

Exhibit No.: 032

Issues: Fuel Adjustment Clause,
A.R. Program,
And DSM Recovery

Witness: Dennis R. Williams

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

FILED

APR 30 2007

**Missouri Public
Service Commission**

Direct Testimony

of

Dennis R. Williams

Aquila Exhibit No. 32
Case No(s) ER-2007-0004
Date 4/4/07 Rptr MW

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ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF DENNIS R. WILLIAMS
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____**

INTRODUCTION AND QUALIFICATIONS

1 Q. Please state your name and business address.

2 A. My name is Dennis R. Williams. My business address is 20 W. Ninth Street, Kansas
3 City, Missouri 64105.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Aquila, Inc. ("Aquila" or "Company") as Vice President – Electric
6 Regulatory Services.

7 Q. Briefly describe your education and work experience.

8 A. I graduated in 1974 from Central Missouri State University, receiving a Bachelor of
9 Science in Business Administration degree with honors, with majors in accounting and
10 finance. After graduation, I was licensed in Missouri as a Certified Public Accountant
11 and employed as an auditor in the regulated industries division of Arthur Andersen &
12 Company. After leaving Arthur Andersen, I was employed for five years with a
13 regulatory consulting firm. Since 1986, I have been employed by Aquila in various
14 capacities.

15 Q. What is the purpose of the testimony you are submitting in this case before the Missouri
16 Public Service Commission ("Commission")?

17 A. I will be addressing three items in support of Aquila's filing in this case. First, I will
18 discuss the proposed implementation of a fuel adjustment clause ("FAC") included in the

1 filed tariffs in this case. I will also discuss the pledging of accounts receivable. Finally, I
2 will discuss the proposed rate treatment for demand side management ("DSM")
3 programs.

4 **EXECUTIVE SUMMARY**

5 Q. Please provide a brief overview of your testimony.

6 A. Fuel costs, particularly the cost of gas used for generation – but also coal and other fuels
7 – are extremely volatile and, in whole, during recent years have been increasing
8 dramatically. This has resulted in the need to file numerous rate increase requests and
9 has resulted in the likely potential that customers could be substantially overcharged or
10 undercharged at any particular point in time in comparison to the costs being incurred by
11 the utility that serves them. In 2005, by passing SB-179, the Missouri legislature
12 recognized the benefit of providing this Commission authority to authorize an energy
13 adjustment mechanism that would provide adjustments to rates outside of general rate
14 proceedings to reflect increases and decreases to an electric utility's prudently incurred
15 cost of fuel and purchased power. My testimony describes the FAC mechanism being
16 proposed by Aquila and the advantages it provides to all parties in comparison to other
17 approaches utilized in the past.

18 Q. What other areas does your testimony address?

19 A. I will describe the use of an accounts receivable financing program that is in place to
20 lower the short-term cost of money Aquila incurs when short-term financing is needed.
21 The purpose of this credit facility is to bridge the period between permanent financings or
22 to meet seasonal cash needs, such as higher cash requirements in winter to meet gas
23 procurement requirements. Aquila has secured a short-term financing arrangement

1 the control of Aquila, but provides incentive to Aquila to take on the additional
2 risk of pursuing sales outside of its core markets.

- 3 • All hedge costs, settlement cost and benefits will flow through the FAC.
- 4 • Any insurance proceeds related to fuel or purchased power for generation
5 outages ("Guaranteed Generation") will flow through the FAC.
- 6 • Purchased power capacity contracts greater than one year will be excluded.
7 Commission approved capacity contracts which are less than one year in length
8 will be included in the FAC.
- 9 • The FAC will be adjusted quarterly unless the adjustment factor is relatively
10 small, as detailed later in my testimony, or for other good cause shown and
11 approved by the Commission as to why no adjustment should be made.
- 12 • The base FAC for MPS will be established at \$0.0287 per kilowatt-hour sold and
13 the base FAC for L&P will be established at \$0.0215 per kilowatt-hour sold.
- 14 • Over-recoveries and under-recoveries of costs will be recorded on Aquila's
15 books in deferred tracking accounts on which interest will be calculated monthly
16 on the balance therein using Aquila's weighted average short-term cost of debt.

17 Q. Absent a final rule from the Commission providing for the institution of an energy
18 adjustment mechanism, do you believe sufficient authority exists for Aquila to propose a
19 fuel adjustment clause?

20 A. Yes. Based on advice of counsel, Aquila's proposed FAC complies with the intent of
21 Section 386.266 of the Missouri statutes, commonly referred to as Senate Bill 179.
22 Further, the rules submitted by the Commission for public comment contemplate a
23 procedure by which a utility may file a rate case requesting implementation of an energy

1 adjustment mechanism prior to promulgation of rules by this Commission, with a
2 provision for bringing any such filing into compliance with the rules once they are
3 promulgated.

4 Q. Is the FAC you are supporting reasonably designed to provide Aquila with a sufficient
5 opportunity to earn a fair return on equity?

6 A. Yes. In fact, it is more likely than existing treatment of fuel cost recovery to result in a
7 fair price for customers and a fair return for the utility in periods of extreme fuel cost
8 volatility such as we have experienced in recent years.

9 Q. Why is that?

10 A. Traditionally, rates have been set based upon actual costs incurred during a test year.
11 Even though true-up adjustments are sometimes made to incorporate fuel costs being
12 experienced closer to the time that rates go into effect, by the time customers begin
13 paying those new rates, the underlying fuel costs may have increased or decreased
14 dramatically. As a result, the utility can quickly suffer financial deterioration and need to
15 file for immediate rate relief; or, on the other hand, the utility can over-recover costs by a
16 substantial margin resulting in the need to file a request to reduce rates or a complaint
17 filing by another party. The FAC will reduce an overabundance of rate filings, free up
18 time for utility and Staff personnel to pursue other necessary tasks, and, most
19 importantly, insure that customers are reimbursing Aquila only for prudent energy costs
20 actually incurred.

21 Q. Have other mechanisms been instituted in an attempt to address energy cost volatility?

22 A. Yes. An Interim Energy Charge ("IEC") mechanism was applicable to Aquila tariffs for
23 two years. However, I do not believe this mechanism was successful.

1 Q. Why not?

2 A. Generally speaking, no matter how well-intentioned, the IEC mechanism is still based on
3 estimates. The IEC is a fixed rate, or surcharge, that may exist up to a certain point in
4 time if not earlier terminated. It is not adjusted to reflect fuel price variations. The IEC
5 fixed rate surcharge is added to base rates at a level that is intended to compensate the
6 utility for anticipated increases in fuel costs but rates cannot go above this "ceiling" no
7 matter how high fuel costs rise. If costs actually incurred are below the ceiling, the utility
8 refunds the difference to customers down to a pre-established "floor" but no further.
9 Unfortunately, the ceiling and floor are based on an estimate of future prices, and, in
10 today's environment, cannot be predicted with certainty. The result is that while there
11 may be some mitigation of volatility, customers are still very likely to pay more or less
12 than the energy costs actually incurred by the utility.
13 After the fact, some may argue that the IEC floor and ceiling range were reasonably
14 established except for this event or that event, which was not anticipated at the time of
15 establishing the IEC range. In today's energy markets, it is likely that there will always
16 be a number of events that could not be anticipated in advance. In my opinion, it is more
17 appropriate to do away with the estimation of fuel costs, to do away with the
18 rationalization arguments as to whether the ceiling or floor was established properly, and
19 to have customers pay the exact costs that were incurred by the utility, subject to a review
20 for prudence.

21 Q. How would you insure that customers pay only the costs actually incurred if usage levels
22 differ from period to period?

1 A. As I indicated earlier, an account will be established on Aquila's books to track over and
2 under-recoveries of costs. Billed FAC revenues will be compared monthly to actual FAC
3 costs incurred and the difference will be recorded in a deferred account (173001 Unbilled
4 FAC with the offset to revenue sub-accounts 440002, 442002, 442102, 444002, 445002).

5 This accounting process, and the information used to support the recording of these
6 entries, will create a paper audit trail to enable the audit of the balances in these accounts.

7 The amount of over or under recovery is included as Factor C on the FAC tariff sheet,
8 Sheet No. 125, and would be incorporated into the FAC rate.

9 Q. You mentioned FAC revenues. How would Aquila track revenues that are billed subject
10 to its proposed fuel adjustment clause?

11 A. FAC revenues will be billed as a separate line item on a customer's bill and all FAC
12 revenue will be recorded in FERC accounts (440000, 442000, 442100, 444000, 445000)
13 in order to accurately track revenues and facilitate the review process. Moreover, the
14 CIS+ billing system will track the FAC billed line item and report FAC revenues
15 separately on CIS+ Revenue Reports.

16 Q. Is the segregation of revenues and over or under-collection thereof intended to be
17 compatible with prudence reviews?

18 A. Yes. These accounting procedures should provide an adequate audit trail. Moreover,
19 Aquila's proposed FAC tariff provides the flexibility to incorporate any adjustment made
20 as the result of a prudence review.

21 Q. How do you contemplate that a prudence review would ensure that only prudently
22 incurred costs would be included for recovery under Aquila's proposed FAC mechanism?

1 A. Aquila believes that an annual prudence audit conducted by the Commission Staff should
2 be adequate to insure that only prudently incurred costs are included for recovery. The
3 accounting records available for review have already been mentioned. In addition,
4 parties to this proceeding and to any prudence review proceeding would have had the
5 opportunity to review and comment in advance on Aquila's integrated resource plan and
6 could avail themselves of the data request process. It is anticipated that parties to any
7 prudence review proceeding would apply the standard of determining whether decisions
8 were prudent given the facts known at the time those decisions were made, as opposed to
9 a "hindsight" review. If Staff or other parties believed that evidence supported a
10 "prudence" adjustment, they would have the opportunity to bring that proposal to the
11 Commission for an evidentiary hearing and decision.

12 Q. Aside from the prudence review, has Aquila incorporated any other incentive features
13 into its FAC design?

14 A. Yes. Aquila is proposing that the three-year average for off-system sales margins be
15 included in base rates. As an incentive to maintaining off-system sales at or above what
16 is included in base rates, Aquila is proposing a sharing mechanism of 50 percent of
17 margins above or below the base level. That is, if off-system sales fall below the three-
18 year level established in base rates, Aquila would not pass along the entire decline but
19 would instead absorb 50 percent of the decreased margin. Likewise, if Aquila is able to
20 achieve a higher level of off-system margins than the level included in base rates, Aquila
21 would include 50 percent of that increase as a reduction in the FAC.

22 Q. Has Aquila incorporated any volatility mitigation features into the design of its FAC?

1 A. Yes. Aside from the mitigation impact of Aquila's hedging program discussed in the
2 testimony of Gary Gottsch, Aquila has also designed a mitigation feature into its
3 proposed FAC. Aquila proposes to adjust the FAC factor on a fiscal quarter basis for the
4 periods December – February, March – May, June – August, and September –
5 November. There would be an average six-month period between the time fuel expenses
6 are first incurred and when the corresponding FAC factor is included in the determination
7 of rates. For example, fuel costs incurred beginning on June 1st would be summarized
8 and submitted for review after the quarter ending August 31st, and would be included in
9 the determination of the FAC factor for the period of December through February. In
10 that way, fuel costs incurred during the winter peak period will be passed on during the
11 summer peak and vice versa; and costs incurred during shoulder months will be passed
12 on during shoulder months.

13 Q. Does Aquila's proposal make allowance for waiving the application of a quarterly FAC
14 change under certain conditions?

15 A. Yes. Aquila proposes that the quarterly FAC change be applied only if it would result in
16 an increase or decrease of 2 percent or more in residential customer rates. If that
17 threshold is not met, fuel costs included in the FAC tracking mechanism would be carried
18 over to the following quarter. The FAC rate would be adjusted however at least once
19 annually. This approach would avoid the necessity of filing and review time associated
20 with relatively small amounts and may provide additional volatility mitigation benefits.

21 Q. Does Aquila propose to calculate a different FAC factor for each rate class or specific
22 customers within a class?

- 1 A. No. Just as fuel cost was considered consistently among classes in Aquila's recently
2 approved rate design case, we have seen no reason to justify differentiation within or
3 among customer class for the fuel adjustment charge. Aquila's proposal would apply the
4 same FAC factor to each customer class. This approach is preferable to an otherwise
5 complicated and potentially arbitrary mechanism that would greatly increase the time and
6 costs associated with calculation, notification and audit.
- 7 Q. If the Commission approves Aquila's proposed FAC tariff, will that have any effect on its
8 business risk?
- 9 A. Aquila witness Sam Hadaway addresses that issue in his direct testimony.
- 10 Q. Do any other witness address in direct testimony information associated with Aquila's
11 FAC proposal?
- 12 A. Yes. Company witness Davis Rooney addresses Aquila's long-term resource planning
13 process, demand and supply resources, and dispatch procedures that Aquila expects to
14 use to meet its loads over the next four years.
- 15 Q. Will Aquila's customers be notified of its intent to establish a rate adjustment mechanism
16 in connection with this rate request?
- 17 A. Yes. Included as Schedule DRW-2 is a sample customer notice that Aquila will send to
18 all affected customers once the Commission sets the dates for the public hearings for this
19 case.
- 20 Q. Has Aquila prepared an example customer bill to show how the proposed FAC would be
21 reflected?
- 22 A. Yes. A sample customer bill is attached to my testimony as Schedule DRW-3.
- 23 Q. Are emission allowance costs included in Aquila's proposed FAC mechanism?

1 A. Yes.

2 Q. Has Aquila completed an emission allowance study that depicts the strategy for purchase
3 of emission allowances over the next three years?

4 A. Yes. Aquila witness Block Andrews has filed direct testimony that supports Aquila's
5 emission allowance strategy.

6 **ACCOUNTS RECEIVABLE FINANCING**

7 Q. Please describe Aquila's accounts receivable financing program.

8 A. An accounts receivable financing program is typically a mechanism whereby a company
9 monetizes its receivables at a discount to a financial institution. In the past, accounts
10 receivable have been monetized either through a sale program or a loan secured by the
11 receivables. Either arrangement effectively serves as a short-term borrowing mechanism.
12 Lending institutions generally have discontinued one-step accounts receivable sales
13 structures and made it necessary for participating companies to utilize a program
14 whereby they pledge a portion of their existing accounts receivable balances to lending
15 institutions in return for a low-cost line of credit. In Aquila's case, a \$150 million line of
16 credit has been arranged with Citibank to be utilized as needed, against which accounts
17 receivables are pledged.

18 Q. What are the advantages of an accounts financing program over more conventional short-
19 term financing?

20 A. Although receivable financing programs of this type can be difficult and time-consuming
21 to establish, they generally carry lower costs than other forms of short-term financing due
22 to the availability of collateral to the lending institution. For example, our accounts
23 receivable program carries an unused facility fee of 37.5 to 50 basis points and an interest

1 rate of 137.5 basis points over LIBOR for any borrowings under this credit facility.
2 (LIBOR is currently about 5.5 percent.) In comparison, Aquila has a separate \$110
3 million short-term revolving credit agreement with Credit Suisse, a more conventional
4 utility financing mechanism, which carries a rate that varies with LIBOR and has
5 generally ranged over the last few months from 9 to 11 percent.

6 Q. How should this program be treated for ratemaking purposes?

7 A. The purpose of short-term credit facilities is to bridge the period between permanent
8 financings or to meet seasonal cash needs, such as higher cash requirements in winter to
9 meet gas procurement requirements. For ratemaking purposes, this short-term financing
10 mechanism should be treated consistently with other short-term debt.

11 **DSM RECOVERY**

12 Q. Why should DSM program costs be included in the cost of service for establishment of
13 rates in this case?

14 A. DSM programs are similar to a supply side resource. These programs, if properly
15 designed and implemented, are intended to reduce the peak load of a utility. Peak loads
16 are typically met through a utility's most expensive energy supply. Therefore, reduction
17 of the peak avoids the cost of expensive generation and results in lower rates for
18 customers. In other words, funding DSM programs now results in reduced costs later.
19 The DSM programs discussed in the direct testimony of Matt Daunis have been
20 incorporated into the integrated resource planning model described by Aquila witness
21 Davis Rooney. To be consistent with the integrated resource plan, Aquila needs to
22 implement the identified DSM programs or it needs to modify its resource planning in
23 accordance with the level of DSM programs otherwise authorized by this Commission.

1 Q. Has Aquila implemented any of the DSM programs addressed in Mr. Daunis' testimony?

2 A. Yes, but only minimally. As a result of settlement in its last rate proceeding Aquila
3 agreed that shareholders would fund a portion of the programs identified by Mr. Daunis.
4 However, we have not pursued a level greater than that agreed to in settlement.

5 Q. Why not?

6 A. Before Aquila begins spending significant amounts of money needed to implement DSM
7 programs, it is seeking agreement from Staff, OPC, and other interested parties that the
8 programs are appropriate, would benefit Aquila's customers, and should be authorized by
9 the Commission. Further, Aquila needs to have some assurance of cost recovery for the
10 DSM programs.

11 Q. Has Aquila included the DSM program costs recommended by Mr. Daunis in the revenue
12 requirement in this case?

13 A. Yes. Aquila has included the budgeted DSM program costs detailed in the integrated
14 resource plan that was provided to Staff and OPC in April 2005. As indicated, the
15 program details are discussed in Mr. Daunis' testimony. These programs are very similar
16 to the programs that Empire and KCP&L have implemented as part of their respective
17 Iatan 2 regulatory plans. To the extent that other parties agree the DSM programs have
18 net benefit and the Commission authorizes the recovery of costs, Aquila will pursue those
19 programs accordingly. If the parties do not believe that some of the recommended
20 programs have sufficient merit to justify their cost, Aquila would limit the DSM
21 programs and the amount it is seeking for recovery in this case to include only those
22 items agreed to by the parties and approved by the Commission.

1 Q. How can customers be assured that Aquila will actually spend all the DSM program
2 funds authorized by the Commission for collection in rates?

3 A. Aquila will adopt whatever amount is included by the Commission for DSM recovery in
4 rates as its estimated annual expenditure level. Expenditures for the DSM programs
5 approved by the Commission will be tracked in our accounting records. Annually, a
6 comparison will be made of the estimated annual expenditure level and actual approved
7 DSM program expenditures. If Aquila has spent more than the estimated expenditure
8 level, no further action will be taken. If Aquila has spent less than but within \$250,000
9 of the required annual expenditure level, the difference would be added to the next year's
10 required annual expenditure level. If Aquila has spent over \$250,000 less than the
11 estimated annual expenditure level, a report would be provided to Staff explaining the
12 variation from estimate and bill credits for the under-spending level would be issued to
13 customers.

14 Q. Does this conclude your pre-filed direct testimony?

15 A. Yes.

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION

P.S.C. MO. No. 1
 Canceling P.S.C. MO. No. _____

Original Sheet No. 124
 Sheet No. _____

Aquila, Inc., dba

AQUILA NETWORKS For All Territory Served by Aquila Networks – L&P and Aquila Networks – MPS
KANSAS CITY, MO 64138

**FUEL ADJUSTMENT CLAUSE
 ELECTRIC**

DEFINITIONS

ACCUMULATION PERIOD:

The four three-month accumulation periods, the four three-month recovery periods and filing dates will be as follows:

<u>Accumulation Period</u>	<u>Filing Date</u>	<u>Recovery Period</u>
December – February	By April 1	June – August
March – May	By July 1	September – November
June – August	By October 1	December – February
September – November	By January 1	March – May

RECOVERY PERIOD:

The billing months during which the Cost Adjustment Factor (CAF) is applied to retail customer billings on a per kilowatt-hour (kWh) basis.

COSTS:

Costs eligible for Fuel Adjustment Clause (FAC) will be the Company's allocated Missouri Jurisdictional costs for fuel consumed in Company generating units, purchased power charges and emission allowance costs. Eligible costs do not include the purchased power demand costs associated with purchased power contracts with a term in excess of one (1) year.

APPLICATION

The price per kWh of electricity sold will be adjusted subject to application of the FAC mechanism and approval by the Missouri Public Service Commission. If the Cost Adjustment Factor for a given quarter is not more or less than +/- 2.0% of the Aquila Networks – L&P Residential General Use winter energy first block, then the adjustment will not be implemented, and will be included as part of the following quarter's FAC. This exception does not apply if doing so will prevent the Company from filing the FAC at least once a year. The price will reflect accumulation period Missouri Jurisdictional costs above or below base costs specified on Sheet No. 126 for:

1. fuel consumed in Company electric generating plants, plus
2. purchased power (excluding demand contracts, the term of which exceed one (1) year), and all hedge costs, settlement costs and benefits, plus
3. emission allowance costs, plus or minus
4. an adjustment for recovery period sales variation. This is based on the difference between the values of the FAC as adjusted minus actual FAC revenue during the recovery period. This amount will be collected during a succeeding recovery period.
5. Interest on deferred electric energy costs shall be determined monthly. Interest shall be calculated at a rate equal to the weighted average interest rate paid on short-term debt, applied to the month-end balance of deferred electric energy costs. The accumulated interest shall be included in the determination of the CAF.

Schedule DRW-1
 Page 1 of 3

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION

P.S.C. MO. No. 1Original Sheet No. 125

Canceling P.S.C. MO. No. _____

Sheet No. _____

Aquila, Inc., dba**AQUILA NETWORKS** For All Territory Served by Aquila Networks – L&P and Aquila Networks – MPS
KANSAS CITY, MO 64138**FUEL ADJUSTMENT CLAUSE (CONTINUED)**
ELECTRIC

The FAC will be the sum of (1), (2), (3), (4) and (5), above. The Cost Adjustment Factor is the result of dividing the FAC by estimated kWh sales during the recovery period, rounded to the nearest \$.0000. The formula and components are displayed below.

$$FAC = F + P + E + X - B + C + I$$

The Cost Adjustment Factor (CAF) is as follows:

$$CAF = FAC / S$$

Where:

- F = Actual cost of fuel – FERC Accounts 501 & 547
- P = Actual cost of purchased energy – FERC Account 555
- E = Actual emission allowance cost – FERC Account 509
- X = .50 x (Base off system sales margins – accumulation period off system sales margins)
- B = Base cost of fuel and purchased power energy = S x \$0.0215 for Aquila Networks – L&P, or S x \$0.0287 for Aquila Networks – MPS
- C = Under / Over recovery from prior recovery period, and modifications due to annual prudence reviews
- S = Estimated sales (kWh) for the recovery period
- I = Interest

The FAC will be calculated separately for Aquila Networks – L&P and Aquila Networks – MPS, and the resultant CAF's will be applied to customers in the respective divisions.

APPLICABLE BASE COST

Company generated energy and purchased energy per kWh sold, \$0.0215 for Aquila Networks – L&P, and \$0.0287 for Aquila Networks – MPS. (Or the amounts approved in the rate case.)

Schedule DRW-1
Page 2 of 3

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION

P.S.C. MO. No. 1Original Sheet No. 126

Canceling P.S.C. MO. No. _____

Sheet No. _____

Aquila, Inc., dba**AQUILA NETWORKS** For All Territory Served by Aquila Networks – L&P and Aquila Networks – MPS
KANSAS CITY, MO 64138FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRICCOST ADJUSTMENT FACTOR

Accumulation Period Ending	Aquila Networks	– L&P	– MPS
	mm/dd/yy	mm/dd/yy	mm/dd/yy
1. Total energy cost (F, P, E, and X)	\$xxx,xxx,xxx		\$xxx,xxx,xxx
2. Base energy cost (B)	\$xxx,xxx,xxx	-	\$xxx,xxx,xxx
3. Fuel Adjustment Clause	\$xxx,xxx,xxx		\$xxx,xxx,xxx
4. Adjustment for Under / Over recovery for the recovery period ending mm/dd/yyyy	\$xxx,xxx,xxx	+	\$xxx,xxx,xxx
5. Fuel Adjustment Clause as Adjusted	\$xxx,xxx,xxx		\$xxx,xxx,xxx
6. Estimated recovery period sales kWh	x,xxx,xxx,xxx	÷	x,xxx,xxx,xxx
7. Cost adjustment factor to be applied to			
Aquila Networks – L&P bills beginning mm/dd/yyyy	\$0.0000		
Aquila Networks – MPS bills beginning mm/dd/yyyy			\$0.0000

Schedule DRW-1
Page 3 of 3

Important Notice

Aquila has filed a rate increase request with the Missouri Public Service Commission (PSC). The increase would total at approximately 22.0 percent in its MPS service area and at approximately 22.1 percent in its L&P service area.

For the average MPS residential customer using 1,000 kilowatt hours of electricity per month, the proposed increase would be approximately \$21.19 per month. For the average L&P residential customer using 1,000 kilowatt hours of electricity per month, the proposed increase would be approximately \$16.09 per month.

Aquila has also asked the PSC to authorize implementation of a Fuel Adjustment Clause. The clause would allow Aquila to adjust customers' bills quarterly based on the varying cost of fuel and power purchased in the current volatile market. Any increase or decrease in fuel costs will be reflected in your quarterly adjustment. This means your bill would be based on more current fuel costs. Additionally, the frequency of rate cases would be decreased, reducing the filing and procedural costs to customers and taxpayers.

A local public hearing (or evidentiary hearing) has been set before the PSC at ___ o'clock, on (date) at _____, (address), City, Missouri. If you wish to comment or obtain information, you may contact the Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, telephone (573)751-4857.

The building where the hearing will be held meets accessibility standards required by the Americans with Disabilities Act. If a customer needs additional accommodations to participate in these hearings, please call the Public Service Commission's Hotline at 1-800-392-4211 (voice) or Relay Missouri at 711 prior to the hearing.

Aquila Networks- MPS Sample Bill
With Fuel Adjustment Clause

Customer Name	Account Number: 0000 0000 00
Details of your utility service at:	Billing Date: 04/17/06
<u>5555 N 2ND AVE</u>	<u>Amount Billed:</u> <u>\$117.41</u>
ELECTRIC METERED SERVICE (MO860)	Customer Charge \$ 7.89
Meter Number: LG88888888	Delivery Charge 1 st 600 kWh @ \$.0823 74.07
Reading 04/13/06 3000	Delivery Charge 400 kWh @ \$.0563 22.52
Reading 03/14/06 <u>2000</u>	<u>FAC 1000 kWh @ \$0.0051 5.10</u>
30 days 1000 Kilowatt Hours (kWh)	Franchise Fee \$109.58 @ 5% 5.48
Your average daily usage was 33.33 kWh	County Sales Tax \$109.58 @ 1.15% 1.26
Last year this period it was 32.00 kWh	City Sales Tax \$109.58 @ 1% 1.10
	Total charge this service \$117.41

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS and Aquila Networks-L&P area

County of Jackson)
State of Missouri) SS

Dennis R. Williams, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Dennis R. Williams;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to before me this 14 day of July, 2006.

My Commission expires:

8-20-2008



TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008