

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

In the Matter of the Application of Aquila, Inc., for)	
Authority to Sell, Assign and Transfer to KAMO)	
Electric Cooperative, Inc., Approximately Six (6))	Case No. EO-2006-0036
Miles of Electric Transmission Line Located in)	
Barton County, Missouri)	

STAFF RECOMMENDATION

Comes now the Staff of the Missouri Public Service Commission (Staff) and submits its Staff Recommendation (Appendix A) suggesting that the Commission authorize, subject to the conditions set out therein, the sale of approximately six (6) miles of 69kV electric transmission line at an agreed to price of \$275,000 by Aquila, Inc. (Aquila) to KAMO Electric Cooperative, Inc. (KAMO) pursuant to the terms of the Asset Purchase Agreement attached to Aquila's July 26, 2005 Application. Aquila asked in the alternative, in its Application, for a Commission determination that the particular six (6) mile length of transmission line is no longer necessary or useful in Aquila's performance of its duties to the public.

The Staff has completed its review and analysis of Aquila's Application and recommends, as noted in Appendix A, that the Commission should find, subject to the following provision and the suggestions in the Staff Recommendation, that pursuant to Section 393.190.1 RSMo 2000 and 4 CSR 240-3.110, the transaction in question is not detrimental to the public interest. The Commission should state in its Order authorizing the requested transaction that the Commission makes no finding that would bind the Commission or any party to this proceeding to any ratemaking treatment in any future proceeding respecting the actions relating to the approval of the pending Application.

Wherefore the Staff submits its recommendation respecting Aquila's Application.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/Steven Dottheim

Steven Dottheim
Chief Deputy General Counsel
Missouri Bar No. 29149

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7489 (Telephone)
(573) 751-9285 (Fax)
e-mail: steve.dottheim@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 11th day of October 2005.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EO-2006-0036, Aquila, Inc.

FROM: Dan Beck, Energy Department – Engineering Analysis
William Harris, Auditing Department

/s/Lena Mantle 10/11/05
Energy Department/Date

/s/ Steven Dottheim 10/11/05
General Counsel’s Office/Date

SUBJECT: Staff Recommendation

DATE: October 11, 2005

On July 26, 2005, Aquila, Inc. (Aquila) filed an Application requesting authorization for the sale of approximately 6 miles of 69kV electric transmission line at an agreed to price of \$275,000 to KAMO Electric Cooperative, Inc (KAMO) pursuant to the terms of the Asset Purchase Agreement (Agreement) attached to the Application. This line connects Aquila’s Lamar 69kV electric substation to The Empire District Electric Company’s Boston Corner 69kV Substation and is located in Barton County, Missouri. Although the Application states that the facilities are located in Section 2, Township 31 North, Range 31 West, Staff reviewed Exhibit C which was attached to the Application and determined that the facilities are actually located in parts of 9 different sections (a section is approximately one square mile) as listed below:

<u>Section</u>	<u>Township</u>	<u>Range</u>
35	32	31
3	31	31
2	31	31
1	31	31
6	31	30
5	31	30
7	31	30
8	31	30
9	31	30

Aquila confirmed that the above list is correct and Aquila provided the following brief description: The northernmost point of the line is near the north section line of Section 35, Township 32N, Range 31W. The southeastern most point of the line is just outside Empire District’s Boston Corner’s Switching Station in the SW corner of Section 9 Township 31N, Range 30W. The entirety of the line is in Barton County, Missouri.

Currently, Aquila is not directly serving any customer from this line but instead uses the line for emergency backup. The Application states that KAMO will allow Aquila access to emergency backup service for Aquila's loads at Lamar, Iantha, Liberal and Sheldon. The Application also states, in part:

5. KAMO is purchasing the facilities in order to provide voltage support to KAMO customers in Lamar area and City of Lamar customers served from the Jackson Street Substation. . . .

6. The granting of this Application will not be detrimental to the public interest because, as noted above, the Facilities are not normally serving any customer of Aquila and, further, their use for emergency backup will be preserved. As such, the sale in no manner impair electric service provided by Aquila to its customers.

After additional discussions with the Company, it also appears that KAMO is planning some facility improvements that would allow the transmission line to be used under normal circumstances, not just emergency backup. Finally, KAMO is considering serving customers directly from this line.

In its Application, Aquila requests, in the alternative, pursuant to Section 393.190.1, that the Commission dismiss the Application as unnecessary because the facilities in question are no longer "necessary or useful" to Aquila in the performance of its duties to the public.

The Asset Purchase Agreement, Exhibit C, also states that 10 business days after approval of the proposed sale by the Commission and upon receipt of approval by FERC, Aquila and KAMO intend to complete the transfer. In discussions with Aquila, Staff learned that FERC approval has not yet been requested but will be in the near future.

KAMO is acquiring the transmission line from Aquila at a premium over book value. Since the acquiring entity, KAMO, is a rural electric cooperative, which means KAMO's rates are not regulated by the Commission, there is no acquisition premium for the Commission to address regarding the acquiring entity. Respecting the gain that Aquila will receive from its sale of the transmission line, the Commission has traditionally treated such gains on sales as going to the selling utility's shareholders and not to the utility's ratepayers.

The Staff would note that the timing of the sale of the electric transmission facilities could have an effect on whether the sale of these facilities will be reflected in any manner by the Staff in Aquila's current electric rate case, Case No. ER-2005-0436.

The Staff recommends conditional approval of the proposed sale as not detrimental to the public interest. Specifically, the Staff recommends that the Commission issue an Order that:

- a. Authorizes Aquila to sell to KAMO certain electric transmission facilities as described in the Sale Agreement dated June 14, 2005 and included in the Aquila Application; and
- b. Makes no finding that would bind the Commission or any party in any future proceeding to any ratemaking treatment of the actions related to approval of the Application.

The Staff has verified that Aquila has filed its annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing; however, the following Cases are pending before the Commission:

EO-2005-0293	Regulatory Plan
EO-2005-0156	South Harper – Chapter 100 Financing
EA-2005-0248	South Harper – Application
ER-2005-0436	Electric rate increase
EO-2002-0384	Class Cost of Service and Rate Design