

Re Aqualia, Inc. dba Aquila Networks

Case No. ER-2004-0034

— PUR4th —

Missouri Public Service Commission

April 22, 2004

BY THE COMMISSION:

ORDER APPROVING STIPULATION AND AGREEMENT

On July 7, 2003, Aquila, Inc., d/b/a Aquila Networks — L&P and Aquila Networks — MPS, submitted to the Missouri Public Service Commission tariff sheets intended to implement general rate increases in electric service of \$65 million for MPS and \$14.64 million for the L&P division. Also on this date, in a separate matter, Aquila Networks — L&P submitted tariff sheets intended to implement a general rate increase in steam heat service of \$1.34 million. With August 4, 2003, as the effective date of both tariffs, the Commission suspended both proposed tariff sheets for 120 days plus six months, until June 2, 2004. The Commission then consolidated both matters with the lead case being ER-2004-0034.

On August 22, 2004, the Commission granted the unopposed applications to intervene of the following entities: Sedalia Industrial Energy User's Association; AG Processing, Inc.; the City of Kansas City, Missouri; the United States Department of Defense and other Federal Executive Agencies; and the Missouri Department of Natural Resources. The Commission conducted Local Public Hearings in St. Joseph and Raytown, Missouri, and on February 23, 2004, convened the evidentiary hearing. Near the conclusion of the evidentiary hearing, the Commission stayed the proceedings to allow the parties an opportunity to reach an agreement. On March 16, 2004, the parties filed a Unanimous Stipulation and Agreement, which is summarized below. On March 30, 2004, the Staff of the Commission filed suggestions in support of the agreement. And on April 5, 2004, the Commission held an on-the-record presentation of the agreement.

THE AGREEMENT

Revenue Requirement

The parties agree that the proposed tariff sheets filed by Aquila should be rejected and that the Company should be authorized to file revised tariff sheets designed to produce an increase in overall gross annual electric revenues of \$14.5 million, for its MPS service area, and \$3.25 million for its L&P service area. With regard to the steam portion of the L&P service area, the parties agree that Aquila should be authorized to file revised tariff sheets designed to produce an increase in overall gross annual revenue of \$1.3 million.

AG Processing Special Contract

Aquila agrees to grant AG Processing, an industrial steam customer, a five-year contract whereby AG Processing will pay the applicable tariff amount and receive a \$35,000 credit, not to exceed the amount billed for that month. As a condition of the credit, AG Processing must maintain a 70% load factor for the month. After five years, either party may cancel the contract with written notice provided 12 months prior to the intended termination.

Interim Energy Charge

The parties agree that the fuel and purchased power expense issues in this case be resolved by implementation of an Interim Energy Charge. The charge is to include a specific, permanent annual amount of the Missouri jurisdictional electric costs of fuel and purchased power. The charge will also include an additional amount of variable fuel and purchased power cost on an interim basis, subject to true-up and refund.

The permanent amount for MPS electric operations is \$87,700,206. The amount subject to true-up and refund is \$16.1 million. The permanent amount for L&P electric is \$22,705,656. And the amount subject to true-up and refund is \$2.4 million. The specific amount to be included in retail rates on a permanent basis for L&P industrial steam operations is \$4,374,480, with no amount subject to refund.

Tariff and Implementation

The parties attached illustrative tariff sheets to the Stipulation and Agreement. The parties agree that, in its order approving the agreement, the Commission is to order Aquila to file tariff sheets to become effective on the effective date of the order approving the agreement.

Reliability Reporting

Aquila agrees to provide to the Staff of the Commission certain Call Center data within 21 days after the last day of the month to which the information relates. Aquila also agrees to provide to any party in this matter, on a quarterly basis, Momentary Average Interruption

Frequency Index data. Aquila agrees to provide this monthly information until Aquila's financial condition reaches investment grade and the Staff determines that Aquila's customer service and reliability performance no longer require monthly reporting to Staff. Thereafter, Aquila will provide the information on a quarterly basis.

Depreciation

The parties agree that Aquila shall adopt Staff's recommended method of depreciation — cost of removal less salvage. For ratemaking purposes, the net cost of removal is \$1,471,339 for MPS, \$454,995 for L&P electric and \$24,382 for L&P steam. Aquila is to record the difference between these amounts and Aquila's actual net costs of removal in its accumulated depreciation reserve. In Aquila's next general rate case, the parties agree to review this method to determine if this is how Aquila will continue to treat depreciation.

Miscellaneous Service Matters

The parties agree that for Aquila's electric and steam operation the following shall apply:

- a. The late payment charge will be 1/2 percent per month of the original net amount due on the delinquent bill.
- b. The customer deposit interest for the year will be one percentage point above the prime rate as published in the Wall Street Journal
- c. With the exception of special meter reading, temporary meter sets and collection charges, the miscellaneous charges for electric service will be as outlined in the rebuttal testimony of Staff witness William McDuffey.
- d. The special meter reading charges will be \$12 for MPS and \$16 for L&P service areas.
- e. The temporary meter set charge for electric service will be \$100 for MPS and L&P service areas
- f. The collection charge for electric service will be \$25 for both MPS and L&P service area.

Weatherization

Aquila agrees that prior to January 1, 2005, it will supply, through shareholder funds, a one-time funding of \$75,000 to conduct tall tower wind assessments as described in the direct testimony of Missouri Department of Natural Resources' witness Anita Randolph. Aquila also agrees to fund, on an annual basis until its next general electric rate case, \$93,500 that may be used for a low-income weatherization program. Aquila agrees to work with MDNR to apply for

any federal grant opportunities and with MDNR and the City of Kansas to explore processes and implementations already in place in Iowa or Minnesota.

Tax Study

Aquila will continue, for purposes of this Stipulation and Agreement, to calculate straight-line tax depreciation in accordance with Staff's method.

Customer Service Inquiries

Aquila agrees to respond to inquiries from Staff's Customer Service Department within three business days. Aquila agrees to respond to Staff's inquiries concerning interruption of service within 24 hours.

Billing Determinants

The parties agree to use Staff's billing determinants to develop the rates in this case.

Aries Information

Aquila agrees to store all information regarding the Aries plant and to make the information reasonably available for inspection.

Pensions

The parties agree that the amounts to be included in rates for annual provision of pensions, prior to capitalization, shall be: \$1,470,509 for MPS; \$8,858 for L&P electric; and \$261 for L&P steam. The parties agree that Aquila will record the difference between the ERISA minimum and the annual provision for pension cost as a regulatory assets or liability to be amortized over a five-year period and included in Aquila's next rate case.

The parties further agree that MPS rates include a \$2,110,436 annual provision for MPS electric jurisdictional prepaid pension amortization, \$2,252,742 for L&P electric and \$98,687 for L&P steam. For MPS the amortization period will be 5-1/2 years. For L&P the amortization will be 9-1/4 years.

Integrated Resource Planning

Aquila agrees to conduct a presentation concerning its resources plans to Staff, the Office of the Public Counsel and the Missouri Department of Natural Resources. All other parties to this

matter will also be invited. Additionally, Aquila agrees to file every two years details of its resource planning covering at least a ten-year time frame.

Steam Operation

The parties agree that expenses for L&P steam operation will be allocated for ratemaking. The parties also agree that Aquila should be granted a waiver from the Commission requirement that such expenses be booked monthly. Aquila shall conduct annual studies of its steam operations and report the same to Staff and AG Processing.

Books and Record-Keeping

Aquila and the Office of the Public Counsel agree to meet each month over the next six months to resolve concerns regarding Aquila's books and records.

Cost of Capital

Until Aquila attains an investment grade rating and a company-specific discounted cash flow analysis can be performed on Aquila, Aquila agrees not to seek a cost of capital that is higher than comparable electric utilities with an investment grade rating.

Litigation

Upon an order approving this Stipulation and Agreement becoming final, AG Processing and Public Counsel agree to dismiss any pending actions regarding the merger of UtiliCorp United and St. Joseph Light & Power.

Moratorium

Aquila agrees not to seek a general rate increase within 13 months after the effective date of the tariffs in this rate case. Aquila further agrees that no increase in rates shall become effective prior to the termination of the Interim Energy Charge.

DISCUSSION

The Commission has the legal authority to accept a stipulation and agreement as offered by the parties as a resolution of issues raised in this case. ¹ (1) In reviewing the Unanimous Stipulation and Agreement submitted by the parties, the Commission notes that Section 536.090, RSMo 2000, provides that the Commission need not make either findings of fact or conclusions

of law in this order. Additionally, the Commission makes no findings or conclusions concerning any ratemaking or procedural principle or any methodology adopted in the stipulation and agreement.

Upon review of the Unanimous Stipulation and Agreement and considering the various interests the parties to the agreement represent, the Commission finds the agreement would result in just and reasonable rates. The Commission will therefore approve the agreement.

IT IS THEREFORE ORDERED:

1. That the Unanimous Stipulation and Agreement filed on March 16, 2004, is approved as a resolution of all issues in this case.
2. That the parties are ordered to comply with the terms of the Unanimous and Agreement.
3. That all pending motions are denied as moot.
4. That the proposed tariff sheets filed on July 3, 2003, by Aquila, Inc. d/b/a Aquila Networks — MPS are rejected.
5. That the proposed tariff sheets filed on July 3, 2003, by Aquila, Inc. d/b/a Aquila Networks — L&P are rejected.
6. That Aquila Inc., d/b/a Aquila Networks — MPS shall file tariff sheets in the form of the tariff sheets included with the Unanimous Stipulation and Agreement.
7. That Aquila, Inc. d/b/a Aquila Networks — L&P shall file tariff sheets in the form of the tariff sheets included with the Unanimous Stipulation and Agreement.
8. That the tariff sheets filed in the form of the tariff sheets attached to the Unanimous Stipulation and Agreement are to be filed with an effective date of April 22, 2004.
9. That this case shall become effective on April 22, 2004.

Dale Hardy Roberts Secretary/Chief Regulatory Law Judge

Gaw, Ch., concurs, with separate concurring opinion to follow; Murray, C., concurs, with separate concurring opinion attached; Clayton, C., concurs.

Jones, Regulatory Law Judge

Concurring Opinion of Commissioner Murray

Although I agree that the Stipulation and Agreement results in just and reasonable rates to current customers and concur in today's order, I am not comfortable with the method adopted for treatment of net salvage/cost of removal. It is my hope, however, that any potential generational inequity created thereby will be corrected in the next general rate case. A return to the traditional rate base treatment of net salvage/cost of removal would appropriately match the cost of the assets to the ratepayers responsible for causing the cost.

Respectfully submitted,

Connie Murray Commissioner

Dated at Jefferson City, Missouri, on this 13th day of April, 2004.

FOOTNOTES

¹ Section 536.060, RSMo 2000.

Endnotes

1 (Popup)

¹ Section 536.060, RSMo 2000.

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