

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

SEP 11 2003

In the Matter of the Application of Aquila, Inc.        )  
for an Order to Permit the Company Establish        )  
Rates for a Weather Normalization Adjustment.     )

Docket No. 03-AQLG-1076-TAR

*Susan E. Hoff* Docket Room


**STAFF MEMORANDUM IN SUPPORT OF STIPULATION AND AGREEMENT**

COMES NOW the Staff of the State Corporation Commission of the State of Kansas (“Staff” and “Commission”, respectively), and files its memorandum in support of the Stipulation and Agreement filed by Aquila, Inc., d/b/a Aquila Networks-KGO (Aquila), and the Staff on September 11, 2003.

1. On September 10, 2003, Aquila and Staff entered into a Stipulation and Agreement in this matter and on September 11, 2003, the joint movants filed their Joint Motion to Approve Stipulation and Agreement, including as Attachment 1 thereto the Stipulation and Agreement.

2. In support of the Stipulation and Agreement entered into and filed by the joint movants, Staff incorporates by reference the Memorandum jointly prepared by Drs. Soojong Kwak and John Cita dated September 11, 2003, which is attached hereto as Attachment 1.

Respectfully submitted,

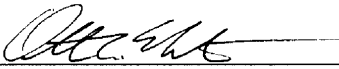


Otto A. Newton #8760  
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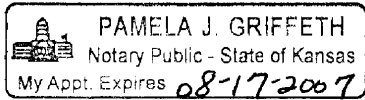
**VERIFICATION**  
03-AQLG-1076-TAR

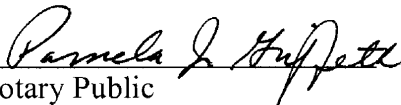
STATE OF KANSAS            )  
  ) ss.  
COUNTY OF SHAWNEE    )

The undersigned, upon oath first duly sworn, states that he is an Assistant General Counsel for the State Corporation Commission of the State of Kansas, that he has read the foregoing pleading, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Otto A. Newton

Subscribed and sworn to before me this 11<sup>th</sup> day of September, 2003.



  
\_\_\_\_\_  
Notary Public

## Memorandum

To: Chair Brian Moline  
Commissioner John Wine  
Commissioner Robert Krehbiel

From: <sup>SM</sup> Soojong Kwak and John ~~Ch~~  
Date: September 11, 2003

RE: Staff's Support of Joint Motion to approve Stipulation and Agreement  
Regarding Aquila's Application to Implement a Weather Normalization  
Adjustment (WNA) Mechanism, Docket No. 03-AQLG-1076-TAR.

### Background

Aquila's Application for Commission approval of its proposed weather normalization adjustment (WNA) mechanism represents the third in a series of such Applications. Kansas Gas Service Company (KGS) (Docket No. 01-KGSG-229-TAR) and Atmos Energy (Atmos) (Docket No. 03-ATMG-539-TAR), respectively, were the first and second to seek implementation of WNA mechanisms. With both of those Applications, Staff and the Applicants were able to reach stipulated agreements (proposed Stipulation and Agreements (S&As)). On October 27, 2000 and May 27, 2003 the Commission issued orders indicating those S&As to be consistent with the public interest.

As a reminder, Staff would note that the basic function of a WNA mechanism is to provide a better match between the LDC's approved revenue requirement (which is not weather sensitive) and the actual revenue it recovers during any one calendar year (which is weather sensitive). In short, the WNA mechanism ensures the LDC's actual revenue will be closer to its required revenue, regardless of what kind of weather the LDC's customers experience.

### Staff Analysis

The WNA mechanism being proposed by Aquila is similar to the WNA mechanisms that are currently being used by KGS and Atmos. In fact, the Aquila's proposed WNA mechanism is nearly identical to KGS's. Both rely on a determination of annual WNA factors, while the Atmos WNA factors are determined on a monthly basis. And both incorporate an annual true-up, while Atmos' does not.

In reviewing the Aquila Application, Staff determined that certain, minor modifications may be reasonable. Accordingly, Staff proposed a modification to the heat sensitive factors (HSFs). More specifically, Staff proposed using estimation techniques that differed from those used by Aquila. After numerous lengthy discussions, Staff and the

Applicant were able to agree on a particular set of HSFs. (Those HSFs are presented in Exhibit 2 of the S&A.)

Summary and Staff Recommendation

All of the general factors and reasons in support of implementing a WNA mechanism are no different now than when KGS and Atmos submitted their implementation Applications. Implementation of a WNA mechanism will make the recovery of utility revenue less sensitive to weather variations. That reduces the Company's exposure to weather risk and, therefore, may reduce its overall risk exposure. That may result in a lower cost of capital and, subsequently, lower rates. By stabilizing the Company's revenue flow, it should be easier to forecast planning budgets and, thus, future expenditures by the Company. That reduction in planning uncertainty may make it easier for Aquila to make expenditures as needed and bolster its ability to maintain its obligation to serve. For the reasons stated above, it is Staff's opinion that the Commission could find the proposed S&A to be consistent with its view of the public interest.

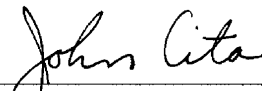
cc: Don Low

**VERIFICATION**  
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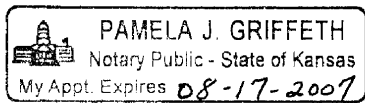
STATE OF KANSAS        )  
  ) ss.  
COUNTY OF SHAWNEE )


Soojong Kwak and John Cita, being duly sworn upon their oaths, depose and state that they are Managing Research Economist and Chief of Economic Policy and Planning, respectively, for the State Corporation Commission of the State of Kansas, that they jointly prepared the foregoing Memorandum and are familiar with the contents thereof, and that the statements contained therein are true and correct to the best of their knowledge and belief.

  
\_\_\_\_\_  
Soojong Kwak

  
\_\_\_\_\_  
John Cita

Subscribed and sworn to before me this 11<sup>th</sup> day of September, 2003.



  
\_\_\_\_\_  
Notary Public

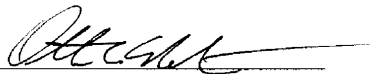
My appointment expires: August 17 2007

**CERTIFICATE OF SERVICE**  
03-AQLG-1076-TAR

I hereby certify that a true and correct copy of the foregoing Staff Memorandum in Support of Stipulation and Agreement was placed in the United States Mail, postage prepaid on this 11<sup>th</sup> day of September, 2003, addressed to the following:

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