

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: AQUILA, INC., d/b/a AQUILA NETWORKS	DOCKET NO. EEP-08-3 (RPU-08-3)
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**ORDER GRANTING MOTION TO SEVER
REVENUE NORMALIZATION MECHANISM**

(Issued June 24, 2008)

On May 15, 2008, Aquila, Inc., d/b/a Aquila Networks (Aquila), filed with the Utilities Board (Board) a new energy efficiency plan, identified as Docket No. EEP-08-3. In its filing, Aquila proposed a revenue normalization mechanism (RNM) adjustment that Aquila maintains is designed to eliminate Aquila's revenue and earnings reductions associated with attaining the energy efficiency goals set forth in its plan for the 2009-2013 period.

On May 27, 2008, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a motion to sever the RNM adjustment proposed by Aquila. Consumer Advocate asked the Board to sever the RNM from Aquila's energy efficiency plan filing and address the RNM in Aquila's upcoming rate case. Subsequent to Consumer Advocate's motion, Aquila filed a rate case on June 2, 2008. The rate case proceeding is identified as Docket No. RPU-08-3.

In support of its motion to sever, Consumer Advocate said that in Aquila's energy efficiency plan filing it was clear the RNM would adjust rates on a monthly

basis for any difference between Aquila's actual base rate revenues and its expected weather-normalized base revenues based on its most recent base rate proceeding, with any over- or under-collection added to or subtracted from a subsequent monthly billing. Consumer Advocate maintained the proposed RNM is not limited to energy efficiency related impacts but that all factors affecting revenue, including the effects of energy efficiency measures, differences between normalized and actual weather, and any other increases or decreases in sales, would impact the RNM. Consumer Advocate said its preliminary analysis of the proposed RNM suggests that its broad scope would allow Aquila guaranteed recovery of its entire non-gas revenue requirement between rate cases. Consumer Advocate argued that a rate case forum was more appropriate for examining a wide-ranging adjustment mechanism like the RNM.

On June 10, 2008, Aquila filed a resistance to Consumer Advocate's motion. In support of its resistance, Aquila cited the Board's December 18, 2006, order closing docket in Docket No. NOI-06-1 (Inquiry into Effect of Reduced Usage on Rate-Regulated Natural Gas Utilities), which indicated that if a utility could establish that increased energy efficiency and reduced customer usage were causing a decline in net operating income, an automatic adjustment mechanism proposed by the utility to address this issue would be considered in an appropriate proceeding. Aquila argued that in its energy efficiency plan, it has shown that the levels of expenditures contemplated would impair Aquila's ability to earn its rate of return; the RNM is a

proposal to reduce or eliminate these adverse consequences. Aquila maintained that the RNM could not be removed from Aquila's energy efficiency plan without having a significant impact on the overall energy efficiency plan.

In its initial review of the energy efficiency and rate case filings, the Board notes that Aquila has proposed several other automatic adjustments in its rate case filing, which Aquila claims are all necessary to earn its authorized rate of return. All of these proposed adjustments, if approved, have an impact on Aquila's risk and therefore on its allowed rate of return. The Board believes all of Aquila's proposals need to be considered together and the only appropriate forum to consider the proposed adjustments is the rate case proceeding. In addition, it appears that the RNM is not strictly limited to energy efficiency impacts but is a broader adjustment mechanism, making it more appropriate for examination in a rate case proceeding. As the Board indicated in Docket No. NOI-06-1, it is willing to consider such proposals in an appropriate proceeding; here, the most appropriate proceeding is Aquila's pending rate case. Consumer Advocate's motion to sever the RNM will be granted and the RNM will be considered in Aquila's pending rate case, Docket No. RPU-08-3.

Testimony regarding the RNM needs to be filed in the rate case proceeding, Docket No. RPU-08-3. Aquila shall file any prefiled testimony and exhibits on the RNM within 14 days of the date of this order.

IT IS THEREFORE ORDERED:

1. The "Motion to Sever Revenue Normalization Mechanism" filed by the Consumer Advocate Division of the Department of Justice on May 27, 2008, is granted.

2. Aquila shall file any prefiled testimony and exhibits on the RNM in Docket No. RPU-08-3 within 14 days from the date of this order.

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Margaret Munson
Executive Secretary, Deputy

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 24th day of June, 2008.