BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Aquila, Inc., d/b/a Aquila Networks – MPS's Purchased Gas Adjustment n Factors to be Reviewed in its 2003-2004 Actual Cost Adjustment.	))))	Case No. GR-2004-0539, as consolidated

RESPONSE TO STAFF RECOMMENDATION

Comes now Aquila, Inc., and respectfully provides to the Missouri Public Service Commission ("Commission") the following response to the Staff Recommendation:

1. On November 21, 2005, the Commission Staff ("Staff") filed its Recommendation in this matter. The Recommendation included a Memorandum, which set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 2003 through August 2004, included in Aquila's 2003-2004 Actual Cost Adjustment ("ACA") filing. Staff also stated that it reviewed Aquila's gas purchasing practices for the same period.

2. On November 23, 2005, the Commission issued its Order Directing Filings wherein it ordered Aquila to respond to the Staff Recommendation by December 23, 2005. Aquila will respond to the various issues identified by Staff in the following paragraphs. Aquila's response will reference the Recommendation by use of the same section titles utilized by the Staff

ACA & Transition Cost Balance

3. Staff identities certain adjustments stemming from Cases Nos. GR-2003-0311 and GR-2003-0369. Aquila agrees with these adjustments and has made the adjustments.

L&P Transition Cost (TC) Balance

4. Aquila agrees with Staff's proposed under-recovery balance of $3,617 at August 31, 2004, which includes the adjustments made from Case No. GR-2003-0369.

Storage

5. ***Southern System:*** Aquila does not agree with Staff's gas cost reduction of $11,145. Aquila believes the adjustment amount should actually be $11,150. At this time Aquila would like to point out that in Staff's work papers, it had removed overrun charges in the months of June, July and August 2004 totaling $197.37. However, this adjustment reflected on the workpapers was not included in Staff's final recommendation total. Aquila agrees with Staff's recommendation and feels that the adjustment of $197.37 included on Staff's workpapers should not be made. These overrun charges should be included in the storage. Aquila believes that the inclusion of these costs represent the appropriate costs for storage in light of its contracts.

6. ***L&P System:*** Aquila does not agree with Staff's recommendation to reduce gas cost by $23,839. Aquila has made all adjustments settled upon in Case No. GR-2003-0369, which represents the largest portion of Staff's adjustment ($18,921). Further, in Staff's work papers, Staff has removed the injection amount of $414.78 in September 2003, and $6.51 in October 2003. Aquila believes these injection amounts should be included in the injection totals as they came directly from the ANR Pipeline statements for these months. Also in January 2004, Staff used an incorrect cost to value the injections. Staff used only the cost of the BP package instead of using the WACOG of gas cost packages for that month. Finally, in March 2004 and April 2004, Staff has included volumes from an in-field transfer in their calculations.

7. These volumes should not be included in the storage calculation. Due to an ANR pipeline requirement of having storage balance at or below 20% of Maximum Storage Quantity (MSQ) or be charged for fuel cost on the volumes in excess of the 20% MSQ, on March 31, 2004, Aquila Networks-MGU (Aquila's Michigan operating division) withdrew 30,000 Dth from ANR storage and injected the 30,000 into Aquila Networks-L&P's ANR storage account. On

April 4, 2004, the gas was withdrawn from Aquila Networks-L&P's ANR storage account and injected into Aquila Networks-MGU ANR storage account.

8. This was handled via an in-field transfer through the ANR pipeline. The transfers were necessary to meet the ANR storage requirement for Aquila Networks-MGU and avoid paying additional storage costs. There was no cost incurred for the in-field transfer to Aquila Networks-L&P or Aquila Networks-MGU.

9. Aquila Networks-L&P was not charged for the gas cost because the gas was transferred back to Aquila Networks-MGU a few days later. It should not be viewed as a withdrawal in March and injection in April and priced accordingly. If ANR pipeline did not have the storage balance requirement, the storage balance would have been valued at March cost. The in-field transfer was accomplishing the same thing, while avoiding additional storage costs.

10. Aquila would also like to point out at this time, that this same type of in-field transaction occurred in the next year in March 2005 and April 2005, with the transfer going in the opposite direction of the subject time period. These volumes were also not included in the storage calculation

11. Again, due to an ANR pipeline requirement of having storage balance at or below 20% of Maximum Storage Quantity (MSQ) or be charged for fuel cost on the volumes in excess of the 20% MSQ, on March 31, 2005, Aquila Networks-L&P withdrew 20,000 Dth from ANR storage and injected the 20,000 into Aquila Networks-MGU's ANR storage account. On April 1, 2005, the gas was withdrawn from Aquila Networks-MGU's ANR storage account and injected into Aquila Networks-L&P's ANR storage account.

12. This was handled via an in-field transfer through the ANR pipeline. The transfers were necessary to meet the ANR storage requirement for Aquila Networks-L&P and avoid

paying additional storage costs. There was no cost incurred for the in-field transfer to Aquila Networks-L&P or Aquila Networks-MGU.

13. Aquila Networks-MGU was not charged for the gas cost because the gas was transferred back to Aquila Networks-L&P a few days later. It should not be viewed as a withdrawal in March and injection in April and priced accordingly. If ANR pipeline did not have the storage balance requirement, the storage balance would have been valued at March cost. The in-field transfer was accomplishing the same thing, plus avoiding additional storage costs.

14. Aquila believes that after these corrections are made to Staff's storage calculation that no further adjustments are necessary, other than the adjustment from Case No. GR-2003-0369, which has already been made.

Cashouts

15. Aquila agrees with Cashouts adjustments A, B, F and G and agrees that these adjustments have been made during the 2004/2005 ACA period. Aquila also agrees with adjustments C, D, E and H. However, these adjustments were made during the 2003/2004 ACA period in the June 2004 tracker. They are embedded in the Prior Period Adjustment amount of ($3,069.35).

16. Aquila does not agree with Staff's adjustment I. The adjustment made in the December 2003 PEPL Northern System tracker in the amount of ($2,348.62) is accurate. This adjustment includes a PEPL Northern System Aggregated Cashout that had not yet been accounted for in the amount of $176.21. It was also backing out several PEPL Eastern System Aggregated Cashouts that had been booked incorrectly to the Northern System. To properly account for the Northern System cashout and back out the Eastern System cashouts, the calculation should be as follows: **$176.21**+$2.86-$416.21-$152.03-$1,959.46=($2,348.62).

Bid Documentation

17. Effective April 1, 2005, as requested by Staff, Aquila began documenting monthly and daily bid activity for the MPS Southern System, MPS Northern System and LP System that includes the following: Gas Day(s); Supplier; Volume; and, Price.

Pool Gas Documentation

18. Effective April 1, 2004, Southern Star Central Gas Pipeline split the firm transportation and storage contracts at the request of Aquila Networks between Kansas and Missouri. The MPS Southern System kept the old contract numbers and Kansas Gas Operations received new contract numbers. By splitting the contracts, the need to allocate transportation and storage costs between the states is eliminated. In addition, all packages of gas that are purchased are placed in gas pool(s) that designate whether it is for Kansas or the MPS Southern System, thereby eliminating the need to allocate gas costs as well.

Hedging

19. Aquila appreciates the Staff's positive comments concerning the appropriateness of Aquila's hedging strategy for the 2003/2004 ACA period. Aquila recognizes and will consider the Staff's recommendation that Aquila consider longer term horizons in hedging strategy. However, Aquila's pending application to sell its Missouri natural gas properties to The Empire District Electric Company (Case No. GO-2006-0205) will have a practical impact upon the ability to pursue such strategies at this point in time.

Reliability

20. The Staff Recommendation asked that Aquila respond to "the comments/concerns in item number 2 of the reliability section of the memorandum by January 16, 2006." Aquila believes that it will be in a position to so respond by that date.

WHEREFORE, Aquila respectfully requests that the Commission consider this response to the Staff Recommendation and issue such orders as it believes to be reasonable and just.

Respectfully submitted,

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ATTORNEYS FOR AQUILA, INC.

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on December 22, 2005, to the following:

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