corporate Allocations	Staff Report
Missouri Gas Energy	GR-2014-0007	Corporate Allocations, Pension & OPEB, Incentive Compensation, Income Taxes	Staff Report, Rebuttal, Surrebuttal
Missouri Gas Energy ISRS	GO-2013-0391	ISRS	Staff Memorandum
KCP&L & KCP&L GMO	ER-2012-0174 & ER-2012-0175	Acquisition Transition Costs, Fuel, Legal and Rate Case Expense	Staff Report, Rebuttal, Surrebuttal
Missouri Gas Energy ISRS	GO-2011-0269	ISRS	Staff Memorandum
Noel Water Sale Case	WO-2011-0328	Sale Case Evaluation	Staff Recommendation
KCP&L & KCP&L GMO	ER-2010-0355 & ER-2010-0356	Acquisition Transition Costs, Rate Case Expense	Staff Report, Rebuttal, Surrebuttal
KCP&L Construction Audit & Prudence Review	EO-2010-0259	AFUDC, Property Taxes	Staff Report
KCP&L, KCP&L GMO, & KCP&L GMO – Steam	ER-2009-0089, ER-2009-0090, & HR-2009-0092	Payroll, Employee Benefits, Incentive Compensation	Staff Report, Rebuttal, Surrebuttal
Trigen Kansas City	HR-2008-0300	Fuel Inventories, Rate Base Items, Rate Case Expense, Maintenance	Staff Report
Spokane Highlands Water Company	WR-2008-0314	Plant, CIAC	Staff Recommendation
Missouri Gas Energy ISRS	GO-2008-0113	ISRS	Staff Memorandum

Case No. ER-2024-0189

SCHEDULE KM-d2

HAS BEEN DEEMED

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**UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPSC-236**

DATE OF REQUEST: September 4, 2001

DATE RECEIVED: September 4, 2001

DATE DUE: September 26, 2001

REQUESTOR: Sheldon Wood

QUESTION:

- 1) In reference to the Greenwood Generating Unit lease, please provide all economic analyses performed by UtiliCorp or Missouri Public Service or any other UCU subsidiary or entity, detailing the cost savings or benefit to the Missouri Public Service Division if MOPub purchased the Greenwood Units and/or leased the Greenwood Units.
- 2) Please provide all economic analyses as to the benefits of a UCU subsidiary buying the Greenwood unit and then leasing the unit to the Missouri Public Service Division.

RESPONSE: Three (3) attachments are provided

ATTACHMENTS: 1) Evaluation of Greenwood Combustion Turbines by Fern Engineering dated July 9, 1999.
2) Purchase Greenwood Turbines Economic Analysis
3) Greenwood 1&2 Revenue Requirement Spreadsheet

ANSWERED BY: Dennis Greashaber

FERN ENGINEERING, INC.

REPORT NO. 5694-08-1

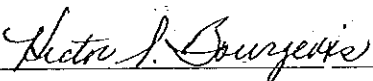
TO

UTILICORP UNITED

FOR

EVALUATION OF GREENWOOD COMBUSTION TURBINES

July 9, 1999



Hector S. Bourgeois



FERN ENGINEERING, INC.

REPORT NO. 5694-08-1

EVALUATION OF GREENWOOD COMBUSTION TURBINES

SUMMARY

The power output of the Greenwood units is down approximately 8% and the heat rate is up approximately 4% when compared to new and clean condition.

The average cost to purchase and install turbine units of the same configuration and accumulated running history is approximately \$12,627,000 each.

The average price the current owner can expect to receive if the turbines were sold and moved is \$6,500,000 USD each.

BACKGROUND

Utilicorp United currently leases and operates 4 x GE MS7001B gas turbine generator sets at their Greenwood Energy Center site. The lease term will be expiring shortly and Utilicorp is examining the option of re-leasing or purchasing the units. To support this effort Utilicorp desires to confirm the condition and to establish the current value of these units.

The pertinent information for each unit is contained in the following table. All are simple cycle units that are used mostly for peaking requirements.

Unit	S/N	Model	Date	Rating	Hours	Starts
1	238030	MS7001B	May 1975	59.0 MW	3332	1256
2	238031	MS7001B	June 1975	60.1 MW	3544	999
3	248862	MS7001B/C	June 1977	60.1 MW	4143	1028
4	248897	MS7001B/C	June 1979	59.9 MW	3599	784

DISCUSSION

The objective of this evaluation is to confirm the condition of the units and to establish a reasonable purchase price considering the current market and the units condition.

Condition

The performance of each unit was calculated and adjusted to ISO conditions using data provided by Utilicorp. For comparison the expected performance of a new and clean MS 7001B with the site conditions of Greenwood was also calculated. The power and heat rate are listed below along with the percentage change from the new condition.

	New	New		Current		Current	
	Power	Heat Rate		Power	% Chg	Heat Rate	% Chg
Unit 1	60.3	10950		55.2	-8.5	11368	+3.8
Unit 2	60.3	10950		55.1	- 8.6	11400	+ 4.1
Unit 3	60.3	10950		55.9	- 7.3	N/A	---
Unit 4	63.1	10720		60.6	- 4	11170	+ 4.2

Most often the performance changes are attributable to compressor degradation from fouling. Unit #4 has a higher expected rating because of the addition of high flow inlet guide vanes.

Since the Greenwood units are used mainly as peaking units, they have not accumulated a lot of time but they have accumulated a reasonable number of cycles. According to GE, the recommended maintenance/inspection intervals for a combustion inspection (CI), hot gas path inspection (HGPI), and a major inspection (major) are 800, 1200, 2400 starts respectively. See attached copy of General Electric report GER-3620C figure 35 defining these inspection intervals. Accordingly, unit #1 is due for a hot gas path inspection and the other units have used up from 65% to 85% of the allowed starts before needing a hot gas path inspection.

Valuation

To establish the value of an installed GE MS 7001B gas turbine, several suppliers of used turbines, installation contractors, and repair shops were contacted and questioned regarding current pricing and availability. The turbine suppliers were contacted to get the typical price range for an MS 7001B gas turbine. The contractors were contacted to get the typical price range for installing a MS 7001 B gas turbine. And the repair shops were contacted to get the typical inspection and overhaul price so that the Greenwood units could be debited for the time and cycles that have been used up since new or the last inspections.

A total of four used turbine suppliers were contacted. One supplier reported recently purchasing 8 x MS7001B turbines from Korea in "as is" condition for \$6,500,000 USD. As quoted further on in this report, the cost to conduct a major inspection adds \$1,800,000, raising the cost of a newly majored "B" model to \$8,300,000. This translates to \$140 / kW. All other respondents quoted between \$9,500,000 and \$12,500,000 USD for newly majored and uprated turbines to "EA" standards with dry low emission (DLE) combustion systems. The "EA" version produces more power, approximately 70 MW which translates to an average of \$157/ kW. This higher premium reflects the added cost of the DLE combustion system.

Three installation contractors were contacted and queried about installation costs. There was considerable variation between respondents some of which is accountable to differences in location, reusable components, number of turbines per site, etc. The installation quotes varied from \$1,500,000 to \$7,000,000 USD. The low end price was a bare bones installation with no building, used inlet and exhaust components, single fuel, permitting by others, multiple turbines, etc. The high end price was for a single turbine installation with a comprehensive scope of supply that included permitting, shipping, installation, gas fuel with compression, distillate fuel with tankage and fuel forwarding, new inlet filter house, exhaust stacks, and enclosing pre-engineered metal building but not including electrical substation or water storage and water treatment equipment. For the Greenwood site a good installation cost estimate would be \$5,500,000 per turbine since it is a multiple turbine site and no gas pressure boosting is required.

Two repair shops plus MS 7001 operators that have recently undergone inspections were contacted. The average cost reported for inspections including labor, parts and repairs to parts were:

Combustion inspection.....	\$200,000
Hot gas path inspection (includes comb. insp.).....	\$1,200,000
Major inspection (includes hot gas path and comb.).....	\$1,800,000
Upgrade combustion system to a DLE version.....	\$2,000,000

Based on the above prices each start cycle depreciates the turbines value by \$ 1250 per cycle.

Based on the above information if 4 gas turbine units were to be installed today with a turbines of the same configuration and accumulated time the cost would be:

Unit #1

Base "B" model engine with new major inspection.....	\$8,300,000
Installation similar to Greenwood site with dual fuel and building enclosure.....	\$5,500,000
Debit for cycles used (1256 cycles x \$1,250).....	-\$1,570,000
<hr/>	
Estimated value of Unit #1	\$12,230,000

Unit #2

Same as unit #1 except debit for cycles used (999 cycles x \$1250 = \$ 1,248,750
instead of \$1,570,000). Estimated value of Unit #2..... \$12,551,250

Unit #3

Same as unit #1 except debit for cycles used (1028 cycles x \$1250 = \$ 1,285,000
instead of \$1,570,000). Estimated value of Unit #3..... \$12,515,000

Unit #4

Same as unit #1 except debit for cycles used (784 cycles x \$1250 = 980,000
instead of \$1,570,000). Plus adder for IGV and "E" model 1st Stg turb blades
(2800 kW x \$140 / kW = \$392,000). Estimated value of Unit #4..... \$13,212,000

The average of the above values is \$12,627,000.

Other Considerations

Most often when the ownership of a power plant changes, e.i., it is sold but is not relocated, the permitting is transferred to the new owner. However, occasionally it is not. We have heard that some states occasionally apply pressure to upgrade the combustion system of resold turbines to "BACT" standards citing "good neighbor" policy and as an inducement to transfer the existing permits. As noted earlier upgrading to DLE combustion system can cost \$2,000,000 USD per turbine. Fern does not know the rules and regulations regarding the transfer of permits in Missouri and Utilicorp should seek advice from the state permitting agency regarding this issue.

The current market for used turbines is inflated due to the shortage of generating capacity and the resulting demand for generating units. Discussions with suppliers reveals that the demand should remain strong for at least another year and maybe two until the demand abates and the supply catches up with the demand.

The valuation quoted for the turbines assumes that turbine units of the same model and accumulated start cycles are purchased and installed with similar features to the Greenwood turbines. The price that the current owner could get for these turbines assuming they were sold and relocated is considerably less, in fact approximately half. This is something to keep in mind when negotiating a purchase price.

Case No. ER-2024-0189

SCHEDULE KM-d4

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Case No. ER-2024-0189

SCHEDULE KM-d5

HAS BEEN DEEMED

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Case No. ER-2024-0189

SCHEDULE KM-d6

HAS BEEN DEEMED

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Case No. ER-2024-0189

SCHEDULE KM-d7

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Case No. ER-2024-0189

SCHEDULE KM-d8

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Case No. ER-2024-0189

SCHEDULE KM-d9

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Case No. ER-2024-0189

SCHEDULE KM-d10

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Case No. ER-2024-0189

SCHEDULE KM-d11

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DATA INFORMATION REQUEST

UtiliCorp United, Inc./Mo Public Service

CASE NO. ER-01-672

Requested From: Gary Clemens
Date Requested: 10/02/01
Information Requested: See Attached

Requested By: Cary Featherstone

Information Provided:

SEE ATTACHED

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. ER-01-672 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the UtiliCorp United, Inc./Mo Public Service office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to UtiliCorp United, Inc./Mo Public Service and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By

Date Response Received:

10-08-2001 P.W.

Prepared By:

DATA INFORMATION REQUEST

Attachment

UtiliCorp United, Inc./Mo Public Service

CASE NO. ER-01-672

Requested From: Gary Clemens

Date Requested: 10/02/01

Information Requested:

1. Does a). UtiliCorp United b). Missouri Public Service c). any other UtiliCorp affiliated have policy(ies) that all divisional generating capacity needs will be met by purchase agreements (affiliated or non-affiliated) as opposed to the divisions constructing and owning generating units?

2a. If so, please identify and describe such policy(ies) and provide the advantages and benefits to each i. UtiliCorp United ii. Missouri Public Service iii. any other UtiliCorp affiliates for such policy(ies).

b. provide any supportive information such as policy(ies), position papers, memorandum and letters describing and supporting such position, and any other documentation that exists regarding UtiliCorp divisions not constructing and owning generating units.

**UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPSC-365**

DATE OF REQUEST: October 2, 2001
DATE RECEIVED: October 2, 2001
DATE DUE: October 22, 2001
REQUESTOR: Cary Featherstone

QUESTION:

1. Does a) UtiliCorp United; b) Missouri Public Service; c) any other UtiliCorp affiliate have policy(ies) that all divisional generating capacity needs will be met by purchase agreements (affiliated or non-affiliated) as opposed to the divisions constructing and owning generating units?
2. a) If so, please identify and describe such policy(ies) and provide the advantages and benefits to each: i. UtiliCorp United; ii. Missouri Public Service; iii. Any other UtiliCorp affiliates for such policy(ies).

b) Provide any supportive information such as policy(ies), position papers, memorandum and letters describing and supporting such position, and any other documentation that exists regarding UtiliCorp divisions not constructing and owning generating units.

RESPONSE:

1. The Company has no formal policies or guidelines requiring resource additions to be purchased.

Resource additions are planned in compliance with the Missouri integrated resource planning (IRP) rules.

In addition to complying with the IRP rules, individual additions are reviewed based upon prevailing and/or expected business conditions.

The Company believes that the current regulatory climate does not warrant the business risks associated with constructing and owning rate-based generating plants.

ATTACHMENTS: None

ANSWERED BY: Steve Ferry

**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 Service Provided to Customers in the)
Aquila Networks MPS and Aquila Networks-)
L&P Service Areas.)

Case No. ER-2007-0004
Tariff No. YE-2007-0001

CONCURRING OPINION OF CHAIRMAN JEFF DAVIS

This commissioner corrects the concurrence filed on May 17, 2007. This concurrence corrects the numbers but does not change the substance of the concurrence.

This commissioner respectfully concurs with the majority decision in all parts; however, there are at least three points raised in this case worthy of further commentary: (1) Skyrocketing fuel prices are driving large rate increases for Aquila customers and, absent some change of circumstances, it is likely Aquila customers will see significant rate increases over the next few years; (2) This report and order marks the first time the Missouri Public Service Commission has implemented a fuel adjustment mechanism pursuant to Section 386.266 enacted in 2005 by the Missouri General Assembly with the passage of Senate Bill 179; and (3) The ex-parte communication from Pirate Capital in this case illustrates that the source of capital can be as important as the attraction of capital itself when determining what's in the public interest.

This opinion, like all other opinions, is based on the facts and circumstances of

this particular case as well as preceding cases this body may recognize. Nothing in this opinion should be construed as to any position this commissioner might take in any case, currently pending or in the future.

1. Rising fuel prices dictated the majority of this rate increase and, absent some change in circumstances, this trend will likely continue.

Subject to the adjustments set out in paragraphs 5, 10 and 13 of the stipulation, all of the parties agreed to an increase of at least \$40.6 million for Aquila's MPS territory and at least \$12.7 million for its St. Joseph Light & Power property for a total of roughly \$53.3 million. The actual award in this case is approximately \$58.7 million. Further, the company is receiving a fuel adjustment mechanism (FAC).

This increase follows a \$44.8 million rate increase awarded by this commission for both properties in February 2006. As stated in the majority opinion, fuel and purchased-power expenses make up approximately 46 percent of Aquila's total operating costs. These costs rose 13 percent to 20 percent annually over the three-year period ending June 30, 2006. This pattern of increases is of great concern because subsequent increases in fuel costs will necessitate Aquila seeking additional rate increases of a similar magnitude.

The light at the end of the tunnel – the rate stability so many of Aquila's customers are desperately seeking – appears to be years away. Aquila's fuel and purchased-power expenditures have increased rapidly in recent years. This underscores the perils of being a vertically integrated utility with a significant reliance on natural-gas fired generation and purchased power. The general trend appears to be that both the price of natural gas and the demand for purchased power will continue to increase. Those increased costs will ultimately be reflected in increased rates for Aquila

customers.

The goal can and must be rate stability for consumers, even though that goal is challenging and may take years to accomplish. Aquila's fuel and purchased-power costs may well remain upwardly volatile until the company acquires more generation to meet both baseload and peak capacity demand. Aquila is taking steps to add generation capacity by partnering with KCP&L to construct the Iatan II Coal Plant and to construct two new natural gas-fueled electricity-generating turbines in Sedalia, Missouri.

While increasing generation capacity is essential to meeting baseload and peak demands for electricity, it is no panacea for Aquila's customers in terms of rate stability. Assuming the Iatan II coal plant is constructed on schedule in 2010, Aquila will be back in front of this commission seeking another substantive rate increase because the costs of power plant construction cannot be put into rates until the plant is "used and useful." (Chapter 393.135 RSMo, 2000) These costs could be compounded by compliance with future emissions requirements, particularly any federal action on carbon dioxide emissions (CO₂).

2. This decision marks the first time this commission has implemented a fuel adjustment mechanism (FAC) pursuant to Section 386.266 approved by the General Assembly in Senate Bill 179 (2005 legislative session).

Lately, Aquila's rising fuel and purchased-power costs by themselves are enough to cause rate shock when those costs are eventually passed through to customers in the form of a rate case. Skyrocketing fuel and purchased power prices can compound rate risk for consumers because, when they necessitate a rate case, the company will also seek recovery of their rate case expenses as well as other expenses.

In 2005, the Missouri General Assembly enacted Senate Bill 179 to provide this

commission with the option of using a fuel-adjustment mechanism as a tool to establish just and reasonable rates between rate case filings by incorporating market cost changes for prudent, necessary fuel and purchased-power costs.

More than 25 other states can use this method of utility rate regulation. It smoothes the impact of fuel-cost volatility spikes on consumers, minimizes rate shock resulting from the eventual pass-through of fuel and purchased power costs due to regulatory lag and spares both consumers and taxpayers the expense of a rate case when the principal cost driver is the cost of fuel and purchased power.

This commission recognizes the hardship rate volatility can place on all classes of consumers – residential, commercial and industrial. Further, we are all acutely aware of the need to institute safeguards to ensure fuel adjustment clauses do not allow utility service providers to incur fuel costs in an imprudent manner.

That being said, a line-item surcharge allowing a utility to recover its prudently incurred fuel and purchased-power costs is a necessary evil in the case of this particular company. In a time of rapidly rising fuel and purchased-power prices, there is no way a company like Aquila can earn its allowed return on equity by reducing its expenses by tens of millions of dollars in other areas to offset increased fuel and purchased-power costs. In short, fuel and purchased-power increases are dramatically outpacing the ability of the company to absorb these costs. When those expenses already amount to almost half of the company's total expenses, no amount of increased efficiency can offset tens of millions of dollars in new expenses.

The ability to earn an allowed return on equity is important. These earnings attract and sustain investment the company needs to expand generating capacity and

maintain essential infrastructure. There is no disputing the Aquila system could use more investment.

Critics of Aquila will argue Aquila is responsible for its own difficulties. There is no doubt Aquila management shares some responsibility in creating this dilemma. Other than PSC staff's assertion that Aquila should have built and kept the Aries plant, no testimony has been offered in this proceeding or any other previous proceeding that said Aquila should have undertaken a plan to construct other electric generation alternatives a decade ago. In fact, the conventional wisdom of the late 90's was that that the price of natural gas would remain relatively stable and no one ever anticipated the price of natural gas peaking at more than \$10.00/mmbtu. If those assumptions were correct, natural gas fired generation would have proven to be more cost-competitive with coal-fired generation.

These facts, when combined with the costly and exhaustive permitting process required by the Missouri Department of Natural Resources (DNR) in granting emissions permits, make it highly unlikely Aquila would have ever been able to construct a coal plant under those conditions. Accordingly, it is very difficult to accurately and proportionately balance the culpability of Aquila's management for the challenges the company now faces in containing costs related to providing reliable and affordable utility services to its customers.

All of the proposed FAC mechanisms in this case had some facet that was unappealing. Aquila's proposal to recover 100 percent of its fuel increase costs was technically sound, but failed to ensure prudent and necessary pass-through because the company incurred no risk of financial loss if it failed to prudently manage its fuel

costs. The 95 percent pass-through adopted by the majority in this case is reasonable in that it allows the company to recover all or most of its fuel and purchased power costs above \$200 million, while encouraging the company to be prudent. For instance, if fuel and purchased power costs increase by \$30 million in one year to a level of \$230 million total -- a likely scenario based on the testimony presented in this case -- the company will recover \$28.5 million of those costs and lose \$1.5 million.

A company like Aquila might be able to make up a \$1.5 million annual shortfall and, based on judgment and experience, such a shortfall is reasonable under the circumstances. Thus, in my opinion, this approach is most reasonable under the circumstances facing Aquila and the customers it serves.

The other proposals considered by the PSC would have excessively penalized the company for fuel and purchased power costs far beyond its control. This would make it extremely difficult for the company to reinvest in infrastructure and to attract the investment capital necessary to maintain infrastructure and expand generation capacity.

I found the other proposed cost-sharing mechanisms unreasonable for the following reasons:

- an interim energy charge or I.E.C. similar to the one proposed in this case cost Aquila more than \$20 million since their last rate case decision in February 2006. Accordingly, I did not feel comfortable adopting the methodology proposed by the PSC staff in this case.

- the 50-50 sharing proposal proposed by several parties of the parties is unfair for a company like Aquila. In scenarios such as that referenced above, Aquila has no means of possibly offsetting a loss of \$15 million or more on an annual basis.

- the Wyoming Plan sponsored by AARP has some attractive features similar to the IEC in that it contained a deadband, which would require the utility to absorb costs within a certain range, and encouraged proportionate sharing with no cap. If the market for fuel and purchased power were less volatile, this proposal

definitely would merit strong consideration; however, in an era of upward cost volatility, the deadband prohibits the utility from recovering a significant portion of its prudently incurred costs at the outset.

-Although intriguing, an accounting authority order (AAO) would be something this commissioner would gladly consider if this commission had no other alternative. The weakness of the AAO is that it will be thrown into the next rate case. Parties will make all sorts of arguments to disallow those expenses and the company will either agree to take less than they are otherwise entitled in settlement or run the risk of the commission arbitrarily making downward adjustments in other areas because the recovery of the AAO expenses has the potential of being such a large issue.

Absent certainty of fuel cost variances, some aspects of rate setting are like rate design in that they are more art than science. Although the parties are to be commended for coming to an agreement on how the process should work, their extreme positions left this commission in the position of having to try develop a FAC mechanism that would be just and reasonable to all parties.

Aquila should be very mindful that the majority of this commission took a bold step in awarding Aquila a fuel adjustment mechanism. This commission and the General Assembly will be watching. If Aquila fails to adopt a proper hedging strategy, fails to follow its hedging strategy or abuses the discretion given to it by this commission in any other way, this commissioner will not hesitate to modify or reject Aquila's FAC application in a future proceeding.

3. The ex-parte communication from Pirate Capital in this case illustrates the point that the source of capital is as important as the attraction of capital itself when determining what's in the public's best interest.

A. Concerns regarding the attraction of capital:

Attraction of capital is essential for all utilities, especially those who need to spend large sums of money to enhance reliability, improve infrastructure and add new generation. This is particularly true regarding baseload generation, which is more

expensive and takes longer to construct.

Aquila is a vertically integrated utility needing to make significant investments in all three of these areas. This commission has to avoid the temptation of being punitive in rate proceedings to the extent it leaves a company vulnerable to problems caused by undercapitalization and inadequate earnings potential.

Missouri utilities, including Aquila, seem to have no problem attracting investment capital. However, recent events such as the collapse of the Amaranth hedge fund and its effect on the futures market for natural gas, the proposed acquisition of Texas Utilities (TXU) by private equity firms and Pirate Capital's rattling of the saber in the middle of this rate case begs the question of who's going to actually run the company and whether some investors require greater regulatory scrutiny.

Although the issue is not squarely in front of us in this case, the generally accepted principle that "cash is cash" may no longer be true when a group of new, more active investors pushes its way through the boardroom doors, and if the short-term interests of those investors collide with and ultimately prove detrimental to the long-term benefit of ratepayers – the public interest.

For instance, a five-year plan designed to reduce debt and improve Aquila's capital structure could ultimately increase the company's return in a rate case at the expense of delaying improvements necessary to enhance the reliability of the Aquila system. This type of action might be detrimental to the current generation of Aquila ratepayers in terms of reliability and risk further rate increases to the next generation of Aquila customers.

This Commission is likely to view a conscious decision by utility management to

purchase power and pass it through a fuel adjustment mechanism, rather than construct appropriate generation resources as detrimental to ratepayers. Neither of these issues is before this commission today, but they are foreseeable, particularly where a company has demonstrated questionable decision-making ability in the past. This commission must be vigilant against conduct that is not in the long-term best interests of the state and its ratepayers.

B. Concerns regarding Aquila management decisions affecting the company's ability to attract capital:

The commission staff -- led by Bob Schallenberg, Director of the PSC's Utility Services Division -- and others here at the Commission have consistently taken a long-range view of utility planning -- spanning 30 years or longer.¹ These views are most evident in cases where the prudence of constructing new generation assets is an issue. In those cases, the PSC staff has taken positions in favor of Missouri electric utilities owning their own electric generation because it is more reliable to have generation facilities located near the customers being served and cheaper once the costs are depreciated over a period of thirty years or longer. Companies that followed this strategy and built excess generation capacity, like KCP&L and Ameren UE, have used off-system sales of their excess electricity to subsidize costs to their regulated utility customers.

Both utilities and customers have benefited under this regulatory framework. Ameren UE and KCP&L generated earnings for their investors and avoided rate increases for almost two decades, while actually reducing the rates paid by their

¹ Equally important to note is that, to the best of this commissioner's knowledge, the PSC staff has always opposed acquisition premiums being passed through to utility ratepayers and the Missouri PSC has never approved such a premium.

customers over that same period. This accomplishment is no small feat and provides strong support for the long-term approach espoused by Mr. Schallenberg and the rest of the PSC staff in this regard.

In contrast to Ameren UE and KCP&L, Aquila purchases a substantial portion of the electricity it needs to meet customer demands. Aquila even divested its interest in the Aries plant and then unsuccessfully tried to re-acquire the plant. The evidence in this case shows Aquila's fuel and purchased power expenses have risen rapidly and all relevant information at our disposal indicates that these costs will continue to rise -- the only question is how much?

Aquila needs more baseload generation and, according to the PSC staff, at least two more gas-fired turbines. Constructing power plants is expensive and these facilities constitute only a portion of Aquila's capital concerns. Based on the PSC staff's depreciation studies, Aquila's distribution system is one of the oldest in the state and likely in need of further investment. It could be argued that investments should have already been made, but simply weren't made because Aquila did not have the cash flow to make them.

Last year, the Office of Public Counsel (OPC) filed a request seeking a management audit of Aquila in case number EO-2006-0356. The PSC Staff performed a limited audit and Mr. Mills filed a response raising some very valid points on behalf of OPC in response to those findings on October 31, 2006. This commission subsequently issued an order "accepting" the report and directing Aquila to comply with all of the recommendations contained therein on March 13, 2007. Although the order was silent as to the issue, it is noteworthy that KCP&L's proposed acquisition of Aquila

was announced in January 2007.² Had the proposed acquisition not been announced, it is almost a certainty that Aquila's management would have faced more scrutiny of its management decisions and this commission would be entertaining further suggestions from Mr. Mills' office. Pending the outcome of that case, we still might be considering further steps regarding Aquila management.

Mr. Mills is correct in that there are ample grounds for questioning the prudence of Aquila's management, past and present. These include:

- Management decisions to pursue unregulated business ventures that eventually caused Aquila to hemorrhage money, lose its investment grade status and some would say neglect its customers for years;
- The decision of Aquila to sell its interest in the Aries plant to Calpine and the subsequent mishandling of the zoning, siting and construction of the South Harper generating facility which will be a source of controversy for this commission, the courts and the legislature for years to come.
- A subsequently corrected "accounting error" discovered in a previous rate case that under-funded employee pension benefits;
- Aquila's decisions that led the company to pay \$25 million to settle claims with the Commodities Futures Trading Commission (CFTC) and the PSC's subsequent lawsuit against Aquila Inc., Aquila Merchant Services, Inc., and other energy marketers seeking monetary damages for allegations of natural gas price manipulation.

C. How should this commission resolve lingering allegations of imprudence by Aquila management?

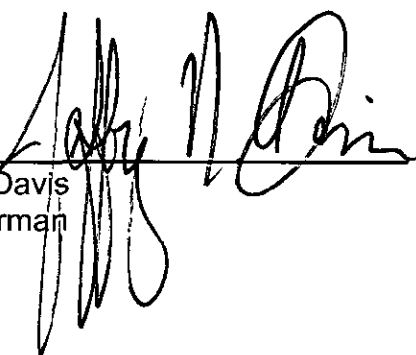
In fairness to Aquila's current management, I am not sure if different management would have been able to perform better given the same circumstances. Although I might agree with the PSC staff, OPC and other interested parties on a philosophical level, the commission employs a "reasonable person standard" to determine whether the company's decision was reasonable under the circumstances.

² See Case No. EM-2007-0374

Imprudence on the part of a utility is difficult to prove under this standard for two reasons: First, the company is usually able to put forth some evidence its managers were acting prudently under the circumstances; and second, damages are often difficult, if not impossible, to quantify. That being said, when one considers the totality of the circumstances, Mr. Mills is justified in his desire that this commission keep a tight leash on Aquila.

There is no question Aquila's decisions have been detrimental to its ratepayers. That detriment is difficult, if not impossible, to quantify; nor is it feasible to calculate whether or not those decisions should have been dealt with by this commission in previous rate proceedings subsequent to the alleged imprudent behavior actually occurring. There is no clear answer to this question and these issues will continue to haunt Aquila management for years to come regardless of who's in charge.

Respectfully submitted,



Jeff Davis
Chairman

Dated at Jefferson City, Missouri,
on this 9th day of July, 2007.

DATA REQUEST– Set MPSC_20080924

Case: ER-2009-0090

Date of Response: 10/16/2008

Information Provided By: John Weisensee

Requested by: Hyneman Chuck

Question No. : 0135

1. For the period 2002 through current date, please provide a copy of all analyses, work papers, reports, communications, etc. related to the decision not to write down the recorded asset value for the Crossroads facility. 2. Did Aquila's outside auditors support Aquila's management decisions not to write down the value of the Crossroads facility on its books and records for the period 2002 through the current date? If not, please explain. 3. Please provide a copy of any and all correspondence between Aquila's outside auditors and its management or board of directors concerning a potential write down of the recorded asset value of the Crossroads facility.

Response:

1. Please see for the fiscal periods ending December 31, 2003 through 2007 the memo documenting the analysis of FAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets. The memo documentation is attached in the following files:
 - Q0135 FAS 144 2003
 - Q0135 FAS 144 2004
 - Q0135 FAS 144 2005
 - Q0135 FAS 144 2006
 - Q0135 FAS 144 2007
2. Yes. The outside auditors were in agreement.
3. Please see for the fiscal periods ending December 31, 2003 through 2007 the Management Representation Letters sent to Aquila, Inc.'s outside auditors, KPMG, indicating that according to FAS 144 no asset impairment was necessary on the Crossroads Energy Center. The Management Representation Letters are in the following files:
 - Q0135 2003 MRL
 - Q0135 2004 MRL
 - Q0135 2005 MRL
 - Q0135 2006 MRL
 - Q0135 2007 MRL

In addition, please see the attached file titled "Q0135 Feb 2008 Audit Comm Rep" which contains the cover page and page 13 of the Audit Committee report which details no impairment required for the Crossroads Energy Center.

Attachments: See list below:

- Q0135 FAS 144 2003
- Q0135 FAS 144 2004
- Q0135 FAS 144 2005
- Q0135 FAS 144 2006
- Q0135 FAS 144 2007
- Q0135 2003 MRL
- Q0135 2004 MRL
- Q0135 2005 MRL
- Q0135 2006 MRL
- Q0135 2007 MRL
- Q0135 Feb 2008 Feb 2008 Audit Comm Rep

Response by: Ron Klote and Mark Foltz



FAS 144: Accounting for the Impairment or Disposal of Long-Lived Assets

Crossroads Energy Center

Period Ending December 31, 2007

Date: January 3, 2008

From: Mike Meyer, Director Accounting Services

In accordance with generally accepted accounting principles and FAS 144.8, “a long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable”.

Aquila last tested the recoverability of the Crossroads Energy Center (Crossroads) for the period ending December 31, 2006, in accordance with FAS 144.16-21 *Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability*.

Since December 31, 2006, there are “no events or changes in circumstances to indicate the carrying amount of Crossroads may not be recoverable”.

- Crossroads continues to generate operating and cash flow losses. This is not a change in events or circumstances from the prior test and assumptions.
- An analysis regarding potential changes in the market price of Crossroads was completed indicating **favorable changes since December 31, 2006**. The analysis was limited to the percentage change in Implied Heat Rate (from 2006 to 2007).
 - Implied Heat Rate = Average Power Price / Gas Price
 - Power Price = SERC-Entergy On-Peak and Off-Peak as published at www.cera.com
 - Gas Price = Real Henry Hub as published at www.cera.com
 - Higher Power Price / Lower Gas Price = Higher Potential Value
 - % Change X 2006 Gross Margin = 2007 Forecasted Gross Margin
 - 2005 Gross Margin determined by an in-house risk valuation and www.cera.com prices
 - 2006 based on 2005 Gross Margin X 2006 % change in Implied Heat Rate
- Management continues to evaluate options for Crossroads. However, there are currently no plans to sell or otherwise dispose of this asset before the end of its estimated useful life.

Given these events and circumstances, there is no indication that (1) a test is required or (2) the carrying amount may not be recoverable.

cc: Beth Armstrong, Mark Foltz

FAS 144.8 - A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

144.8.a - A significant decrease in the market price of a long-lived asset.

FALSE - Market prices have actually improved during 2006 with gas prices falling and power prices rising.

144.8.b - A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition.

FALSE - Crossroads was constructed for generating electricity during peak demand times at market based rates and no impairments exist in its physical condition.

144.8.c - A significant adverse change in the legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator.

FALSE - The business climate has not significantly changed since 12/31/04.

144.8.d - An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset.

FALSE - The construction costs for the peaking plants did not significantly exceed the planned amounts.

144.8.e - A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset.

TRUE - Due to market conditions, the prohibitive historical cost of natural gas, and potential transmission constraints, this facility has been unable to produce sufficient profit to cover the idle operating and maintenance costs. It is forecasted that these losses will continue for the next few years.

144.8.f - A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated life.

FALSE - Although management continues to look for options related to this asset, there are currently no plans to sale or otherwise dispose of it.

FAS 144.16-21 Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability.

144.16 - Estimates of future cash flows used to test the recoverability of a long-lived asset shall include only the future cash flows (cash inflows less associated cash outflows) that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset. Those estimates shall exclude interest charges that will be recognized as an expense when incurred.

144.30 - A long-lived asset to be sold shall be classified as held for sale in the period in which ALL of the following criteria are met:

144.30.a - Management, having the authority to approve the action, commits to a plan to sell the asset.

FALSE – Management has not committed to such a plan.

144.30.b - The asset is available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.

TRUE - Subject only to customary regulatory approvals.

144.30.c - An active program to locate a buyer and other actions required to complete the plan to sale the asset have been initiated.

FALSE - Although management continues to look for options related to this asset, there are currently no active programs in place to locate a buyer for it.

144.30.d - The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year, except as permitted.

FALSE – The sale probability is unknown since management has not committed to a plan to sell.

144.30.e - The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value.

FALSE - Although management continues to look for options related to this asset, there are currently no active programs in place to locate a buyer for it.

144.30.f - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.

FALSE - Management has not committed to a plan to sale.

Crossroads Energy Center
FAS 144 "What-If Tested" Analysis

<u>\$-Thousands</u>	<u>Heat Rate Change</u>	<u>Gross Margin</u>	<u>Operating Expense</u>	<u>Future Cash Flow</u>	<u>%</u>	<u>Weighted Total</u>
As of 12/31/07						
Mercury Rising	14.0%	\$ 975,399	\$ 118,224	\$ 857,175	30.0%	\$ 257,153
Global Fissures	1.5%	392,144	118,224	273,920	30.0%	82,176
Asian Phoenix	-7.1%	304,044	118,224	185,820	30.0%	55,746
Sale Value (MW x \$/MW)		340	148	50,177	10.0%	5,018
Average Future Cash Flow	2.5%	417,982	88,705	341,773	100%	400,092
Book Value						112,204
Coverage (Below 1.0x = Potential Impairment)						3.57x

As of 12/31/06						
Mercury Rising		\$ 849,629	\$ 125,128	\$ 724,502	22.5%	\$ 163,013
Technology (Dropped)		607,035	125,128	481,907	22.5%	108,429
Global Fissures		382,770	125,128	257,643	22.5%	57,970
Asian Phoenix		325,289	125,128	200,161	22.5%	45,036
Sale Value (MW x \$/MW)		340	148	50,177	10.0%	5,018
Average Future Cash Flow		433,013	100,132	342,878	100%	379,466
Book Value						118,855
Coverage (Below 1.0x = Potential Impairment)						3.19x

Average Peaker Plant Asset Sales

<u>Buyer</u>	<u>Seller</u>	<u>Facility</u>	<u>MW</u>	<u>Proceeds</u>	<u>\$/MW</u>
Ameren	Aquila	Goose	510	\$ 105,000	\$ 206
Ameren	Aquila	Raccoon	340	70,000	206
Bukeye Power	DPL	Greenville	200	49,200	246
American Electric Power	DPL	Darby	450	102,000	227
Average			375	81,550	221
Crossroads Transmission Constraint Estimated Adjustment			340	(25,000)	(74)
Adjusted Average					\$ 148

AQUILA, INC.
CASE NO. ER-2004-0034
MISSOURI PUBLIC SERVICE COMMISSION
DATA REQUEST NO. MPSC-299

DATE OF REQUEST: September 19, 2003
DATE RECEIVED: September 19, 2003
DATE DUE: October 9, 2003
REQUESTOR: Mark Oligschlaeger
BRIEF DESCRIPTION: Aries Operational Issues

QUESTION:

Did MPS or any Aquila entity consider the option of taking over or acquiring the power plant assets that Aquila Merchant once had possession of or had rights to, but chose to sell within the last 12-18 months? If not, why not, and provide any supporting documentation for the decision.

RESPONSE: Aquila Networks did review the location and possible use of the facilities to meet the load requirements of our customers, but, except for the Aries plant which is the subject of responses to numerous other data requests, the location and distance from the service territory would not make ownership practical.

ATTACHMENT:

ANSWERED BY: John W. McKinney

John W. McKinney
SIGNATURE OF RESPONDENT

Case No. ER-2024-0189

SCHEDULE KM-d16

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY

Case No. ER-2024-0189

SCHEDULE KM-d17

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY

Case No. ER-2024-0189

SCHEDULE KM-d18

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY