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February 13, 2004

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Re: Case Nos. ER-2004-0034 and HR-2004-0024

Dear Mr. Roberts:

Provided herewith for filing on behalf of Aquila, Inc., please find in electronic format Aquila's Statement of Positions on the Issues in the above-referenced case.

A copy of this filing will be provided to all parties of record.

Please see that this filing is brought to the attention of the appropriate Commission personnel.

I thank you in advance for your cooperation in this matter.

Very truly yours,

James C. Swearengen

James C. Swearengen

JCS/lar
Enclosure
cc: Nathan Williams
John Coffman
Stuart Conrad
Mark Comley
Shelley Woods
Major Craig Paulson

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Aquila, Inc., d/b/a Aquila Networks - L&P and Aquila Networks - MPS to Implement a General Rate Increase in Electricity	))))	Case No. ER-2004-0034
In the Matter of the Request of Aquila, Inc. d/b/a Aquila Networks - L&P, to Implement a General Rate Increase in Steam Rates	)))	Case No. HR-2004-0024

AQUILA'S STATEMENT OF POSITIONS ON THE ISSUES

COMES NOW Aquila, Inc. d/b/a Aquila Networks – L&P and Aquila Networks – MPS ("Aquila") and submits to the Missouri Public Service Commission ("Commission") its Statement of Positions on the Issues:

1. **Policy**

2. **Amortization of Accounting Authority Orders**

Issue Description: Should the amortization of the expenses involved with the accounting authority order ("AAO") issued by the Commission in connection with L&P's automated mapping/facilities management costs ("AM/FM") be included in the cost of service for ratemaking purposes? Should the unamortized balance of the expenses involved with the AM/FM AAO and the unamortized balances of the expenses involved with Aquila's other AAO's issued by the Commission be included in rate base which would allow Aquila to earn a return on these expenditures?

Aquila Position: Yes. The L&P cost of service should include the amortization of the AAO for the AM/FM costs. Earning a return on the unamortized balances for the AM/FM AAO as well as Aquila's AAO's for the Sibley rebuild, western coal conversion and the 2002 ice storm provides proper recovery of prudently incurred costs and should be allowed.

3. **Accounting Record-Keeping**

Issue Description: Should Aquila be ordered to change its detailed general ledger to include a more detailed cost source?

Aquila Position: No. In Case No. ER-2001-672 Aquila was directed to create a monthly detailed general ledger report. Aquila met with Staff and OPC and with their input created a detailed general ledger report. This general ledger report was utilized by Staff during the audit in this case and to Aquila's knowledge the Staff did not have any problems with the audit in regard to using this report.

4. **Service Quality & Reliability**

Issue Description: Should Aquila be ordered to provide monthly reporting of call center information on nine different matrix's, such as average speed of answer, abandon call rates, etc.

Aquila Position: No. Aquila is willing to provide the information on a quarterly basis which is less costly and adequate under the circumstances.

5. **Customer Growth Adjustments**

Issue Description: For Aquila's MPS operating division, what is the appropriate use per customer for those customers that have switched among rate codes 710, 711, 730 and 735? Should a mid-month average customer count be used to determine revenue use per customer?

Aquila Position: An average use per customer for those customers switching from rate code 710 to 711 should be used. The averaging method used by Staff by combining customers in rate codes 710 and 711 overstates revenue because the actual average use per customer for customers switching from rate code 710 to 711 is less than the average use per customer used by Staff.

Staff increased revenue for customers that switched to 730 and 735 without decreasing the revenue for the rate codes the customers were switching from. Aquila's position is that if Staff is going to annualize the increases for switching rate codes then an annualation of the decreases should also be made.

Additionally, end-of-month customer counts, rather than mid-month, should be used in calculating use per customer because the end of month customer counts better match end of month revenues used in the calculation.

6. **Interest on Accounts Receivable – CWC**

Issue Description: Should the calculation of the revenue lag for purposes of determining cash working capital include the selling of accounts receivable?

Aquila Position: No. The revenue lag calculation should not include the selling of accounts receivable because Aquila no longer sells its receivables. To Aquila's knowledge, no other Missouri utility sells its receivables and Staff has not imputed the revenue lag for those companies for ratemaking purposes.

7. **Bad Debt Expense (Uncollectibles)**

Issue Description: What period of time should be used to calculate the bad debt expense rate to provide the appropriate level of ongoing bad debt expense for ratemaking purposes in this case?

Aquila Position: The most recent full three year average of bad debt rates should be used to calculate a rate to apply to annualized revenues to determine bad debt expense. The Staff's approach of using partial years (3 years and 9 months for MPS and 5 years and 9 months for L&P) skews the rates because of potential 4^{th} quarter write-offs.

8. **Property Taxes**

Issue Description: Should plant balances at September 30, 2003 or at December 31, 2002 be used to calculate property taxes?

Aquila Position: September 30, 2003 is the correct point in time to determine plant balances for the property tax calculation because it matches the update period in this case.

9. **Manufactured Gas Plant Remediation Costs**

Issue Description: Should Aquila's gas customers pay for all Manufactured Gas Plant ("MGP") remediation costs or should a portion be allocated to the electric customers as well?

Aquila Position: Both gas and electric customers should be responsible for MGP remediation because it is a corporate-wide obligation caused by Environmental Protection Agency requirements.

10. **Pension – FAS 87:**

Issue Description: Should the ERISA minimum be used as the appropriate amount of expense to be included in Aquila's cost of service for pension expense?

Aquila Position: No. A contribution range is more appropriate because disallowance of amounts contributed over the ERISA minimum could automatically be disallowed in future cases.

11. **Corporate Restructuring (Labor and Non-Labor)**

Issue Description: In addition to the corporate department labor and non-labor charges already eliminated for ratemaking purposes by Aquila, should additional corporate department labor and non-labor charges be assigned to corporate restructuring/divestiture activities and eliminated from the cost of service?

Aquila Position: No. Labor and non-labor costs associated with restructuring/divestiture activities have already been identified and removed from Aquila's cost of service. At the time the rates determined in this case go into effect, the vast majority of restructuring/divestiture activities will be completed and existing labor and non-labor cost levels will be needed to maintain Aquila's seven-state domestic utility operations.

12. **20^{th} West Ninth Street Building**

Issue Description: Should 35% of Aquila's headquarters building be eliminated from the cost of service and rate base for this case?

Aquila Position: No. None of the costs of Aquila's headquarters at 20 West Ninth should be eliminated. Aquila utilized an aggressive space plan allowing workstations to be 53.5% less than the norm. Thus, the amount of space utilized by the Company remains reasonable.

13. **Customer Charges (temporary meter charge, special meter reading charge and late payment charge)**

Issue Description: What is the appropriate L&P customer charge for temporary meter set; for L&P and MPS special meter reading; and for L&P and MPS late payment charge?

Aquila Position: The temporary meter charge for L&P should be $100 and match the current MPS charge. The special meter reading charge for L&P and MPS should be $30 during normal business hours and $50 dollars outside normal business hours. The late payment charge for L&P and MPS should be set at 1.5% of the unpaid balance.

14. **Aries Purchase Power Agreement**

Issue Description: Should the Commission disallow a portion of the capacity cost associated with the Aries Purchased Power Agreement ("PPA")?

Aquila Position: No, there should be no disallowance of the PPA costs from the Aries plant because those costs have been prudently incurred, competitively bid, represent costs lower than if MPS had constructed the plant, and remain the low-cost option available.

15. **Jurisdictional Allocations – Odessa**

Issue Description: Should the City of Odessa, an MPS wholesale customer, be included in the calculation of jurisdictional allocations?

Aquila Position: No, Odessa should not be included in the jurisdictional allocation calculation. The City of Odessa gave notice in March of 2003 that it would no longer be a wholesale customer of Aquila as of April 1, 2004. This information was known before September 30, 2003, the end of the known and measurable period for this case.

16. **Severance**

Issue Description: Aquila has re-aligned its business to a state based organization and in the process eliminated several hundred employees. What level if any should severance costs associated with the realignment be included in the costs of service of this case?

Aquila Position: Aquila amortized the severance expense over three years thereby including one-third of the severance expense in the cost of service. This treatment recognizes that cost savings should be offset by the cost necessary to achieve those savings.

17. **Payroll**

•Incentive Pay

Issue Description: Should incentive pay be included in the cost of service for the MPS and L&P divisions?

Aquila Position: Yes. Incentive pay is part of the employee total compensation design plan.

•Union Increase

Issue Description: Should the April 1, 2004 union increase be included in the cost of service for the MPS and L&P divisions?

Aquila Position: Yes. All known and measurable changes on September 30, 2003 that will be effective prior to implementation of new rates should be included in this case. The union increase is the result of a contract signed in July 2003 and was known and measurable during the update period.

18. **Benefits - SERP**

Issue Description: Should Aquila's Supplemental Executive Retirement Plan ("SERP") be included in the cost of service in this case?

Aquila Position: Yes. Without the SERP program, executives would lose retirement benefits under limitations imposed by the IRS code that apply to qualified benefit plans that Aquila has in place.

19. **Weatherization Programs, Energy Efficiency Programs & Wind Energy Assessment**

Issue Description: Should the cost of service include dollars to fund weatherization programs, energy efficiency programs and a wind energy assessment for L&P service territory? If yes, what is the amount to be included?

Aquila Position: As long as the dollars for the involved programs are added to the current cost of service then Aquila is not opposed to the programs. The amounts suggested by MDNR would be appropriate, if they were added to the cost of service.

20. **Cost of Capital**

•Capital Structure

Issue Description: What is the appropriate capital structure for Aquila's MPS and L&P operating divisions for cost of capital ratemaking purposes?

Aquila Position: The MPS and L&P divisional capital structures should be utilized for purposes of determining cost of capital. Each divisional capital structure is appropriate because: 1) it takes into account the relevant risks of MPS and L&P utility operations; 2) it isolates the utility ratepayers from the risks of the non-utility operations; 3) has been consistently applied based on the capital needs of MPS and L&P; and 4) is consistent with the capital structure ratios maintained, on average, by other regulated electric companies.

•Rate of Return

Issue Description: What is the appropriate cost of capital, including return on equity for Aquila's MPS and L&P operating divisions for cost of capital ratemaking purposes?

Aquila Position: Aquila should be authorized to earn in the range of 12.00% to 12.50% on its common equity. This cost of equity is appropriate based on an analysis of market-based rates of similar risk companies that shows that an appropriate return on common equity is actually in the 10.00% to 13.85% range. The Company proposes an overall cost of capital of 9.49% to 9.73% for MPS and 9.73% to 9.97% for L&P. This is based upon the following capital structure and component costs.

MPS Division	Percent	Cost Rate		Weighted Cost	
		Low	High	Low	High
Long Term Debt	52.50%	7.23%	7.23	3.79%	3.79%
Common Equity	47.50%	12.00%	12.50%	5.70%	5.94%
Cost of Capital/Rate of Return				9.49%	9.73%

L&P Division	Percent	Cost Rate		Weighted Cost	
		Low	High	Low	High
Long Term Debt	52.50%	7.67%	7.67%	4.03%	4.03%
Common Equity	47.50%	12.00%	12.50%	5.70%	5.94%
Cost of Capital/Rate of Return				9.73%	9.97%

21. **Merger Savings (Synergies)**

Issue Description: Should the continuing support costs and joint dispatch savings created by the Aquila merger with SJLP in the approximate amount of $11.6 million be divided as follows:

50% to customers

25% to fund low income assistance programs

25% to Aquila shareholders

Aquila Position: Yes. Sharing the support cost and joint dispatch savings Aquila created by the merger with SJLP, as described above, is equitable and promotes undertakings that generate such economies of scale which, in the long run, will generate additional savings for customers. Absent a sharing plan, all of the continuing merger savings will flow immediately to customers and none will flow to the shareholders who bore the costs and risks that produced the savings.

22. **Depreciation/Cost of Removal**

Issue Description: What method should be used to calculate the proper depreciation rates and should cost of removal be included in the depreciation rates?

Aquila Position: The depreciation method Aquila proposes uses a vintage-group procedure, a remaining life technique, and service life statistics. Aquila believes that cost of removal net of salvage accrual should be included in the depreciation rates.

23. **SL Tax Depreciation**

Issue Description: Should the Staff's straight-line tax calculation, which is based on book depreciation and does not adjust for prior flow-through items other than basis differences be used for ratemaking purposes in this case?

Aquila Position: No. Failure to adjust for these prior flow-through items results in a duplicate tax deduction for ratemaking. This is unjust and unreasonable and not in compliance with IRS rules.

24. **Fuel**

•Natural Gas price used in determining rates

Issue Description: What price for natural gas should be used in determining the overall fuel cost for ratemaking purposes in this case?

Aquila Position: $5.14.

•Gas Cap:

Issue Description: Should Aquila include a $.50 adder to the cost of natural gas ($5.14 + .50 = $5.64) and refund to its customers, on an annual basis, the amount by which the cost of gas is below $5.64?

Aquila Position: Yes. The gas cap protects both the customers and Aquila from the volatility of the gas market.

•Purchased Power Energy

Issue Description: What purchased power curve should be used to determine the energy portion of purchased power for the fuel cost in this case?

Aquila Position: Aquila's purchased power curve should be used to determine fuel cost for purchased power expense. Aquila uses a market price curve that utilizes marginal cost for the region.

25. **Interim Energy Charge**

Issue Description: Should the Commission adopt an interim rate mechanism for fuel and purchased power as a means of addressing the price volatility of those items? If so, what interim mechanism should the Commission adopt?

Aquila Position: Aquila supports an interim rate mechanism for fuel and purchased power, in concept, subject to an agreement among the parties as to details. If an interim rate mechanism were adopted, item number 24, above would no longer be at issue.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing document has been forwarded by U.S. mail, hand-delivery or electronically sent to all counsel of record this 13th day of February, 2004.