

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

In the Matter of Aquila, Inc. d/b/a Aquila Networks-)
L&P and Aquila Networks-MPS to Implement a) Case No. GR-2004-0072
General Rate Increase in Natural Gas Rates.)

UNANIMOUS STIPULATION AND AGREEMENT

COME NOW Aquila, Inc. d/b/a Aquila Networks – MPS (“MPS”) and Aquila Networks – L&P (“L&P”) (“Aquila” or “Company”), the Staff of the Missouri Public Service Commission (“Staff”), the Office of the Public Counsel (“Public Counsel”), the Sedalia Industrial Energy Users’ Association (“SIEUA”), the City of Kansas City, Missouri (“Kansas City”), the Missouri Department of Natural Resources (“MDNR”) and Cornerstone Energy, Inc., (collectively “Parties”) and state to the Missouri Public Service Commission (“Commission”) that during the course of this litigation, the Parties have met for the purpose of exploring settlement of the outstanding issues and, as a result of those discussions and negotiations, the Parties have reached the following stipulations and agreements, which resolve all remaining issues in this case:

RESOLUTION OF ISSUES

Revenue Requirement

1. All Parties agree that Aquila shall be authorized to file revised tariff sheets containing rate schedules for natural gas service in the Northern System and the Southern System of its MPS service area that are designed to produce an increase in overall gross annual natural gas revenues, exclusive of applicable fees and taxes, of \$2,600,000. Aquila shall also be authorized to file revised tariff sheets containing rate schedules for natural gas service in its L&P

service area that are designed to produce an increase in overall gross annual natural gas revenues, exclusive of applicable fees and taxes, of \$836,542.

Tariff and Implementation

2. Illustrative tariff sheets designed to implement the stipulated rate increase and other stipulated tariff changes are attached as **Appendix A** to this Stipulation and Agreement. The Parties agree that, as a part of this Stipulation and Agreement, the Commission, in its order approving this Stipulation and Agreement, is to order Aquila to file tariff sheets in the form of **Appendix A**. All Parties agree to use their best efforts to achieve implementation of this Stipulation and Agreement with tariffs effective April 15, 2004, for the MPS service area and with tariffs effective July 1, 2004, for the L&P service area. Aquila will develop divisional class cost of service studies to reflect new rate classes for filing with its next rate case.

Reporting

3. Aquila agrees to provide the Staff and Public Counsel the following call center and meter reading reporting, twenty-one (21) days after the last day of the month for which the information covers:

The specific information that will be provided by Aquila on a monthly basis includes the following:

Call Center Data

Total Calls Offered to the Call Center

Call Center Staffing including Call Center Management Personnel

Average Speed of Answer ("ASA") - All Other Calls

Abandoned Call Rate ("ACR")

Service Level - All Other Calls

Service Level - Emergency Calls

Meter Reading Data

Number and Percentage of Total Electric and Gas Meters Read

Number and Percentage of Meters Estimated

Number of Consecutive Estimated Meters Read for a period greater than seven (7) months

When Aquila has the above call center data available on a state-by-state basis, it will provide this information to the Staff and Public Counsel on a state-by-state basis.

Aquila agrees that it will provide the Staff and Public Counsel the above reporting requirement information on a monthly basis, until Aquila's financial condition reaches investment grade and the Staff determines Aquila's customer service and reliability performances no longer require monthly reporting to the Staff of the above data. At that time, Aquila will commence reporting to the Staff and Public Counsel the above-specified information on a quarterly rather than on a monthly basis.

Depreciation

4. The Commission shall order Aquila to use the depreciation rates and Average Service Lives set out in **Appendix B** to this Stipulation and Agreement effective January 1, 2004. The Parties agree with the provision for jurisdictional net cost of removal recommended by Staff. The provision for jurisdictional net cost of removal of \$68,272 for MPS, and \$21,891 for L&P is to be recorded as an annual expense for rate making purposes. Aquila shall book for its MPS and L&P gas operations, actual levels of annual net cost of removal as an expense up to the amounts listed above. For any actual amount of annual net cost of removal that differs from these amounts, Aquila will record the difference in its accumulated depreciation reserve. The

Parties agree this methodology will represent full recovery of all of the Company's annual net cost of removal expenditures. This methodology will be reviewed in Aquila's next general rate case in which its retail gas rates are under review to determine whether the methodology will be continued.

Miscellaneous Service Matters

5. The Parties agree that for natural gas service in Missouri:
 - a. The late payment charge will be a simple $\frac{1}{2}$ percent per month of the original net amount due on the delinquent bill in both the MPS and the L&P service areas;
 - b. The customer deposit interest during the calendar year will be one percentage point (1%) above the prime rate published in the Wall Street Journal on the last business day in December of the prior year in both the MPS and L&P service areas;
 - c. The miscellaneous charges for gas service will be as outlined in the Direct Testimony of Aquila witness Robert Amdor except for special meter reading and collection charges;
 - d. The special meter reading charges for gas service will be \$5 and \$10 in both the MPS and the L&P service areas;
 - e. The collection charge for gas service will be \$25 in both the MPS and L&P service areas.

Weatherization and Low Income Program

6. Aquila agrees to fund, on an annual basis, and until the effective date of rates resulting from the next general rate proceeding involving Aquila's Missouri natural gas rates,

\$135,000, to be used as follows:

- \$78,500 Funding for system-wide experimental weatherization assistance proposed by MDNR, to be administered in a manner consistent with the federal Weatherization Assistance Program, and the entire annual funding amount is to be allocated pro rata to all of Aquila's service areas (MPS and L&P) through MDNR weatherization service providers in the Aquila service areas.
- \$7,500 Funding for MDNR experimental commercial energy audit. In the event funds are not made available under Case No. ER-2004-0034 to support a commercial energy audit project as proposed by MDNR, the \$7,500 designated for MDNR's experimental commercial energy audit program in this Stipulation and Agreement shall not be used for an experimental commercial energy audit program; instead, such \$7,500 shall be added to the \$78,500 funding described herein, for a total of \$86,000 in funding for the above-described system-wide experimental weatherization assistance program proposed by MDNR.
- \$24,000 Funding for weatherization for an experimental low-income program for Aquila residential gas customers in certain areas served by the Missouri Valley Human Resource Community Action Agency (MVCAA) with incomes in the range of 0% to 125% of the Federal Poverty Level (FPL).
- \$ 25,000 Funding for experimental rate discount with at least two tiers for Aquila residential gas customers in certain areas served by MVCAA with incomes in the range of 0% to 125% of the FPL.

In addition to the broad parameters above, Staff, Public Counsel, MDNR and Aquila will negotiate mutually agreeable specific criteria for the selection of participants in the \$24,000 experimental low-income weatherization program described above. With respect to the \$25,000 rate discount program described above, only Staff, Public Counsel and Aquila will negotiate mutually agreeable specific criteria for the selection of participants and the level, structure and method for providing tier discounts to low-income discount program participants. If mutually agreeable criteria cannot be negotiated by April 22, 2004, those issues will be brought before the Commission for resolution.

Aquila will meet with Staff, Public Counsel, MDNR, MVCAA and the City of Kansas City on a collaborative basis to determine the operational and administrative details of all of the above programs including but not limited to: the manner in which the funds will be handled and accounted for consistent with applicable federal and state guidelines and the type and extent of information that will be gathered to evaluate the program. If mutually agreeable criteria cannot be reached by June 1, 2004, any party may seek resolution before the Commission.

Customer Service Inquiries

7. Aquila will respond to inquiries from Staff's Consumer Services Department within three (3) business days, except for interruption of service issues, to which it will respond within twenty-four (24) hours.

Billing Determinants

8. All Parties agree to use of Staff's billing determinants to develop the rates resulting from this Stipulation and Agreement.

Books and Recordkeeping

9. Aquila agrees to meet with Public Counsel each month over the next six months in an effort to resolve concerns with respect to Aquila's books and records. If Aquila is not able to resolve Public Counsel's concerns within the next six months, Public Counsel is free to request modifications to Aquila's books and recordkeeping procedures and Aquila is free to take any position with regard to such a request.

Cost of Capital

10. Aquila agrees that in future rate cases, it will not seek a cost of capital higher than a group of comparable gas utilities with an investment grade rating. This condition will continue until two requirements are satisfied. These requirements are 1) Aquila must have an investment

grade rating; and (2) a company-specific discounted cash flow analysis can be performed on Aquila.

Litigation

11. Public Counsel agrees to withdraw, with prejudice, the Motion to Dismiss which it filed with the Commission in this case (Case No. GR-2004-0072), within ten days of a Commission order approving this stipulation.

Deferred Income Taxes (Flow Through)

12. Aquila agrees that, pursuant to Internal Revenue Service Code Section 168, public utility property currently does not qualify as recovery property (i.e., subject to accelerated depreciation methods) unless the taxpayer placing it in service uses a normalization method of accounting, and that, with regard to accounting authority order deferred costs, no Commission authorization to apply the "flow through" tax methodology to the determination of total income tax expense for regulated ratemaking purposes is included in this stipulation.

ISRS

13. Aquila agrees that it will not file a proposed tariff to adjust its rates to recover natural gas infrastructure costs through an infrastructure system replacement surcharge ("ISRS"), as set forth in Section 393.1009, et seq. RSMO Supp 2003, prior to the effective date of Aquila's next natural gas general rate increase case.

GM-2004-0244

14. The Parties agree that this Stipulation and Agreement is conditioned upon the Commission's grant of authority to sell and transfer certain assets from Aquila to Union Electric Company d/b/a AmerenUE that are the subject of Commission Case No. GM-2004-0244.

GENERAL PROVISIONS

Admission of Party Testimony

15. All Parties agree that, in the event the Commission approves this Stipulation and Agreement without modification or condition, then the prefiled testimony of all witnesses in this proceeding may be included in the record of this proceeding, without the necessity of such witnesses taking the stand.

Contingent Waiver of Rights

16. This Stipulation and Agreement is being entered into solely for the purpose of settling all issues in these cases. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation or revenue related methodology, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, whether this Stipulation and Agreement is approved or not, except as otherwise expressly specified herein.

17. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve this Stipulation and Agreement by April 15, 2004, or approves this Stipulation and Agreement with modifications or conditions that a party to this proceeding objects to prior to the effective date of the Order approving this Stipulation and Agreement, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof, except as otherwise provided herein.

18. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, and notwithstanding its provision that it shall become void therein, neither this Stipulation and Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any party has for a decision in accordance with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Parties shall retain all procedural and due process rights as fully as though this Stipulation and Agreement had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this Stipulation and Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

19. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the signatories waive their respective rights to present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §386.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. This waiver applies only to a Commission Order respecting this Stipulation and Agreement issued in this proceeding, and does not apply to any matters raised in any prior or subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation and Agreement.

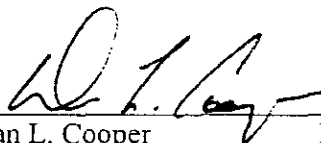
Right to Disclose

20. The Staff shall file suggestions or a memorandum in support of this Stipulation and Agreement. Each of the Parties shall be served with a copy of any such suggestions or

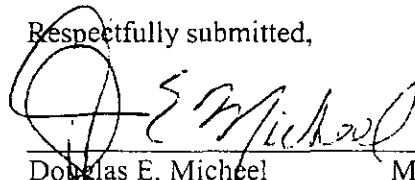
memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions of a responsive memorandum which shall also be served on all Parties. The contents of any suggestions or memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

21. The Staff also shall have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.

WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement.



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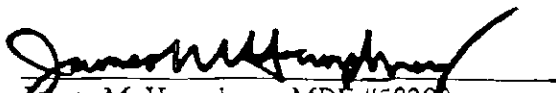
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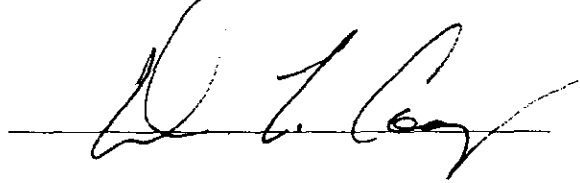
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was sent by electronic mail on this 24th day of March, 2004, to the Parties of record.

A handwritten signature in black ink, appearing to read "D. L. Coy", is written over a horizontal line. The signature is fluid and cursive.