

Exhibit No.: 021

Issues: Purchased Power
Capacity Contract

Witness: Kevin T. Noblet

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

Kevin T. Noblet

****Denotes Highly Confidential Information****

NP

Aquila Exhibit No. 21
Case No(s). ER-2007-0004
Date 4-21-07 Rptr KE

TABLE OF CONTENTS
DIRECT TESTIMONY OF KEVIN T. NOBLET
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____

EXECUTIVE SUMMARY.....	2
MPS AND L&P ADDITIONAL CAPACITY SOLUTION.....	2

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

1 Q. Please state your name and business address.

2 A. My name is Kevin Noblet. My business address is 10750 E. 350 Highway, Kansas City,
3 Missouri, 64138

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, Energy
6 Resources, in its regulated electric utility operations.

7 Q. Please describe your responsibilities in that position.

8 A. Within its regulated electric utility operations, Aquila has functionally separated the
9 supply of electric energy from the transmission and distribution on energy. I am
10 employed within the energy supply operation. My major responsibility is managing the
11 electric supply resource contracts we have in connection with the Company's Colorado,
12 Kansas and Missouri electric utility operations.

13 Q. What are your educational qualifications, training, and experience?

14 A. I hold a Bachelor of Arts Degrees in Physics from William Jewell College, a Bachelor of
15 Science Degree in Electrical Engineering from Washington University and a Masters in
16 Business Administration from Kansas University. I am a licensed Professional Engineer
17 in the state of Missouri. I have over 14 years of experience in the electric energy
18 industry. I began my career in 1992 at Burns & McDonnell Engineering Company as an

1 electric/controls engineer in its Energy Division. In 1997 I accepted a position with
2 Aquila's merchant affiliate, Aquila Power Corporation. I transferred to Aquila's
3 regulated business in the spring of 2004. For the past two years, my responsibilities have
4 been as described above.

5 **EXECUTIVE SUMMARY**

6 Q. What is the purpose of your direct testimony?

7 A. The purpose of this testimony is to present and support Aquila's position in this case
8 before the Missouri Public Service Commission ("Commission") regarding an additional
9 capacity solution for the Aquila Networks-MPS ("MPS") and Aquila Networks-L&P
10 ("L&P") operating divisions of Aquila including a discussion of both short-term and
11 long-term energy purchases. In summary, my testimony identifies the costs necessary for
12 a long-term capacity purchase which Aquila expects to have in place prior to the
13 requested true up date. If we are unable to procure such a contract, my testimony
14 outlines available alternatives.

15 **MPS AND L&P ADDITIONAL CAPACITY SOLUTION**

16 Q. How is short-term energy priced?

17 A. Pricing for short-term Power Purchase Agreements ("PPAs") is driven by the quoted
18 forward energy markets. If a generator decides to sell, the generator has the choice of
19 selling its output bilaterally to other counterparties or entering into a forward contract for
20 its output. Premiums and discounts are used to adjust the quoted forward energy markets
21 for basis (location), energy type (liquidated damages, system firm, or unit contingent)
22 and liquidity.

23 Q. How is long-term energy priced?

1 A. Forward markets are only quoted for a couple of years and even though energy may be
2 quoted in future months or years, there is little liquidity or depth to the market. Since
3 there is not a good long-term forward market, generators have to use different methods
4 for pricing long-term PPAs. For long-term PPAs, Independent Power Producers ("IPPs")
5 have adopted a method based on the IPP's return on investment for a particular project.
6 Basically, the IPP determines what future cash flow streams create the required return on
7 initial investment. The actual required return will vary over time as well as from IPP to
8 IPP.

9 Q. Define "short-term" and "long-term".

10 A. The definition of short-term and long-term will differ from company to company.
11 Typically transactions are considered "short-term" if the transaction starts and concludes
12 within the liquid portion of the quoted forward energy market(s). The liquid portion of
13 the quoted forward energy market(s) would be the portion where one could quickly buy
14 or sell a particular item without causing a significant price movement. Quoted forward
15 energy markets are typically liquid up to one year and although less liquid, still quoted
16 for up to 3 years. Therefore, short-term transactions typically are less than a 3 year term.
17 "Long-term" transactions are typically 5 years and longer. Companies typically blend
18 prices between their short-term pricing curves and long-term pricing curves (i.e. if a
19 company defines short-term as only two years and long-term 5 years and beyond, the
20 company would typically interpolate between its short-term curve and its long-term curve
21 to cover year 3 and year 4).

22 Q. Are there any proposed short-term resources included in the MPS/L&P system for this
23 rate case?

1 A. No.

2 Q. Are there any proposals for new long-term resources included in the MPS/L&P system
3 for this rate case?

4 A. Yes. An additional capacity solution is included in this case. The additional capacity
5 solution is for **__** MW. The term of the proposed additional capacity solution is for
6 a minimum of 20 years.

7 Q. Please describe in more detail the additional capacity solution.

8 A. The additional capacity solution is not finalized at this time. At this time, Aquila is assuming
9 the additional capacity solution may be a local natural gas-fired combined cycle facility that
10 is currently scheduled to be sold this year. Because there is the potential that this asset may
11 not be sold, or that Aquila may not be the successful bidder if it is sold, Aquila is proposing a
12 placeholder value as determined by pricing out a long-term PPA.

13 Q. How would pricing of an asset purchase differ from the pricing of a long-term PPA?

14 A. If the term of the long-term PPA is assumed to be for the life of the plant and the
15 purchased asset was not a distressed asset, the pricing would not be substantially
16 different.

17 Q. What is a "distressed asset"?

18 A. A distressed asset is an asset which its owner has decided to sell at a price that is below
19 its depreciated book value. Most distressed assets would fall in the category as not being
20 strategic to the future plans of the selling company, as well as, assets that are under
21 performing financially (i.e. not meeting the desired rate of return on the investment now
22 or in the foreseeable future).

23 Q. Have there been distressed generating assets available in the market?

1 A. Yes.

2 Q. Has Aquila purchased a distressed asset in the past?

3 A. No. The distressed assets available in the market have not been in locations that would
4 benefit MPS or L&P.

5 Q. Does Aquila expect additional distressed generating assets to become available?

6 A. Other than the asset mentioned above, Aquila does not anticipate any other distressed
7 generating assets becoming available in this region.

8 Q. When does Aquila expect to have a contract in place for the additional capacity?

9 A. Aquila is expecting a signed contract prior to the true up date as requested in Company
10 witness Susan Bruan's direct testimony.

11 Q. What rate treatment is Aquila asking in this case for the additional capacity solution?

12 A. As an initial placeholder, Aquila is requesting a demand charge, including transmission
13 and fuel transport, of \$** ____ **/kW-month for a total of \$** ____ ** (assumes
14 a contract quantity of ** ____ ** MW). The fixed charges are included in pro forma
15 adjustments sponsored by Company witness Susan Braun and the related energy costs are
16 included in Company witness Davis Rooney's direct testimony.

17 Q. What is the basis for including these costs for rate treatment?

18 A. Since Aquila anticipates that this will be a long-term purchase, the return on initial
19 investment method would be appropriate to use to price this transaction. \$** ____ **/kW-
20 month is a very good estimate for what a typical 2-on-1 combined cycle would required
21 for a long-term PPA. This estimate is consistent with Mike Apprill's direct testimony in
22 Case No. ER-2005-0436. In Mr. Apprill's direct testimony it references a five-year
23 proposal, received in June 2004, from Calpine with a demand charge of \$** ____ **/kW-

1 month. Calpine has subsequently submitted Aquila other proposals. One such proposal
2 received on July, 1, 2005 is similar in nature to Aquila's additional capacity solution
3 described herein. In this proposal, Calpine proposed a demand charge of
4 \$** ____ **/kW-month for year one escalating to \$** ____ **/kW-month in year ten.

5 Q. How does Aquila propose the Commission handle the uncertainty of pricing as this rate
6 case proceeding progresses?

7 A. Aquila is suggesting that the \$** ____ **/kW-month demand charge and the associate
8 energy price modeling be used as an initial placeholder and then trued up for any known
9 and measurable changes subject to the final contracts that are expected to be in place
10 prior to the requested true up date.

11 Q. What if Aquila is unsuccessful in obtaining a long-term solution to its capacity needs?

12 A. Although Aquila is focused on solving its capacity needs with a long-term option, Aquila
13 realizes that such a solution may not be available in the market. If Aquila is unsuccessful
14 in obtaining a long-term solution, Aquila will pursue a short-term solution. Such solution
15 would consist of one or more short-term PPA(s) that would bridge the time until a longer
16 term solution could be put in place.


17 Q. Does this conclude your testimony at this time?

18 A. Yes

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

[illegible]

Kevin Noblet, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Kevin Noblet;" 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.


Kevin Noblet

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

of July, 2006.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008



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