

Rebuttal Testimony of  
Ted Robertson  
Case No. EF-2003-0465

1           Upon review of Aquila's request to encumber Minnesota regulated property, the  
2           Department recommends that the Commission deny the Company request for  
3           approval, absent a showing in Aquila's Reply Comments of:  
4

- 5           ● A showing that the encumbrance is in the public interest; and
- 6
- 7           ● a compelling reason(s) to violate the principle of keeping a clear
- 8           accounting separation between a utility's regulated and nonregulated
- 9           activities.
- 10
- 11

12           Subsequent to further talks with Aquila, the Minnesota Department of Commerce provided a  
13           letter, dated August 19, 2003, to the Minnesota Public Utilities Commission wherein it again  
14           recommended, on page 3, that Aquila's request would not be in the public interest:  
15

16           The Department concludes that it would not be in the public interest if the  
17           Commission approved the Company's request. Therefore, the Department  
18           recommends that the Commission **deny** Aquila's request to encumber the  
19           Minnesota regulated assets.  
20  
21

22           Q.    WHAT IS THE CURRENT STATUS OF AQUILA'S APPLICATION IN THE STATE OF  
23           KANSAS?

24           A.    The parties in the State of Kansas have yet to offer their positions on Aquila's Application due to  
25           the fact that the investigation is ongoing.  
26

27           Q.    IS AQUILA'S REQUEST TO USE ITS MISSOURI REGULATED ASSETS AS COLLATERAL  
28           IN THE "PUBLIC INTEREST?"

29           A.    No, it is not.

1  
2 Q. WHY IS AQUILA'S REQUEST NOT IN THE PUBLIC INTEREST?

3 A. Aquila's request is not in the public interest for several reasons, 1) Aquila already has enough  
4 regulated utility assets encumbered to support the alleged \$250 million working capital requirement  
5 for the entire U. S. Networks, 2) ratepayers in the Missouri jurisdiction already provide an excess of  
6 cash working capital to support the utilities owned by Aquila in this state, 3) Company's alleged  
7 peak day cash working capital calculation specific to the State of Missouri ratepayers has not been  
8 adequately supported or verified, and 4) the Term Loan language shows that Aquila intends to  
9 encumber its Missouri regulated utility assets in order to support the working capital needs of the  
10 other U. S. Networks states, and/or the working capital needs of its non-regulated operations.

11  
12 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

13 A. Yes, it does.

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Gas Energy Aquila Inc.	GM-2003-0238 EF-2003-0465

**AQUILA, INC.**  
**CASE NO. EF-2003-0465**  
**DATA REQUEST NO. OPC-1006**

FILE COPY

**DATE OF REQUEST:** May 14, 2003

**DATE RECEIVED:** May 14, 2003

**DATE DUE:** June 3, 2003

**REQUESTOR:** Ted Robertson

**QUESTION:**

Please explain in detail what Aquila plans to do with the monies from the 3-year loan not allocated as working capital.

**RESPONSE:**

All funds from the 3-year loan (net of fees) which are not being used as working capital have been used to repay existing indebtedness. Upon the closing of the 3-year loan, approximately \$17.5 million went to pay fees while \$190.3 million of the net proceeds were used to repay the maturing 364 day revolving credit facility and \$165.5 million were used to cash collateralize outstanding letters of credit.

**ATTACHMENT:** NA

**ANSWERED BY:** Randy Miller

  
**SIGNATURE OF RESPONDENT**

JUL 5 2003

Schedule TJR-2

SCHEDULE TJR-3

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1 credit downgrades and reduction in its stock  
2 value?

3 MR. DOBSON: Yes.

4 MR. ROBERTSON: Okay. The next question  
5 has to do with the new 364-day bridge loan,  
6 and basically this series of questions is  
7 just to try to get this part of the loan or  
8 this loan agreement out of the picture  
9 altogether and by that, let me say this: The  
10 loan is not a player in the question of  
11 commission approval of collateral except that  
12 certain collateral for this loan is also  
13 collateral for the 430 million-dollar term  
14 loan and letter of credit facility?

15 MR. DOBSON: Correct.

16 MR. ROBERTSON: And that the bridge  
17 loan, it was borrowed by the Australian  
18 affiliate and it was secured by certain  
19 capital stock of the UtiliCorp Asia, UtiliCo  
20 Canada, MPS Company, and a couple IPPs?

21 MR. DOBSON: Correct.

22 MR. ROBERTSON: Okay. And can you  
23 explain to me as far as the IPPs are  
24 concerned, they seem to be collateral for  
25 both the bridge loan and the

1           MR. DOBSON: We had an interest rate  
2 swap -- are you talking about the breakage?

3           MR. ROBERTSON: All you called it, you  
4 called it an interest rate swap in your  
5 response to the DR, and it didn't identify  
6 what that was. You said you used the money,  
7 the proceeds to retire non-regulated  
8 obligations for two synthetic leases and an  
9 interest rate swap, in addition to a  
10 non-regulated power tolling agreement.

11          MR. DOBSON: I do recall now. What we  
12 did is we had also hedged the interest rate  
13 related to those peaker debt with an interest  
14 rate swap. That swap was out of the money by  
15 the tune of about 17.8 million, I think, and  
16 we also had to pay that off too.

17          MR. ROBERTSON: Okay. That's great. I  
18 just want it clarified that that 364-day  
19 bridge loan has nothing to do with the  
20 request or application that you're seeking  
21 from the commission in this state.

22          MR. DOBSON: That's correct.

23          MR. ROBERTSON: Other than the IPPs have  
24 some collateral implications.

25          MR. DOBSON: That's correct.



**AQUILA, INC.**  
**CASE NO. EF-2003-0465**  
**DATA REQUEST NO. OPC-1013**

*FILE COPY*

**DATE OF REQUEST:** May 14, 2003

**DATE RECEIVED:** May 14, 2003

**DATE DUE:** June 3, 2003

**REQUESTOR:** Ted Robertson

**QUESTION:**

Please explain in detail what Aquila plans to do with the monies remaining from the Australian sale after the bridge loan is paid.

**RESPONSE:**

Upon the closing of the Australian sales process the Company will receive approximately \$445 million of net proceeds. The bridge loan is currently drawn to its full availability of \$200 million. Following the completion of the Australian sale the Company will repay the \$200 million and add approximately \$245 million to its general liquidity balance.

**ATTACHMENT:** NA

**ANSWERED BY:** Randy Miller

  
\_\_\_\_\_  
**SIGNATURE OF RESPONDENT**

**JUL 25 2003**

Schedule TJR-5

**AQUILA, INC.**  
**CASE NO. EF-2003-0465**  
**DATA REQUEST NO. MPSC-40**

**DATE OF REQUEST:** June 4, 2003  
**DATE RECEIVED:** June 4, 2003  
**DATE DUE:** June 24, 2003  
**REQUESTOR:** Joan Wandel

**QUESTION:**

Please describe in detail how the Company proposes to pledge the assets for the 3-year Term Loan once the Canadian properties are sold under the following scenarios, including but not limited to the method of allocation, the exact dollar amount of regulated assets pledged by state and the dollar amount of any non-regulated assets being pledged and the percent of regulated assets pledge by jurisdiction and the percent of non-regulated assets pledged:

- All five states give a blanket approval of the use of regulated assets to secure the 3-year Term Loan in its entirety.
- Only Missouri, Kansas and Colorado approve the use of regulated assets to secure the 3-year Term Loan in its entirety.
- Only Colorado, Minnesota and Iowa approve the use of regulated assets to secure the 3-year Term Loan in its entirety.
- All five states approve the use of regulated assets to secure the 3-year Term Loan but the assets may only be used to secure the portion of the loan that has been designated as needed for domestic regulatory operations, i.e. the \$250 million portion.
- Only Missouri, Kansas and Colorado approve the use of regulated assets to secure the 3-year Term Loan but the assets may only be used to secure the portion of the loan that has been designated as needed for domestic regulatory operations, i.e. the \$250 million portion.
- Only Colorado, Minnesota and Iowa approve the use of the regulated assets to secure the 3-year Term Loan but the assets may only be used to secure the portion of the loan that has been designated as needed for domestic regulatory operations, i.e. the \$ 250 million portion.
- Kansas and Colorado give blanket approval to pledge their regulated assets as collateral for the 3-year Term Loan and all the other three states approve the use of the regulated assets to be used only to secure the regulated portion of the Term Loan, i.e. the \$250 million portion.
- Colorado, Minnesota and Iowa give blanket approval to pledge the regulated assets and Missouri and Kansas give approval to pledge the regulated assets only for the regulated portion of the 3-year Term Loan, i.e. the \$250 million portion.
- Only Missouri gives approval for the regulated assets to be pledged for the purpose of securing the regulated portion of the 3-year Term Loan, i.e. the \$250 million portion, and all the other states rule against the respective applications.
- Only Missouri approves the use of the regulated assets to secure the 3-year Term Loan in its entirety.

**RESPONSE:**

JUL 11 2003

The Company is required by the Term Loan documentation to use its commercially reasonable efforts to obtain the approvals necessary to pledge its regulated assets as collateral, and then upon receiving the necessary approvals, promptly cause the additional property to become subject to the lien of the First Mortgage Bond Indenture. The Company must pledge (via a lien under the First Mortgage Bond Indenture) whatever regulated assets are available as security. If some states restrict the amount while others allow all of the assets into the security package, then Aquila can only pledge those assets for which it has approval.

If the Company receives the necessary approvals, it cannot voluntarily choose to scale back the assets pledged from a particular state in order to "secure a portion" of the loan. If there are states that deny the Company's request, Aquila will continue to provide working capital to those state operations, but can only do so based on the support rendered by those states that allowed assets to be pledged. If all states prohibit asset pledges, then it is possible that the ultimate size of the facility available to support Aquila's regulated operations could be adversely impacted.

While our response to this request has not specifically addressed each scenario listed above, it does explain the relevant factors that will influence or dictate an outcome for each scenario. Without knowing how each state will react to the Company's application, it is difficult at this point to address the above scenarios in any more detail. However, as described in Mr. Dobson's testimony, it is Aquila's position that regulated collateral will be used to support regulated working capital requirements (i.e. \$250 million) and nonregulated collateral will support nonregulated working capital requirements.

**ATTACHMENT: NA**

**ANSWERED BY: Mike Cole**

1           MR. FEATHERSTONE: This is Cary. Would  
2           this be an item that could be thought of as,  
3           to use your term, ring fencing? And by that  
4           I mean if you need to have \$250 million of  
5           working capital, it seems like you could  
6           pledge \$250 million of assets to accomplish  
7           that, but because of your current financial  
8           stress that you have to pledge in excess of  
9           that amount by 1.67. So it would seem that  
10          this is an item that relates to the  
11          non-regulated operations impacting the  
12          regulated operations. If I'm missing  
13          something ...

14          MR. EMPSON: I don't know if I can agree  
15          with that, Cary. To me, I liken it more to  
16          going out for a mortgage on my house.  
17          Typically, if I have a 300,000-dollar house,  
18          they won't loan me \$300,000 to pay off -- or  
19          to borrow on my home. They do something less  
20          than that.

21          In this case what they did was set up a  
22          collateral ratio to give themselves some  
23          cushion, and they have a lower collateral  
24          ratio when you're dealing with utility  
25          property because they believe the value is

1 closer than they did on the non-utility  
2 property. . So to me, it is more  
3 representative of what the lenders would  
4 typically require for a cushion on the  
5 collateral value in case they would have to  
6 liquidate.

7 MR. DOBSON: That's exactly right, Jon.  
8 That's exactly what the market is right now  
9 for utility type collateral.

10 MR. WILLIAMS: This is Nathan Williams.  
11 I want to go back to Rick and the 170 million  
12 and the 250 million-dollar figures. The  
13 difference of 80 million, and you attributed  
14 part of that to the difference in the credit  
15 rating and also to natural -- to gas prices.  
16 Can you do any quantification as to those  
17 aspects and in particular the credit change?

18 I'm not going to tie you down to some  
19 tight figure. I'm just wanting to get some  
20 ballpark idea.

21 MR. EMPSON: Beth is looking it up on  
22 her computer right now to see if she can find  
23 it.

24 MR. DOBSON: I would say this without  
25 actually saying a number. The gas price

1 MS. WANDEL: Okay. The next question,  
2 then. Could you address any further the  
3 effects of bankruptcy, that bankruptcy has on  
4 secured debt and assets?

5 MR. EMPSON: I'm not sure the effect  
6 bankruptcy has on secured debt and assets.

7 Rick?

8 MR. DOBSON: Based on my knowledge,  
9 which is fairly limited, all it does is  
10 change the order of the creditors when they  
11 get in line to get what liquidation proceeds  
12 are available. So instead of everybody  
13 sharing equally, the people that are  
14 collateralized will take the first bite and  
15 get basically, if there's enough cash, all  
16 their money back, and then the remaining  
17 unsecured creditors come in and share what's  
18 remaining equally.

19 So it does change how much you get. So  
20 somebody may get their full piece of pie if  
21 they're collateralized and may reduce the  
22 pieces of the pie everybody else gets versus  
23 everybody will share the pie equally  
24 otherwise. But nothing else changes.

25 MS. WANDEL: Okay. The next question is

SCHEDULE TJR-9

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**AQUILA, INC.**  
**CASE NO. EF-2003-0465**  
**DATA REQUEST NO. OPC-1004**

**DATE OF REQUEST:** May 14, 2003

**DATE RECEIVED:** May 14, 2003

**DATE DUE:** June 3, 2003

**REQUESTOR:** Ted Robertson

**QUESTION:**

Please provide copies of all data request/interrogatory questions received from the state of Colorado regulatory staff(s), and all other intervenors in Colorado, regarding Aquila's reorganization activities, and the encumbrance of Colorado assets. This is a continuing data request; please update your response on a weekly basis.

**RESPONSE:** Please find attached questions from the state of Colorado

**ATTACHMENT:** Colorado Data Request

**ANSWERED BY:** Mark Reed



Regarding section 11, page 6 of the application:

1. Please describe how securing a working capital facility will contribute to the provision of reliable service in Colorado.
2. Please describe how not approving this application would be detrimental to the provision of reliable service in Colorado.

Application - Section 11 -- Page 6 - Last Paragraph and Page 7 - Beginning of First Paragraph

"While it has been several years since Aquila pledged its assets to obtain additional debt capital, Mr. Dobson's testimony and the supporting exhibits (Exhibit A) demonstrate that the use of secured loans is common among utilities, and the amount of the Company's secured loan is consistent with the amount of secured loans of other utilities. As explained by Mr. Dobson's testimony and exhibits, pledging utility assets does not increase the risk to ratepayers, as a utility's assets are always available to debtors. The act of securing debt with utility assets is primarily a tool to improve the position of lenders over general creditors. Thus, it is important to the issuers of debt, but does not increase the risk for the ratepayers.

As the attached testimony by Jon Empson (Exhibit B) explains, to assure that ratepayers are not harmed as a result of Aquila's current conditions, the plan contains the following provisions: ..."

3. Based upon the above excerpt please explain why Mr. Dobson, in his Exhibit B, offers a plan to assure that ratepayers are not harmed.

Application Section 14 - Page 9 - Third line

"Third, it is only fair that, since the working capital is needed to support the day-to-day operations of all Aquila's utility operations, then all of Aquila's assets should be part of the pool."

- 4.: Please define the "day-to-day operations of all of Aquila's utility operations" as it is used above."
5. Please explain how the "working capital is needed to support the "day-to-day operations of all of Aquila's utility operations."

General:

6. Please describe the relationship between successful refinancing and Aquila's ability to maintain or improve its service or facilities.
7. Please describe the relationship between approval of this application by the Commission and Aquila's ability to maintain or improve its service or facilities.

**AQUILA, INC.**  
**CASE NO. EF-2003-0465**  
**DATA REQUEST NO. OPC-5006**

**DATE OF REQUEST:** June 4, 2003  
**DATE RECEIVED:** June 4, 2003  
**DATE DUE:** June 24, 2003  
**REQUESTOR:** Douglas E. Micheel

**QUESTION:**

Re: OPC DR 1004, please provide the responses to Colorado data requests 1 and 2.

**RESPONSE:** There were no formal responses prepared for these questions. The Company met with the staff and discussed the questions orally.

**ATTACHMENT:** NA

**ANSWERED BY:** Mark Reed

Schedule TJR-11

JUN 26 2003

Decision No. R03-0694

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 03A-177SEG

IN THE MATTER OF THE VERIFIED APPLICATION OF AQUILA, INC. FOR AN ORDER  
AUTHORIZING A PLEDGE OF, AND THE CREATION OF LIENS ON, ITS ASSETS  
LOCATED IN THE STATE OF COLORADO IN ORDER TO SECURE LONG-TERM DEBT.

RECOMMENDED DECISION OF  
ADMINISTRATIVE LAW JUDGE  
DALE E. ISLEY  
APPROVING STIPULATION AND  
SETTLEMENT AGREEMENT

Mailed Date: June 20, 2003

**I. STATEMENT, FINDINGS, AND CONCLUSIONS**

1. The captioned application of Aquila, Inc. (Aquila), was filed with the Colorado Public Utilities Commission (Commission) on May 1, 2003. Public notice of the application was given on May 5, 2003, when the Commission issued its Notice of Application Filed.
2. A timely intervention was filed in this proceeding by the Staff of the Colorado Public Utilities Commission (Staff).
3. The matter was originally set for hearing on May 23, 2003. However, the hearing was subsequently rescheduled to June 17, 2003, at the request of the parties. *See*, Decision No. R03-0557-L. That decision also established a procedural schedule governing this case.
4. On June 6, 2003, the parties submitted a Stipulation and Settlement Agreement (Stipulation) along with a Joint Motion to Approve Stipulation and Settlement Agreement, to Vacate Remaining Procedural Dates, and to Waive Response Time (Motion). The Motion indicated that the parties had reached an agreement settling all disputed issues in this matter as

## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

more particularly set forth in the Stipulation, a copy of which is attached to and made a part of this decision.

5. On June 10, 2003, those portions of the Motion requesting that the June 17, 2003, hearing date and the previously established procedural schedule be vacated, that any hearing to be conducted in connection with the Stipulation be held on June 17, 2003, and that the response time to the Motion be waived, were granted. *See*, Decision No. R03-0632-1.

6. A hearing was held in connection with the Stipulation on June 17, 2003. Appearances were entered on behalf of Aquila and Staff by their respective counsel. Aquila presented testimony in support of the Stipulation from Jon Empson, its Senior Vice President, Regulatory, Legislative, and Gas Supply Services, and Beth Armstrong, its Chief Financial Officer for Domestic Utility Operations. Eric Jorgensen, one of the Commission's Financial Analysts, presented testimony in support of the Stipulation on behalf of Staff. Exhibit 1, the Stipulation; Exhibit 2, the pre-filed direct testimony and exhibits of Rick Dobson, Aquila's Senior Vice President and Interim Chief Financial Officer; and Exhibit 3, Mr. Empson's pre-filed direct testimony and exhibits, were marked, offered, and admitted into evidence.<sup>1</sup>

7. By this application, Aquila seeks a Commission order authorizing a pledge of, and the creation of liens on, its assets located in the State of Colorado in order to secure the payment of a \$430 million three-year term loan (the Loan), and to secure future replacement debt offerings for working capital requirements not to exceed \$430 million.<sup>2</sup> The Loan is designed

<sup>1</sup> Mr. Dobson and Mr. Empson's direct testimony and exhibits were originally filed in this matter on May 1, 2003, along with the application.

<sup>2</sup> The Loan was closed on April 11, 2003, pursuant to authority previously granted by the Commission in Decision No. C03-0299 in Docket No. 03A-071SEG.

## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

to provide Aquila with sufficient short-term liquidity to implement the provisions of a Debt Reduction and Financial Plan (Financial Plan). The Financial Plan, the specifics of which are set forth in Confidential Exhibit 1 of Mr. Dobson's pre-filed testimony (Hearing Exhibit 2), is designed to restructure, retire, or replace existing Aquila debt by, among other things, selling certain assets and buying out certain tolling contracts. The ultimate goal of the Financial Plan is to return Aquila to a capital structure reflective of a gas and electric utility and to restore its debt rating to investment grade.

8. The Loan is currently secured by Aquila utility assets located in Michigan and Nebraska along with a pledge of the capital stock of the holding company of Aquila's Canadian utilities. However, the proceeds from any sale of Aquila's Canadian assets must be used to repay the Loan. The resulting loss of the Canadian collateral as security for the Loan would render the utility assets in Michigan and Nebraska insufficient to support the Loan under collateral principles used by Aquila's lending institutions. This, along with the probable need to replenish the Loan back to the \$430 million level and to post sufficient collateral for such borrowing, is one reason for Aquila's need to secure Colorado utility assets (as well as those in other states) as additional security for the Loan.<sup>3</sup>

9. In addition, Aquila believes that its utility assets should support the working capital requirements for its utility operations. It has determined that approximately \$250 million of the Loan is needed to support the ongoing working capital requirements of its domestic utility business. See, Confidential Exhibit 3 of Mr. Dobson's pre-filed testimony (Hearing Exhibit 2). The remaining \$180 million supports its non-regulated businesses. Aquila is separating the Loan

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<sup>3</sup> In addition to the Colorado application, Aquila has applications pending with four other states (Iowa, Kansas, Minnesota, and Missouri) seeking approval to pledge utility assets to secure the Loan.

## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

and collateral into these two components to ensure that its utility customers and its regulated utility assets are not supporting its non-utility debt requirements. This will be accomplished by Aquila holding the Loan funds at the corporate level and charging its subsidiaries a BBB investment grade utility interest rate for their use of such funds when needed for working capital. The difference between the investment grade financing cost and the actual cost of the Loan will be retained at the corporate level. Again, this is designed to ensure that there will be no adverse impact to Aquila's utility customers from the non-investment grade financing charges to be paid by Aquila on the Loan.

10. As additional support for the application, the borrowing rate on the Loan will be reduced from 8.75 percent to 8 percent if it pledges additional utility assets as collateral.

11. The significant terms of the Stipulation are as follows: (1) Aquila's agreement to use a hypothetical capital structure for future electric or natural gas rate cases relying on a test year containing all or a part of 2003, 2004, and 2005; (2) Aquila's agreement to use the proceeds of the actions described in the Financial Plan to reduce debt and other financial obligations on its non-regulated and non-domestic utility operations, subject to cash working capital needs; (3) Aquila's agreement not to start any new unregulated business ventures; (4) the parties' agreement to defer Aquila's request to extend or "roll-over" the pledge of Colorado utility assets to secure future replacement long-term debt offerings for working capital requirements not to exceed \$430 million until after the disposition of similar applications in Iowa, Minnesota, Kansas, and Missouri;<sup>4</sup> (5) Aquila's agreement to comply with various reporting requirements designed to ascertain its progress in implementing the Financial Plan; (6) Aquila's agreement to

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<sup>4</sup> In order to accommodate the deferral of this portion of the application, Aquila requests a waiver of the statutory deadlines imposed by § 40-1-104(5), C.R.S.

## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

provide notice of material deviations from the Financial Plan, violations or defaults relating to the covenants in its indentures, the Loan, or orders issued by other states approving the pledge of assets to secure the Loan; and (7) Aquila's agreement to comply with various reporting requirements relating to the quality of its natural gas and electric utility service.

12. The witnesses appearing at the hearing clarified certain portions of the Stipulation. Specifically, Mr. Empson clarified potential confusion concerning paragraph 11 of the Stipulation wherein the parties request that a ruling on a portion of the application be deferred. As filed, the application requested the ability to extend or "roll-over" the asset pledge to be secured in connection with the Loan for the purpose of securing future replacement long-term debt offerings for working capital requirements not to exceed \$430 million. Mr. Empson explained that the "extension" and "roll-over" terminology used in paragraph 11 refers to the possible extension of the Loan beyond its three-year term with Aquila's current lenders. The parties have agreed to defer the issue of whether Colorado utility assets can be pledged to secure such an "extension" or "roll-over" pending the disposition of similar applications by the other states referred to in paragraph 11. Approval of the Stipulation would, however, allow Aquila to pledge Colorado assets in connection with "replacement" debt not to exceed \$430 million within the three-year term of the Loan. Mr. Empson, explained that such a debt offering would constitute an entirely new loan with different lenders than those issuing the Loan. Mr. Empson's interpretation of paragraph 11 was confirmed by the Staff's witness, Mr. Jorgensen.

13. Mr. Empson also clarified that the reporting requirements contained in paragraph 12 of the Stipulation are to continue for the full period encompassed by the Financial Plan; that under paragraph 12.a. of the Stipulation Aquila intends to provide updates to the Financial Plan; that under paragraph 9 of the Stipulation it is Aquila's intent to use the proceeds

## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

of the actions described in the Financial Plan to reduce debt relating to its non-regulated and non-domestic utility operations (subject to cash working capital needs); that the term "scheduled milestone" used in paragraph 13.a. of the Stipulation refers to the dates contained in the table shown on page 11 of the Financial Plan; that the term "expected value" used in paragraph 13.a. of the Stipulation refers to the estimated proceeds to be realized from the sale of certain assets as described in the Financial Plan; that the reporting requirements set forth in paragraph 15.b.iii) and iv) of the Stipulation are in addition to those that may be imposed by the quality of service plan to be developed in connection with Aquila's Phase I electric rate case in Docket No. 02S-594E; and that the "first report" reporting requirement imposed by paragraph 15.c. of the Stipulation is to be provided within 60 days of Commission approval of the Stipulation. Mr. Empson also confirmed that the "separation" of regulated utility debt/assets from non-regulated debt/assets discussed above ensures that Aquila will not be using Colorado ratepayer funds to subsidize its non-regulated activities in violation of § 40-3-114, C.R.S.

14. Ms. Armstrong clarified the reporting requirements imposed on Aquila by paragraph 12.a. of the Stipulation and, specifically, the manner in which the format described in Attachment A of the Stipulation will facilitate those reporting requirements.

15. Mr. Jorgensen testified that the concerns with the application previously expressed by Staff in its intervention were fully resolved by the Stipulation. Specifically, he indicated that Aquila's agreement to use the hypothetical capital structure called for by the Stipulation and its intent to separate regulated utility debt/assets from non-regulated debt/assets for the purpose of allocating finance costs would ensure that the requested pledge of Colorado utility assets would not negatively impact the rates paid by Colorado ratepayers. Nor, under these circumstances, would authorizing the pledge of assets result in the use of Colorado



## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

ratepayer funds to subsidize its non-regulated activities in violation of § 40-3-114, C.R.S. He was also satisfied that the reporting requirements imposed on Aquila by the Stipulation would ensure that approval of the requested pledge of assets would not negatively impact the adequacy and reliability of Aquila's Colorado regulated utility service. He also indicated that, as a practical matter, the relatively short time period for implementation of the Financial Plan mitigated against many of the concerns raised by Staff in its intervention.

16. The parties believe that granting the application, subject to the terms of the Stipulation, is in the public interest. Having reviewed the Stipulation, the application, the pre-filed testimony and exhibits submitted by Aquila in this matter, and the testimony presented by the parties at the hearing, the undersigned agrees. Subject to the conditions contained in the Stipulation, approval of the pledge of Aquila's Colorado utility assets to secure the Loan will greatly assist Aquila's efforts to implement the Financial Plan and, ultimately, should serve to return it to a capital structure reflective of a gas and electric utility and to restore its debt rating to investment grade. Aquila's agreement to use the hypothetical capital structure called for by the Stipulation and to separate regulated utility debt/assets from non-regulated debt/assets for the purpose of allocating finance costs ensure that the requested pledge of Colorado utility assets will not negatively impact the rates paid by Colorado ratepayers. These measures will also ensure that the requested pledge of assets will not result in the use of Colorado ratepayer funds to subsidize Aquila's non-regulated activities in violation of § 40-3-114, C.R.S. Finally, Aquila's compliance with the reporting requirements imposed by the Stipulation will serve to ensure that the pledge of assets will not negatively impact the adequacy and reliability of Aquila's Colorado regulated services. It is found and concluded, therefore, that the Stipulation is in the public interest and should be accepted and approved.

## Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

17. Pursuant to § 40-6-109, C.R.S., it is recommended that the Commission enter the following order.

## II. ORDER

### A. The Commission Orders That:

1. The Stipulation and Settlement Agreement filed by Aquila, Inc., and the Staff of the Public Utilities Commission on June 6, 2003, is accepted and approved without modification. The Stipulation and Settlement Agreement, a copy of which is attached hereto as Appendix A, is incorporated into this Order as if fully set forth herein.

2. Subject to the terms and conditions set forth in the Stipulation and Settlement Agreement, Aquila, Inc., is hereby authorized to pledge and create liens on its assets located in the State of Colorado in order to secure the payment of a \$430 million three-year term loan and to secure the future replacement debt offerings for working capital requirements not to exceed \$430 million.

3. Aquila, Inc., is hereby granted a waiver of the deadlines imposed by § 40-1-104(5), C.R.S., with regard to the deferral of a Commission decision in connection with that portion of the application referred to in paragraph 11 of the Stipulation and Settlement Agreement.

4. The parties shall comply with all the terms of the Stipulation and Settlement Agreement.

5. The Commission shall retain jurisdiction of this proceeding and take such action and enter orders as may appear necessary to effectuate this Order.

Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

6. This Recommended Decision shall be effective on the day it becomes the Decision of the Commission, if that is the case, and is entered as of the date above.

7. As provided by § 40-6-109, C.R.S., copies of this Recommended Decision shall be served upon the parties, who may file exceptions to it.

a) If no exceptions are filed within 20 days after service or within any extended period of time authorized, or unless the decision is stayed by the Commission upon its own motion, the recommended decision shall become the decision of the Commission and subject to the provisions of § 40-6-114, C.R.S.

b) If a party seeks to amend, modify, annul, or reverse basic findings of fact in its exceptions, that party must request and pay for a transcript to be filed, or the parties may stipulate to portions of the transcript according to the procedure stated in § 40-6-113, C.R.S. If no transcript or stipulation is filed, the Commission is bound by the facts set out by the administrative law judge and the parties cannot challenge these facts. This will limit what the Commission can review if exceptions are filed.

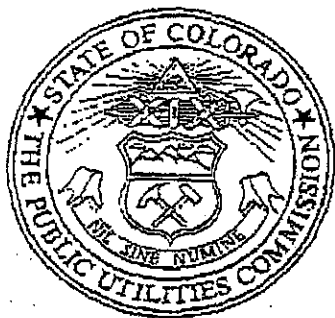
8. If exceptions to this Decision are filed, they shall not exceed 30 pages in length, unless the Commission for good cause shown permits this limit to be exceeded.

Before the Public Utilities Commission of the State of Colorado

Decision No. R03-0694

DOCKET NO. 03A-177SEG

(S E A L)



ATTEST: A TRUE COPY

*Bruce N. Smith*

Bruce N. Smith  
Director

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

DALE E. ISLEY

Administrative Law Judge

G:\ORDER\177SEGdoc=sts

Schedule TJR-12.10

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 03A-177SEG

2003 JUN -5 PM 2:09

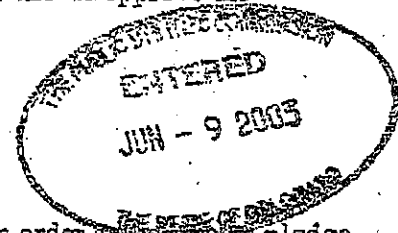
IN THE MATTER OF THE VERIFIED APPLICATION OF AQUILA, INC., FOR AN ORDER  
AUTHORIZING A PLEDGE OF, AND THE CREATION OF LIENS ON, ITS ASSETS  
LOCATED IN THE STATE OF COLORADO IN ORDER TO SECURE LONG-TERM DEBT

STIPULATION AND SETTLEMENT AGREEMENT

Aquila, Inc. (Aquila or the Company) and Staff of the Colorado Public Utilities Commission (Staff), by and through their respective undersigned counsel, and for good and valuable consideration, enter into this Stipulation and Settlement Agreement (Agreement) to stipulate and to settle all disputed issues regarding Aquila's Verified Application for an order authorizing a pledge of, and the creation of liens on, its assets located in the State of Colorado in order to secure long-term debt. Aquila and Staff (collectively, Parties) respectfully submit that this Agreement is just and reasonable, that it results in a fair disposition of this docket, and that, therefore, the Colorado Public Utilities Commission (Commission) should approve the Agreement without hearing.

INTRODUCTION

1. On May 1, 2003, Aquila filed the Application for an order authorizing a pledge of, and the creation of liens on, its assets located in the State of Colorado in order to secure the payment of a \$430 million three-year term loan and to secure the future replacement debt offerings for working capital requirements not to exceed \$430 million. Entering into the \$430 million term loan, and the securitization of the loan with domestic utility assets required by the lenders, was a critical first step to ensure that Aquila has sufficient liquidity in the near term, so



that Aquila can continue to implement the final steps of Aquila's Debt Reduction and Restructuring Plan (Financial Plan). The ultimate goal of Aquila's Financial Plan is to return the Company to a capital structure reflective of a gas and electric utility and to restore its debt rating to investment grade. This goal requires the restructuring, retirement, or replacement of existing debt. Subject to obtaining permission from the various state regulatory commissions, including this Commission, the replacement debt referenced in this Application will be secured by a collateral pool that will include Aquila's utility assets, including utility assets located in Colorado.

2. This Application is one of five (5) applications that were filed concurrently by Aquila in the States of Colorado, Iowa, Kansas, Minnesota and Missouri to secure regulatory approval for Aquila to pledge all of its electric and natural gas utility assets located those states, in order to secure the payment of the \$430 million three-year term loan and to secure the future replacement debt offerings for working capital requirements, not to exceed \$430 million. At the present time, utility assets in Michigan and Nebraska and certain Canadian utility assets primarily secure the \$430 million term loan. Aquila has determined internally that about \$250 million of the \$430 million is needed to support the ongoing working capital requirements for Aquila's domestic utility business. However, based upon the collateral principles used by the lending institutions, the assets in Michigan and Nebraska are not sufficient in value to support a \$430 million loan. Therefore, Aquila had to use the Canadian investment both to support the remaining \$180 million portion of the loan and to fill the gap on the required collateral for Aquila's \$250 million domestic utility working capital requirement.

3. The financial institutions only required Aquila to have pledged sufficient assets in total to secure the \$430 million loan. The entire \$430 million is available to Aquila, and the

credit facility does not "break out" portions of the loan on a state-by-state basis. In compliance with the terms of the loan, Aquila must pledge sufficient collateral to secure the credit facility up to the full amount of \$430 million. The determination by Aquila itself that \$250 million of the \$430 million amount is required for its future domestic utility cash working capital needs was based upon Aquila's historical and anticipated domestic utility working cash needs. Aquila has separated the loan and collateral to ensure that the utility customers and assets are not supporting the non-utility debt requirements. It is Aquila's intent to maintain a proper alignment of domestic utility collateral with domestic utility loan needs and non-domestic utility and non-regulated business collateral with their loan needs. The Commission's approval of this Agreement and the Application will greatly contribute to Aquila's success in implementing its Financial Plan.

4. On May 4, 2003, Aquila caused a Notice concerning the filing of this Application to be published in *The Colorado Springs Gazette* and in *The Pueblo Chieftain*, newspapers of general or local circulation in Aquila's service area. That Notice indicated that the pledge of Colorado assets was needed to secure the payment of a \$430 million term loan issued by Aquila pursuant to authority granted by the Commission on March 25, 2003 in Docket No. 03A-071SEG by Decision No. C03-0299, to secure future replacement debt offerings for working capital requirements in amounts not to exceed \$430 million. On May 5, 2003, the Commission issued its Notice that the application had been filed.

5. On May 15, 2003, Staff filed its notice of intervention and entry of appearance. Aquila and Staff are the only parties to this docket. Since the date of the filing, Staff has conducted a thorough review and investigation of the filing and the supporting testimony and

exhibits. Aquila and Staff have also conducted extensive discussions and settlement negotiations.

### THE SETTLEMENT

6. Staff and Aquila agree that the Application should be granted, including the terms and conditions to which the parties agree herein. They also agree that the approval of this Agreement is just, reasonable and not contrary to the public interest.

7. Aquila and Staff agree that the terms of this Agreement should be included in the Commission's decision granting this Application as terms and conditions of approval of the Application and the relief requested therein.

8. Aquila agrees that, in future electric or natural gas rate cases relying on a test year containing all or a part of the years 2003, 2004 and 2005, it will use a hypothetical capital structure. In future electric rate cases the capital structure used in Docket No. 02S-594E of 47.5% equity and 52.5% debt will be used. In future natural gas rate cases the hypothetical capital structure of 50% equity and 50% debt will be used. Aquila also agrees to maintain the debt allocation and pricing process described in the Direct Testimony of Jon Empson, pages 2-5, filed in this Docket. Staff and Aquila agree that the continued use of hypothetical capital structures and debt assignment provides Aquila's Colorado utility customers with financial protection during this period of transition through December 31, 2005.

9. Aquila agrees that proceeds from the actions described in the Financial Plan should be used to reduce the debt and other outstanding financial liabilities on Aquila's balance sheet relating to the nonregulated and nondomestic utility operations. The recording of the receipt of proceeds from an asset sale transaction on Aquila's books of account will occur within seven (7) business days of month end, and after cash working capital needs are met, Aquila will



record the retirement of such debt from its books of account within seven (7) business days of month end. Aquila will notify Staff of the application of the funds in the updates discussed below.

10. Aquila agrees that during the three (3) year time period reflected in the Financial Plan (i.e., 2003 through 2005), Aquila will not start any new unregulated business ventures.

11. Aquila and Staff agree that Aquila has a critical need for long-term financial stability so that reliable service to its Colorado customers will continue to be provided, as Aquila has done for many years. Staff agrees to work with Aquila in the effort to ensure Aquila's long-term financial stability as an operating utility in Colorado. In the Application, Aquila requested the ability to extend the asset pledge granted in this docket to secure future replacement long-term debt offerings for working capital requirements not to exceed \$430 million. Aquila would prefer an agreement here to the extension or roll-over of the current \$430 million credit facility, as long as the same terms and conditions set forth in this Agreement and in the Commission's approval order in this Docket are also adopted. However, Staff would prefer to defer any agreement to the extension or roll-over of the current \$430 million credit facility, as long as the same terms and conditions set forth in this Agreement and in the Commission's approval order in this Docket are also adopted, until after the four (4) other States (Iowa, Kansas, Minnesota and Missouri) have disposed of the pending similar applications. Therefore, Staff and Aquila agree that the Commission in its Decision approving this Agreement should not deny the extension or rollover relief requested in the Application. Rather, the decision on that issue would be deferred until Staff and Aquila jointly file a motion in this Docket requesting disposition of that issue. Aquila agrees to advise Staff within seven (7) business days of the entry of final orders in each of the four other state application of the disposition of those applications by the respective state

commissions. Within forty-five (45) days after Aquila advises Staff of the disposition by the fourth state commission, Staff and Aquila will file an appropriate pleading with the Commission requesting disposition of the extension or rollover relief requested in the Application. For purposes of approval of this Paragraph No. 11, Aquila waives the statutory limit of Colo. Rev. Stat. § 40-1-104(5) only for purposes of determining the extension or rollover relief requested in the Application.

12. Aquila agrees that, within fifteen (15) days after submitting its quarterly financial reports to the Securities and Exchange Commission (SEC), Aquila will file the following financial reports in this Docket:

a. Aquila will submit to Staff any updates to the confidential Financial Plan within fifteen (15) days of release of the updated Financial Plan. Aquila will report to Staff the progress made in implementing the actions detailed in the Financial Plan, including the use of sales proceeds to retire outstanding debt or other financial liabilities, through the Cash Flow Statement attachment described in Paragraph 12b below.

b. Aquila will submit a report, including Statements of Cash Flows. As part of this report, within the Statement of Cash Flows, Aquila will itemize activities from Investing Activities and from Financing Activities between regulated and unregulated items, and among unregulated items highlight and footnote the components of its Financial Plan. To facilitate the comparison of the Financial Plan with the itemized Statement of Cash Flows, the itemized Statement of Cash Flows shall use comparable items as are used in the Financial Plan. Attachment A to this Agreement is the format for this report to which Staff and Aquila have agreed.

13. Aquila agrees to submit a notice report to Staff, via a confidential letter to the Chief of Fixed Utilities, within seven (7) business days, if any of the following occur:

a. Material deviation from the Financial Plan. "Material deviation," as used herein, means either a scheduled milestone occurs in excess of three (3) months from the scheduled date for occurrence, or a dollar amount received is more than 10% less than an expected value.

b. Violation or event of default in (1) the covenants in Aquila's indentures, (2) the loan agreement for the April 9, 2003 \$430 million long-term debt facility, or (3) an order of another state utility regulatory commission approving the pledge of Aquila's assets located in that state to secure the \$430 million long-term debt facility.

c. Aquila files for protection of a federal bankruptcy court under any chapter of the federal bankruptcy laws.

14. In the event there is a bankruptcy filing, foreclosure, or liquidation involving Aquila's assets located in Colorado, or other need to transfer Aquila's assets located in Colorado, Aquila agrees to advise other parties to any such actions that the Colorado Public Utilities Commission would require the filing and approval of an application to transfer Aquila's assets located in Colorado, pursuant to Rule 723-1-55 of the Commission's Rules of Practice and Procedure (4 Colo. Code Regs. 723-1-55).

15. Aquila and Staff have agreed to the following relating to the development by Aquila of a Colorado natural gas quality of service plan:<sup>1</sup>

a. Aquila agrees that during the three (3) year time period reflected in the Financial Plan (*i.e.*, 2003 through 2005), Aquila will continue to maintain an adequate

quality of natural gas and electric service provided to its end-use customers in Colorado, as required by the standards set forth in the Colorado Public Utilities Law, as to quality of service to gas customers the Commission's rules regulating the service of gas utilities (4 *Colo. Code Regs.* 723-4) and the rules governing gas pipeline safety (4 *Colo. Code Regs.* 723-11), and as to quality of service to electric customers the Commission's rules regulating the service of electric utilities (4 *Colo. Code Regs.* 723-3).

b. Aquila and Staff agree to address quality of service issues by reviewing key outputs in four ways:

i) Staff will continue to review Aquila's performance and reporting under the requirements of the rules governing gas pipeline safety (4 *Colo. Code Regs.* 723-11). Unlike the electric industry, the natural gas industry already has a prescribed set of minimum requirements for operators in areas such as cathodic protection, leak survey, leak repair, odorization, and various other operational and maintenance activities. These standards are mandated under the Commission's rules governing gas pipeline safety (4 *Colo. Code Regs.* 723-11) and Title 49, Code of Federal Regulations, Part 192, and are audited on a periodic basis by the enforcement staff of the Commission.

ii) Aquila agrees to submit to Staff quarterly reports on natural gas utility quality of service. These reports will be based upon the monthly internal reports currently used by Aquila's senior management to monitor quality of service, so that Staff may also monitor the status of quality of service being provided by Aquila to its end-use natural gas customers in Colorado. These

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<sup>1</sup> Aquila's development of a quality of service plan for its Colorado retail electric utility operations was addressed in the Settlement Agreement in Docket No. 02S-594E, Phase I of Aquila's electric general rate case, a

reports will include such measures as default ratio, meters read on time, meter reading error rate, emergency response greater than one hour, and unplanned outages.

iii) Aquila agrees to submit to Staff on a quarterly basis its reports currently used by Aquila's senior management to monitor electric quality of service. These reports will include measures such as generating station base and peak availability, generating station starting reliability, CAIDI, SAIDI, SAIFI, meters read on time, and default ratio.

iv) Aquila agrees to provide to Staff combined gas and electric measures for the centralized call center function, such as average speed of answering telephone calls.

c. Aquila agrees to provide the first report for Paragraph No. 15(b)(i) through (iv) above within sixty (60) days of the Commission's final decision approving this Application, and with the first submittal Aquila will also include three (3) years of historical data for each measure (when available), definitions of the measures, and the methodology for calculating the measures. Aquila also agrees to respond to any questions raised by Staff concerning these reports within ten (10) days of Aquila's receipt of the question. If Aquila needs additional time to respond to a specific question, it will so advise Staff. Aquila agrees to provide the reports specified in Paragraph No. 15(b)(i), Paragraph No. 15(b)(ii), and Paragraph No. 15(b)(iv) to Staff during the three (3) year time period reflected in the Financial Plan. Aquila agrees to an initial meeting with Staff within one hundred twenty (120) days of the Commission's final decision approving this

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decision on which is currently pending before the Commission.

Application to review and discuss the materials provided by Aquila in accordance with Paragraph No. 15(b)(i), Paragraph No. 15(b)(ii), and Paragraph No. 15(b)(iv).

d. Additionally, Aquila and Staff agree to continue discussing the quality of Aquila's natural gas service in Colorado for the purpose of determining whether the review and monitoring of the foregoing gas-related outputs are sufficient to demonstrate a legally adequate level of quality of natural gas service, or whether further collaborative discussions are required to develop a formal application to approve a quality of service plan for Aquila's Colorado natural gas operations. However, neither this paragraph nor any other provision of this Agreement shall be construed to prohibit Staff from commencing any action in the future that it deems necessary concerning Aquila's quality of service.

#### GENERAL STIPULATIONS

16. Through active prehearing investigation and negotiation, the Parties have reached the agreement set forth herein resolving all contested and disputed issues in this docket in a manner which the Parties agree is just and reasonable and in the public interest. The Parties further agree that reaching agreement by means of negotiation and settlement rather than through litigation is in the public interest.

17. The Parties agree to present, to support, and to defend this Agreement before the Commission and the courts. The Parties further agree, if necessary, to present testimony and exhibits to the Commission to secure the approval of this Agreement.

18. The Parties hereby agree that all pre-filed testimony and exhibits shall be admitted into evidence in this docket without cross-examination. This Agreement reflects compromise and settlement of all issues raised or that could have been raised in this docket.

19. This Agreement shall not become effective until the issuance of a final Commission Order approving the Agreement, which Order does not contain any modification of the terms and conditions of this Agreement that is unacceptable to either of the Parties. In the event the Commission modifies this Agreement in a manner unacceptable to either Party, that Party shall have the right to withdraw from this Agreement and proceed to hearing on the issues that may be appropriately raised by that Party in this docket. The withdrawing Party shall notify the Commission and the Parties to this Agreement by e-mail within three (3) business days of the Commission modification that the Party is withdrawing from the Agreement and that the Party is ready to proceed to hearing; the e-mail notice shall designate the precise issue or issues on which the Party desires to proceed to hearing (Hearing Notice).

20. Within three (3) business days of the date of the Hearing Notice from the withdrawing Party, the Parties shall confer to arrive at a comprehensive list of issues that shall proceed to hearing and a list of issues that remain settled as a result of the first Party's withdrawal from this Agreement. Within five (5) business days of the date of the Hearing Notice, the Parties shall file with the Commission a formal notice containing the list of issues that shall proceed to hearing and those issues that remain settled and a proposed procedural schedule for the filing of answer and rebuttal testimony and exhibits and proposed hearing dates. Hearing shall be scheduled on all of the issues designated in the formal notice filed with the Commission as soon as practicable.

21. In the event that this Agreement is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations or discussions undertaken in conjunction with the Agreement shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Agreement.

22. Approval by the Commission of this Agreement shall constitute a determination that the Agreement represents a just, equitable and reasonable resolution of all issues that were contested, or could have been contested, among the Parties in this proceeding.

23. The Parties specifically agree and understand that this Agreement represents a negotiated settlement in the public interest with respect to the various issues presented by this Docket, for the sole purpose of the settlement of the matters agreed to in this Agreement. No Party or person shall be deemed to have approved, accepted, agreed to, or consented to any concept, theory or principle underlying or supposed to underlie any of the matters provided for in this Agreement, other than as specifically provided for herein. Notwithstanding the resolution of the issues set forth in this Agreement, none of the regulatory principles herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding, except as otherwise specifically provided in Paragraph Nos. 8 through 15 of this Agreement.

24. This Agreement may be executed in counterparts and by facsimile copies of signatures, all of which when taken together shall constitute the entire Agreement with respect to the issues addressed by this Agreement.

### CONCLUSION

For the reasons stated above, the Parties respectfully request that the Commission enter an order approving this Stipulation and Settlement Agreement finding and concluding that the Commission's approval of this Stipulation and Settlement Agreement represents a fair, just, and reasonable resolution of all disputed issues and all issues that could have been raised in this Docket.



Appendix A  
Docket No. 03A-177SEG  
Decision No. RD3-0694  
June 20, 2003  
Page 13 of 20

DATED this 6<sup>th</sup> day of June 2003.

Accepted on behalf of  
AQUILA, INC.:

By: \_\_\_\_\_  
Jon R. Empson  
1815 Capitol Avenue  
Omaha, NE 68102

Approved as to form:

ABEL, BAND, RUSSELL, COLLIER,  
PITCHFORD & GORDON, CHARTERED

By: \_\_\_\_\_  
Steven H. Denman, CO Reg. #7857  
240 South Pineapple Avenue  
Post Office Box 49948  
Sarasota, FL 34230-6948  
(941) 366-6660  
(941) 366-3999 facsimile  
(303) 623-6660 Denver number

Attorneys for Aquila, Inc.

Accepted on behalf of  
STAFF OF THE COLORADO PUBLIC  
UTILITIES COMMISSION:

By: Eric Jorgensen  
Eric Jorgensen  
1580 Logan Street, Office Level 2  
Denver, CO 80203

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: John J. Roberts  
David A. Beckett, Reg. No. 23098\*  
John J. Roberts, Reg. No. 30124\*  
Assistant Attorneys General  
Business and Licensing Section  
1525 Sherman Street, 5<sup>th</sup> Floor  
Denver, Colorado 80203  
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Facsimile: 303-866-5395

Attorneys for the Staff of the Colorado  
Public Utilities Commission

\* Counsel of Record

AG ALPHA:  
AG FILE:

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Appendix A  
Docket No. 03A-177SEG  
Decision No. R03-0694  
June 20, 2003  
Page 14 of 20

DATED this \_\_\_\_\_ day of June 2003.

Accepted on behalf of  
AQUILA, INC.:

By: Jon R. Empson  
Jon R. Empson  
1815 Capitol Avenue  
Omaha, NE 68102

Approved as to form:

ABEL, BAND, RUSSELL, COLLIER,  
PITCHFORD & GORDON, CHARTERED

By: Steven H. Denman, CO Reg. #7857  
Steven H. Denman, CO Reg. #7857  
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Attorneys for Aquila, Inc.

Accepted on behalf of  
STAFF OF THE COLORADO PUBLIC  
UTILITIES COMMISSION:

By: Eric Jorgensen  
Eric Jorgensen  
1580 Logan Street, Office Level 2  
Denver, CO 80203

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: David A. Beckett, Reg. No. 23098\*  
David A. Beckett, Reg. No. 23098\*  
John J. Roberts, Reg. No. 30124\*  
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Attorneys for the Staff of the Colorado  
Public Utilities Commission

\* Counsel of Record

Appendix A  
Docket No. 03A-177SEG  
Decision No. R03-0694  
June 20, 2003  
Page 15 of 20

DATED this 5th day of June 2003.

Accepted on behalf of  
AQUILA, INC.:

By: \_\_\_\_\_  
Jon R. Empson  
1815 Capitol Avenue  
Omaha, NE 68102

Approved as to form:

ABEL, BAND, RUSSELL, COLLIER,  
PITCHFORD & GORDON, CHARTERED

By: Steven H. Denman  
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Attorneys for Aquila, Inc.

Accepted on behalf of  
STAFF OF THE COLORADO PUBLIC  
UTILITIES COMMISSION:

By: \_\_\_\_\_  
Eric Jorgensen  
1580 Logan Street, Office Level 2  
Denver, CO 80203

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: \_\_\_\_\_  
David A. Beckett, Reg. No. 23098\*  
John J. Roberts, Reg. No. 30124\*  
Assistant Attorneys General  
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Denver, Colorado 80203  
Telephone: 303-866-5135  
Facsimile: 303-866-5395

Attorneys for the Staff of the Colorado  
Public Utilities Commission

\* Counsel of Record

CERTIFICATE OF SERVICE

This is to certify that I have duly served the within STIPULATION AND SETTLEMENT AGREEMENT upon all parties herein by depositing copies of same in the United States mail, first class postage prepaid, or as otherwise indicated, at Denver, Colorado, this 10<sup>th</sup> day of June 2003, addressed as follows:

Steven H Denman, Esq.  
ABEL, BAND, RUSSELL, COLLIER,  
PITCHFORD & GORDON, CHARTERED  
240 South Pineapple Avenue  
Post Office Box 49948  
Sarasota, FL 34230-6948

Jon Eampson  
Senior Vice President  
Aquila, Inc.  
1815 Capital Avenue  
Omaha, NE 68102

**\*\*Eric Jorgensen**  
Public Utilities Commission  
1580 Logan Street, OL-2  
Denver, CO 80203  
BY INTERDEPARTMENTAL MAIL

**\*\*Randy Garrouette**  
Public Utilities Commission  
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Denver, CO 80203  
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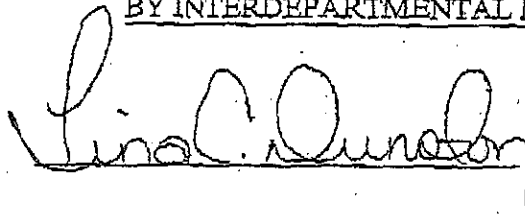
Appendix A  
Docket No. 03A-177SEG  
Decision No. R03-0694  
June 20, 2003  
Page 17 of 20

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Appendix A  
Docket No. 03A-177SEG  
Decision No. R03-0694  
June 20, 2003  
Page 18 of 20

# ATTACHMENT A

Aquila Inc.				
Cashflow Statement				
Quarter Ended March 31, 2003				
	(dollars in thousands)	U.S. Utilities	Other Non-Regulated	Consolidated Aquila Inc.
Line #	<u>Cashflow from Operations</u>			
1	Net Income			
2	Adjustments to reconcile net income (loss) to net cash:			
3	Depreciation & amortization expense			
4	Restructuring charges			
5	Impairments & Other Charges			
6	Cash paid on impairments & other chrg.			
7	Net chg. price risk mngm			
8	Deferred taxes & investment tax credits			
9	Equity in earn. of inve			
10	Dividends & fees from investments			
11	<u>Change in assets &amp; liab.</u>			
12	A/R & A/P, net			
13	Restricted cash			
14	Inventory & Supplies			
15	Prepayments & Other			
16	Accrued & Other current liab			
17	Deferred Credits			
18	Deferred Charges & Other			
19	Customer funds on deposit			
20	Funds on deposit			
21	Other			
22	<u>Total Cashflow From Operations</u>			
23				
24	<u>Cashflow from Investing</u>			
25	Additions to Utility Plant			
26	Merchant Capital Expenditures			
27	Cash received on sale of assets			
28	Other			
29	<u>Total Cashflow From Investing</u>			
30				
31	<u>Cashflow From Financing</u>			
32	Issuance of common Stock			
33	Issuance of LTD			
34	Retirement of LTD			
35	Short-term borrowings			
36	Net chg in long-term gas contracts			
37	Other			
38	<u>Total Cashflow From Financing</u>			
39				
40	Inc (Dec) in Cash Equiv			
41	Cash-Begin-(December)			
42	Cash-Ending			
	Footnotes:			
	See detail explanation of bolded line items on the "Detail Info" worksheet.			

		Other Non-Regulated
Line #		
25	Canada utility capital expenditures	
26	Capacity Services (MEP) capital expenditures (Power plant construction commitments)	
	Cash received on sale of assets:	
	U.S. Networks—Sale of STI	
	Capacity Services—Cash rec on sale of AQP recorded as AR at year end	
	Wholesale Services—Cash received on sale of AECC classified as restricted cash at year end	
	Wholesale Services—Cash received on sale of AECC held as escrow at year end	
	Quanta Services—Cash received on sale of remaining Quanta shares	
27	Total Other Non-Regulated Cash received on sale of assets	
	Total Cash received on sale of assets	
	Retirement of LTD:	
	Capacity Services:	
	Raccoon Creek	
	Goose Creek	
	Total	
	less: non cash adj—cash collateral used to pay down debt (cash outflow in investing activity when posted earlier in year)	
	Total Capacity services	
	Canada	
	Australia	
	Corporate	
	UCS	
	Wholesale	
34	Total Other Non-Regulated Retired LTD	



SCHEDULE TJR-13

HAS BEEN DEEMED

“HIGHLY CONFIDENTIAL”

IN ITS

ENTIRETY

SCHEDULE TJR-14  
HAS BEEN DEEMED  
“HIGHLY CONFIDENTIAL”  
IN ITS  
ENTIRETY