Exhibit No.:	
Issue:	Working Capital
Witness:	Carol A. Lowndes
Sponsoring Party:	Aquila, Inc.
Type of Exhibit:	Surrebuttal Testimony
Case No.:	EF-2003-0465
Date Testimony Prepared:	September 26, 2003

MISSOURI PUBLIC SERVICE COMMISSION

SURREBUTTAL TESTIMONY

OF

CAROL A. LOWNDES

ON BEHALF OF

AQUILA, INC.

September 26, 2003

VERIFICATION

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Carol Lowndes, having been duly sworn upon my oath, state that I am the Senior Financial Manager of Aquila, Inc., that I am authorized to make this affidavit on behalf of Aquila, Inc., and that the matters and things stated in the foregoing surrebuttal Testimony and schedules thereto are true and correct to the best of my information, knowledge and belief.

Carol Lowndes

Carol Lowndes

Signed and sworn to before me, the undersigned notary public, on this 24th day of September, 2003.

Terry D. Lutes

Notary Public
Terry D. Lutes

My Commission Expires:

8-20-2004

TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF CAROL LOWNDES
ON BEHALF OF AQUILA, INC.

Q. Please state your name and business address.

A. My name is Carol A. Lowndes. My business address is 10700 East 350 Highway, Raytown, MO 64138.

Q. By whom are you employed and in what capacity?

A. I am employed by Aquila, Inc. ("Aquila", or "the Company") as Sr. Financial Manager – U.S. Networks supporting Regulatory Services.

Q. Please describe your educational background and professional associations.

A. I graduated from Creighton University in 1979 with a Bachelor of Science Degree in Business Administration, majoring in accounting. I am a certified public accountant.

Q. Please summarize your professional background.

A. Upon graduation from Creighton University, I joined the certified public accounting firm of Fox and Company where I worked in the audit services group as a staff auditor. I then joined the firm of Frazer and Swanson, CPAs, where I worked as a senior auditor until November of 1985, when I joined Aquila (previously UtiliCorp United) as Supervisor of General Ledger and Financial Reporting for Peoples Natural Gas. I have served the Company in various roles including: Manager of Planning and Regulatory Accounting for Peoples Natural Gas; General Ledger Team

Lead for MPS and West Plains; Director of Business Services for the utility and Vice President of Financial Analysis for one of our non-regulated businesses, Everest Connections before assuming my current position in May 2003.

Q. What is the purpose of your surrebuttal testimony in this case before the Missouri Public Service Commission ("Commission")?

A. My testimony will primarily address the allegations and suggestions raised by Ms. Wandel, Mr. Robertson and Mr. Busch specifically concerning the details of the working capital calculation, as well as Mr. Sommerer's testimony regarding the Company's decision to defer recovery of gas costs. While I was not directly responsible for the calculation of the $250 million of working capital needs for the U.S. Networks (the term U. S. Networks refers to the consolidation of all of the operating divisions of Aquila's domestic utilities which operate in the various states), I have since become extremely knowledgeable with its development. I report to Beth Armstrong who is the Chief Financial Officer – U.S. Networks. Ms. Armstrong was responsible for the calculation of the $250 million of working capital needs for the U.S. Networks and is scheduled to be on maternity leave shortly.

Q. How is your testimony organized?

A. First, I will discuss specific concerns with the section of Ms. Wandel's testimony that addresses her third point of working capital and Mr. Robertson's testimony regarding the working capital calculation. Second,

I will address clarifications to Mr. Busch's testimony regarding the working capital calculation. Third I will address Mr. Sommerer's testimony regarding the handling of gas costs in the working capital calculation. Finally, I will summarize the issues.

Ms.Wandel's and Mr. Robertson's Testimony

Q. Do you agree with Ms. Wandel's position on page 30, line 18-20 and Mr. Robertson's testimony on page 29 lines 8-18, which states that the Company, by requiring its utility operations to provide collateral to support the U. S. Networks working capital requirements, has failed to protect and safeguard the regulated utilities from the impact of its current lower than investment grade status?

A. No, I do not. Ms. Wandel acknowledges on page 27 lines 5-8 that Aquila had to seek permanent financing in the form of the three-year term loan to replace the previously existing revolver loan. While the Company agrees that a term note is not the most efficient and effective means to finance working capital, the Company would have been imprudent not to ensure that the necessary cash was made available to the utility for its working capital needs. Furthermore, the term loan is internally managed like a revolving credit facility for the utility by how we account for the costs of this loan. The utility will only bear the interest costs equivalent to a BBB investment grade level and is charged only for the amounts drawn upon, not on the outstanding balance of the term loan.

Q. Who will bear the full cost of the term loan?

A. As explained in Rick Dobson's direct testimony on page 13 lines 17-23. The term note will be held at the corporate level and the utility will only be charged for the use of funds when working capital is needed and at an investment grade rating so the difference in interest costs will be born by the shareholder, **not the ratepayer**.

Q. Based on the Company's assurance to shield the customer from the cost of working capital in excess of investment grade levels, do you believe that this term loan is detrimental to the public interest?

A. Since it is the shareholder that is bearing the burden of the higher financing costs, the "public", as defined by Ms. Wandel on page 22 line 2 as Missouri ratepayers, has not been harmed. It is my understanding that the Commission has defined "detrimental" to mean increased rates or reduced customer service. Based on that definition, the Company's proposed methodology of handling the term loan is not "detrimental" to the "public".

Q. Do you agree with Ms. Wandel's statement on page 28 lines 18-20 that it is likely that the cash needs of the non-regulated operations will likely exceed the amount of the $180 million in borrowings?

A. No, I do not. As explained in response to Sedalia Industrial Energy Users Association and Ag Processing Inc. Data Request No 11, attached as Surrebuttal Schedule CL-1, the Company explained that it is in the midst of selling many of the non-regulated assets, which will continue to

generate cash that is being used to reduce liabilities and/or fund the cash requirements of the remaining non-regulated operations.

Q. How do you respond to Ms. Wandel's statement on page 31 of her rebuttal testimony and Mr. Robertson's statements on page(s) 25-26 lines 16-21 and lines 1-5 respectively, that the Company has developed a working capital requirement for Missouri?

A. The focus of the Company has been to make sure that there was enough cash on hand and working capital borrowing facilities to fund the overall day-to-day needs of the U.S. utility. As explained and noted in Ms. Wandel's testimony on page 32, the Company performed the study on an overall basis and then later, in response to a data request, allocated the U.S. Networks' overall peak need to the states. We did not perform a detailed analysis on Missouri to identify specifically Missouri's peak need; nor did we state that Missouri's standalone peak need would occur on January 2, the same as the Company's overall need. Although electric operations contribute to the January peak, the Missouri standalone working capital requirement primarily driven by electric operations would be expected to peak in the spring/summer **not** in the winter, driven by fuel purchased for generating needs, purchased power energy, purchased power demand charges and capital expenditures.

Q. Do you agree with Ms Wandel's summarization of the assumptions used to determine the peak utility working capital requirements on page 33 lines 11-16?

A. No. It is important to clarify that the stress tests for gas pricing noted as item #3 on line 13 was applied to 34% of the January load.

Q. Why is this important?

A. The Company uses a portfolio approach to procuring natural gas for distribution to our customers. Storage and fixed price contracts will be used to mitigate 66% of the price volatility based upon the 2003-2004 gas purchasing plan. The remaining 34% of the gas requirements is purchased in the spot market so that customers may reap the benefits of declining market prices. This portfolio approach also creates exposure to increasing market prices. This portfolio approach has been presented and reviewed with each state Commission. The stress test for the working capital study determined what that price could be using two standard deviations from the mean as of April 23, 2003 price curve. This provides a 95% confidence level that the prices for this 34% will not exceed $11.63.

Q. Why did the Company increase volumes by 10% as noted on line 14 of Ms Wandel's summarization of the assumptions on page 33?

A. The 10% increase in volumes was intended to simulate a colder than normal winter volumetric swing for the month of January.

Q. Did the Company overstate or greatly exaggerate their needs in the adjustments made to the calculation?

A. No, we did not. Since the Company did not perform a Missouri specific study, the additions noted to the overall study were items that, although not included in the original study, would have been included in a Missouri

specific peak day working capital study and were in fact based on historical Missouri amounts. Furthermore, while Ms. Wandel asserts that it is inconsistent to reflect the possibility of both an ice storm and colder than normal temperatures, it is not inconceivable nor inconsistent that given Aquila's geographic diversity, which extends as far North as International Falls, Minnesota, both events could occur.

Q. Has the Missouri electric system experienced an ice storm in recent years?

A. Yes, during the winter of 2002, Missouri electric operations experienced an ice storm on January 30. This ice storm resulted in $8.7 million of additional materials and labor spending to repair lines and restore power to our customers.

Q. Has the Company recovered this additional cost in rates from its customers?

A. No. While the Company obtained an Accounting Authority Order Case No. EU-2002-1053 to defer the costs of the ice storm on its balance sheet in account 182.3, any cash recovery of these costs was deferred until the next rate case filing which is currently pending with the Commission.

Q. Has the Company experienced colder than normal temperatures in recent years?

A. Yes. During the winter of 2003, temperatures as measured at MCI (the Kansas City weather station) were 60% colder than normal during the week ending March 1, 2003.

Q. Was the market price for natural gas impacted by these weather trends?

A. Yes. Attached is a graph depicting the high volatility of daily prices for the demarcation point on the Northern Natural Gas system (where the line between supplies in the south and markets in the north) for the period February 23, 2003 through March 7, 2003, which includes the week ending March 1, 2003. See Surrebuttal Schedule CL-2.

Q. Based upon the above set of historical events, is it reasonable to plan for a peak working capital requirement that would include these items?

A. Yes.

Q. Would it be appropriate to employ the same methodology used to determine the working capital component of rate base in the context of a rate case to determine the peak working capital needs for financing purposes?

A. No, it would not.

Q. Why not?

A. If the Company were filing a rate case and asking the Commission to approve an ***average annual*** working capital balance outstanding throughout the year to include in rate base, the Company would use the standard lead-lag methodology. This balance is included in rate base as a permanent investment in working capital because the lead-lag study indicates that on *average* for the *year*, the difference between the time revenues are received and expenditures for labor, material and services must be made results in either a positive or negative annual average

working capital balance. The working capital requirements for *financing purposes*, on the other hand, are very different. To determine this need, one must look at the Company's *daily* cash requirements and determine the amount of cash it could need to meet the peak day during the year. The analysis is used to inform Treasury of the amount the Company needs to be able to access for **peak** daily liquidity purposes.

Q. Are there other utility planning processes that are similar to the determination of a peak day working capital requirement?

A. The peak day working capital analysis is similar to a utility's analysis of peak day requirements for generating and purchased capacity for the customers on the electric system. It is also similar to design day planning that is performed for the gas distribution segment of the business to make sure there is enough pipeline and storage capacity to serve the peak day needs of the gas utility customers. The utility must determine the peak amount of capacity required under a weather normal and abnormal scenario to ensure it has the capacity to handle the peak need. The utility does not expect to operate at the peak capacity at all times, not even on average for the year, but it must ensure it has the necessary capacity to meet its *potential* peak day usage. For example, Missouri's peak of 1,300 mwh in 2002 occurred on August 2, 2002; while their average daily load was 659 mwh.

Q. Is the Company asking for a rate increase as part of its request pending before the Commission in this proceeding?

A. No. This is not the nature of this filing. Aquila has filed for the Commission's approval to pledge the Company's Missouri utility assets as collateral for a working capital loan to meet the peak day requirements for the U.S. Networks operations, including the peak day requirements to serve customers in the state of Missouri. In separate filings before this Commission, the Company has requested rate increases for its electric, steam and gas operations. These filings are driven by revenue deficiencies.

Q. Has the Company committed to using a lead-lag calculation that **excludes** any potential impact to the customer of prepayment for gas supplies, pipeline capacity, or purchased power?

A. Yes, the Company has stated on several occasions that it is not appropriate to include the impact of these types of prepayments on a lead-lag study, nor has the Company included these prepayments in its recent rate filings before this Commission. During the interviews held on July 16 (see transcript page 260, lines 20-24), Denny Williams explained that the lead-lag study filed in the recent rate filings was for the historical test period ending December 31, 2002 and consequently did not include any prepayments. In response to Staff Data Request No. 43, attached as Surrebuttal Schedule CL-3 the Company explained that it had not included any prepayments for natural gas supplies in the recently filed applications. Furthermore, in response to Office of Public Counsel Data Request No. 629, attached as Surrebuttal Schedule CL-4 to this testimony, the

Company stated that it was committed to neutralizing any potential impact of prepayments for gas supplies and pipeline capacity in lead-lag studies.

Q. Do you agree with Ms. Wandel's reference on page 40 lines 5-7 and Mr. Robertson's testimony on page 25 lines 5-8 that concludes Aquila already has a surplus cash working capital for rate base purposes in Missouri and therefore does not need any additional working capital for its Missouri utility operations?

A. No. Again, the working capital calculation that Ms. Wandel and Mr. Robertson refers to is a calculation used for rate-making purposes to determine an **average** difference *in number of days* between cash collected from the customer and cash paid out for expenses over the entire year. This analysis does not calculate the amount of working capital that the Company requires on a peak day. Ms. Wandel states on page 36 that the Staff understands that **all** companies have working capital needs (emphasis added).

Q. Did the lag study Ms. Wandel referred to on page 39 consider Aquila's current situation of having to prepay for purchased gas and purchased power?

A. No it did not.

Q. Has Aquila included the need to prepay for purchased gas or purchased power in its current rate proceedings before this Commission?

A. No, it has not; however that does not alter the fact that Aquila must in fact have enough working capital capacity to make prepayments for purchased

gas and power and thus prepayments were included in its peak working capital study.

Q. Does the standard lead-lag study used for rate-making purposes take into account changes in gas costs or timing of collection on these gas costs?

A. No. In addition to not computing a daily peak working cash requirement, a lead-lag study does not take into account differences in the cost of gas billed to our customers and gas costs actually incurred for the month.

Q. Why would there be a delay in passing the actual gas cost onto the customer?

A. Aquila's gas supply costs are not 100% fixed price and therefore cannot be definitively factored into the customer's rate for a given month at the beginning of that month. A portion of our gas supply portfolio is impacted by changes in the daily gas market prices. As prices change during the course of the month, our weighted average gas cost changes. Any difference from the estimated rate charged the customer and the actual incurred cost is held on the balance sheet until it is filed for recovery or refund through the PGA process.

Q. Is it unusual for other utilities to have working capital revolver arrangements, yet have a negative cash working capital amount in their rate base?

A. No, it is not unusual at all due to the inherent differences between the two calculations. It is this essential difference in purpose that explains why utilities have working capital facilities as documented in the attached

Surrebuttal Schedule CL-5 (an updated schedule to Mr. Dobson's Exhibit 4 from direct testimony) yet some of those same utilities have or have had a negative balance in their cash working capital calculation for inclusion in rate base. For example, in Case No. EC-2002-1, Ameren's cash working capital calculation initially resulted in $(744,292) (Surrebuttal Schedule CL-6 attached) for rate base purposes, yet they have a $772 million short-term credit facility. And while Empire's calculation resulted in a positive net cash working capital of $1.5 million (Surrebuttal Schedule CL-7 attached), they have a short-term credit facility of $100M. The reason for this type of disparity is because the two calculations are simply not the same.

Q. Are there other allegations made in Ms. Wandel's testimony that you would like to address?

A. Yes, there are. On page 44 of Ms. Wandel's testimony, she states that the recording of internal dividends creates an artificial need for increased working capital.

Q. Do you agree with this statement?

A. No, I do not.

Q. Why not?

A. First of all, the recording of dividends does not create an artificial need for increased working capital, as dividends were not a component in the Company's working capital calculation. And secondly, Ms. Wandel implies

that $40.433 million in cash was transferred out of the utility to pay the expenditures of the non-regulated entities.

Q. Is this characterization correct?

A. No, it is not.

Q. Why not?

A. First, for efficiency reasons, cash is not “transferred” to or from each entity on a daily basis; instead it is managed at a corporate level to maximize available cash throughout the Company. This process was explained several times including during the interviews conducted in this case on July 17 (see transcript pages 529-539), in response to Staff Data Request No. 8 which included a memo detailing the Company’s cash management procedures, attached as Surrebuttal Schedule CL-8 and in response to Staff Data Request No. 16, attached as Surrebuttal Schedule CL-9 the Company explained its process for recording dividends. Secondly, Ms. Wandel does not address the fact during the same time period (six months ended June 30, 2003) that the journal entries were made recording internal dividends, Aquila expended cash on behalf of the utility of over $38.3 million in prepayments for natural gas supplies, pipeline capacity and purchased power, as well as utility capital expenditures of $53.8 million. These payments were not made by the utility but rather by Aquila on behalf of the utility.

Q. How do you respond to Ms. Wandel's statement on page 45 lines 6-11 that since the Company is not paying external dividends, it should not pay "internal dividends"?

A. First, the internal dividend process is an accounting journal entry not a transfer of cash, made in order to maintain the appropriate divisional capital structure for an investment grade utility. Second, it would be inconsistent for the Company to treat the utility as investment grade quality by insulating it from the increased cost of capital resulting from the Company's current non-investment grade status and simultaneously cease to recognize the dividends that would be required by the market for a utility that is investment grade status. This would impose a double standard upon the Company.

Mr. Busch's Testimony

Q. How do you respond to Mr. Busch's statement (see page 5-6 lines 22-23 and 1-3 respectively) that the term loan is not needed for the provision of safe and reliable service to Missouri ratepayers?

A. Aquila negotiated the term loan to ensure that the utility would have the working capital necessary to purchase natural gas for generation and distribution as well as purchased power, which is required for safe and reliable service to Missouri customers. I am not aware of any detriment to these customers in terms of rates or service that will result from Commission approval of the application.

Q. Why did the Company add $9 million to the $241 of working capital calculation?

A. The Company realized that due to resource and time constraints the working capital calculation did not include such items as under recovery of PGA costs, under billed budget billing balances, and capital expenditures. So to ensure that enough cash would be available to the utility, the amount was increased to $250 million.

Q Why did the Company use current market rates for storage instead of the budgeted gas prices?

A. The budget was developed using September 2002 prices. The Company wanted to accurately forecast its cash needs for storage, to ensure that sufficient cash would be available; the budget prices were no longer relevant.

Q. How do you respond to the fact that Mr. Busch reduced the working capital requirements using September 2002 gas prices?

A. This was not proper.

Q. Do you agree with Mr. Busch's testimony to allocate payroll based upon customers?

A. No, I do not. Payroll is generally driven by employee count and relative size of the overall operations versus a simple customer allocation. The $5.9 million of total utility payroll was assigned to states in a two-step process. First, departments with a specific business unit were directly assigned to their respective states. The direct payroll for Missouri specific

business units totaled $1.9 million or 88% of the total payroll of $2.1 million assigned to Missouri in the allocation of the working capital calculation. Next, for corporate and utility headquarter payroll costs, an appropriate allocation factor was separately applied to each department.

Q. How were the allocation factors used by the Company determined?

A. The budget is developed at a departmental level for corporate and utility headquarter costs. Next an allocation factor is applied to each department in accordance with Aquila's Corporate Overhead Cost Allocation Manual ("CAM") as part of our annual affiliate filing with the Commission. The filing number was BAFT-2003-0101, which was filed on 03/17/2003. In that procedure manual, we outline the use of various allocation factors depending on the nature of the department. Allocation factors include but are not limited to: a three-factor formula referred to as the "Massachusetts Formula" which includes, margin, net plant in service, and payroll; customers; number of paychecks issued; a combination of payroll and customers, etc. The allocation factors used in the working capital calculation were a weighted average of the various allocation factors used in the budget. This detailed allocation process should not be replaced with a simple allocation based on customers.

Q. Do you agree with Mr. Busch's use of the term "payroll adjustment"?

A. No, I do not. Mr. Busch incorrectly uses the term payroll "adjustment" to describe the cash requirements for the January 2 payroll. January 2 is the

actual date of payroll, and the amount included is our budget for that payroll.

Q. Do you agree that Mr. Busch's allocation of cash receipts based on January and December revenue is the same methodology used in the Iowa testimony filed by the Company?

A. No, I do not. There is a fundamental difference between Iowa and Missouri in their division structure. Missouri operational results are captured in distinct separate general ledgers. By contrast, Iowa utility operations are a component of People's Natural Gas operations, which operates in five different states. The general ledger is maintained for Peoples Natural Gas, not Iowa utility operations; therefore a two-tier allocation was required for the Iowa computation. Because Missouri cash receipts are captured in distinct general ledgers, a second tier of allocations was not required.

Q. What is the result of the corrections to Mr. Busch's methodology?

A. Mr. Busch underestimated Missouri's working capital needs by $7.5 million.

Q. Why did Aquila use the NYMEX 12 month strip on April 23, 2003?

A. That was the current information at the time of preparation of the application for approval of the collateral filings.

Q. Should the prices now be changed?

A. No. Gas prices will always be in a state of flux. We had to choose a point in time to measure the utility's needs and begin the process of filing for

approval of the debt securitization in Missouri and also in Kansas, Colorado, Minnesota and Iowa.

Q. Would a "stress test" price of $9.00 per mmbtu be more appropriate as Mr. Busch suggests?

A. No, it would not. Mr. Busch uses the NYMEX settlements as of the first of the month, instead of using daily gas prices. Aquila has paid as high as $13.42 per mmbtu in the daily market in the winter of 2000-2001 (See Exhibit 3 of Rick Dobson's direct testimony) and as recently as February 25, 2003, daily gas prices have soared to $18.96 per mmbtu on the spot market (Source: Demarc Abs Dly DW USD/MMB)

Q. Are there other points in Mr. Busch's testimony you would like to address?

A. Yes.

Q. Please proceed.

A. On page 16 lines 17-18 of Mr. Busch's testimony, in discussing the January 2002 winter storm costs, he states that Aquila has been able to recoup those costs from ratepayers using an Accounting Authority Order. While it is correct that Aquila has received approval to defer costs for consideration in the next rate filing and *potentially* recover the costs related to the January 2002 ice storm, it is **not correct** to imply that Aquila has already received the cash from the ratepayers. At this time, no actual recovery of costs has occurred and in fact, Aquila may never fully recover these costs, as the amortization was required to begin prior to the start of rate relief. The costs of the ice storm are being amortized over a five-year

period ending January 2007. It is precisely this type of timing that causes the need for a peak need capital requirement; cash must be expended prior to receiving any recovery from the ratepayer.

Q. Do you agree with Mr. Busch's assertion that Aquila could arrange for special short term financing for storm costs?

A. No, I do not. As explained above, the Accounting Order only authorizes Aquila to defer the costs; it does not guarantee recovery; nor is a full recovery ever completely guaranteed through the rate process. Separately financing this cash requirement without a guarantee of full cost recovery would be difficult at best.

Mr. Sommerer's Testimony

Q. How do you respond to Mr. Sommerer's rebuttal testimony regarding Aquila's two requests to defer recovery of gas costs?

A. As Mr. Sommerer acknowledges the two deferrals were one-time events. As the supporting documents included with Mr. Sommerer's testimony indicate, Staff supported these requests for deferral at the time. As Mr. Sommerer further acknowledges, the main purpose for requesting the deferrals was to provide stable prices for Aquila's Missouri customers. In particular, the February 2001 request came at a time of historically high gas prices throughout the US, and correspondingly high gas bills. The February 2001 waiver was intended to address the relatively brief period between Aquila's customary Winter and Summer PGA filings. Once the

2000-2001 winter was over, Aquila filed a Summer PGA in accordance with its tariff and commission rules, effectively ending the February 2001 deferral request.

Q. Mr. Sommerer testifies (see pages 6-7 lines 25-27 and lines 1-5 respectively) that these "voluntary deferrals" were a "substantial portion" of the overall liquidity need of $191,000,000 for Aquila; and therefore the liquidity need was self-imposed. How do you respond?

A. Mr. Sommerer has provided no support for this statement. Aquila acknowledges that it has requested two deferrals of recovery from the Winter PGA update to the Summer PGA update in Missouri. However, no such deferrals were requested in any other state. The Missouri component of the $116 million Mr. Sommerer refers to on page 6 of his testimony is less than 10% of the total. The magnitude of the two Missouri deferrals cited by Mr. Sommerer is simply not large enough to represent a "significant" portion of Aquila's overall liquidity needs and therefore the liquidity need was not self-imposed as Mr. Sommerer alleges.

Q. Would you agree with Mr. Sommerer's statement on page 7 lines 3-5 of his testimony that recovery of the under recovery results in excess liquidity for Aquila?

A. No, I do not. The future recovery that Mr. Sommerer refers to does not result in excess cash, but a closing of the gap on the lag that the Company has experienced.

Q. How do you respond to Mr. Sommerer's conclusion on page 10 lines 5-6 that the major driver in the Company's peak day working capital is a consequence of lagging collections from the PGA process?

A. The PGA process and any potential delay in the collection of natural gas through this mechanism was not considered directly in the peak working capital requirement, but was highlighted as an additional potential cash flow consideration. PGA deferrals are not generally the result of voluntary actions on the part of the Company. They are a product of daily market volatility compared to information available of the beginning of the month.

Q. Are there other areas of Mr. Sommerer's testimony you would like to address?

A. Yes, there are. On page 9, Mr. Sommerer questions whether or not the working capital calculation was designed to insulate Aquila's ratepayers. Aquila's ratepayers are insulated from the impacts of the Company's lower credit rating by the ratemaking process and Aquila's commitment to only charge the utility interest costs equivalent to a BBB investment grade level and only charge the utility for the amounts drawn upon.

CONCLUSION

Q. Would you please summarize your testimony?

A. Ms. Wandel states on page 36 that the Staff acknowledges that **all** companies have working capital needs, yet she contends on page 39 lines 9-11, Mr. Robertson on page 25 lines 18-19, and Mr. Busch on page 12

line 21-22 that Missouri has **no** working capital needs at all. It is only prudent business practice to have a credit facility to manage the daily fluctuations in cash. Ms. Wandel, Mr. Robertson and Mr. Busch also allege that our request is based on an overstated calculation because we have inappropriately included prepayments and other items such as under recovered PGA balances, under billed budget billing balances, coal and capital expenditures. This is incorrect: our methodology is not intended to be a request for inclusion in rate base for ratemaking purposes. Our methodology is intended to calculate the peak cash requirement to ensure that the necessary cash is available to the utility, just as integrated resource planning for generation and purchase power capacity requirements is designed to meet the energy peak day usage. In addition, Ms. Wandel improperly asserts that the ratepayer should benefit from Aquila's decision to not pay dividends rightfully due the shareholder. If the Company is expected to treat the ratepayer as if we are an investment grade utility, then as an investment grade utility, we would be required to pay dividends. To do otherwise is inconsistent treatment for the shareholder. And finally, Ms. Wandel, Mr. Robertson and Mr. Busch object to the Company's request on grounds that it is detrimental to the public interest. The Company does not share this view. We believe that by shielding the ratepayers from higher than investment grade interest cost and computing the lead lag studies for rate-making purposes

excluding the impact of prepayments resulting from our non-investment grade status that the standard for “detrimental” has not been met.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

AQUILA, INC.
CASE NO. EF-2003-0465
SEDALIA INDUSTRIAL ENERGY USERS ASSOCIATION AND AG PROCESSING INC.
DATA REQUEST NO. SIE-11

DATE OF REQUEST: June 5, 2003

DATE RECEIVED: June 5, 2003

DATE DUE: June 25, 2003

REQUESTOR: Stuart W. Conrad

QUESTION:

Based on the Company's request to use domestic utility operations to collateralize a line of credit, please explain all assurances and guarantees Aquila will make that the collateralized loan by domestic utility operations will be used only for the working capital needs of domestic utility companies, and will not be used in any way to fund the cash and/or letter of credit requirements of non-utility and non-regulated operations.

RESPONSE:

The Company states on page 5 of its application:

> "…Aquila is separating the Term Loan and collateral into United States utility and other categories to ensure that the utility customers and utility assets are not supporting the nonutility debt requirements. It is Aquila's intent to maintain a proper alignment of United States utility collateral with United States utility loan needs and nondomestic utility and nonregulated business collateral with the loan needs of those activities."

As described in Rick Dobson's testimony, the Company has scaled back its non-regulated activities and is in the midst of selling many of those assets. This sales process has, and will continue to, generate cash that is being used to reduce liabilities and to fund the cash and/or letter of credit requirements of Aquila's non-utility and non-regulated operations separate from its domestic utility business as mentioned above.

There exist a management commitment to assure that sufficient funding will be available to support the domestic utility operations.

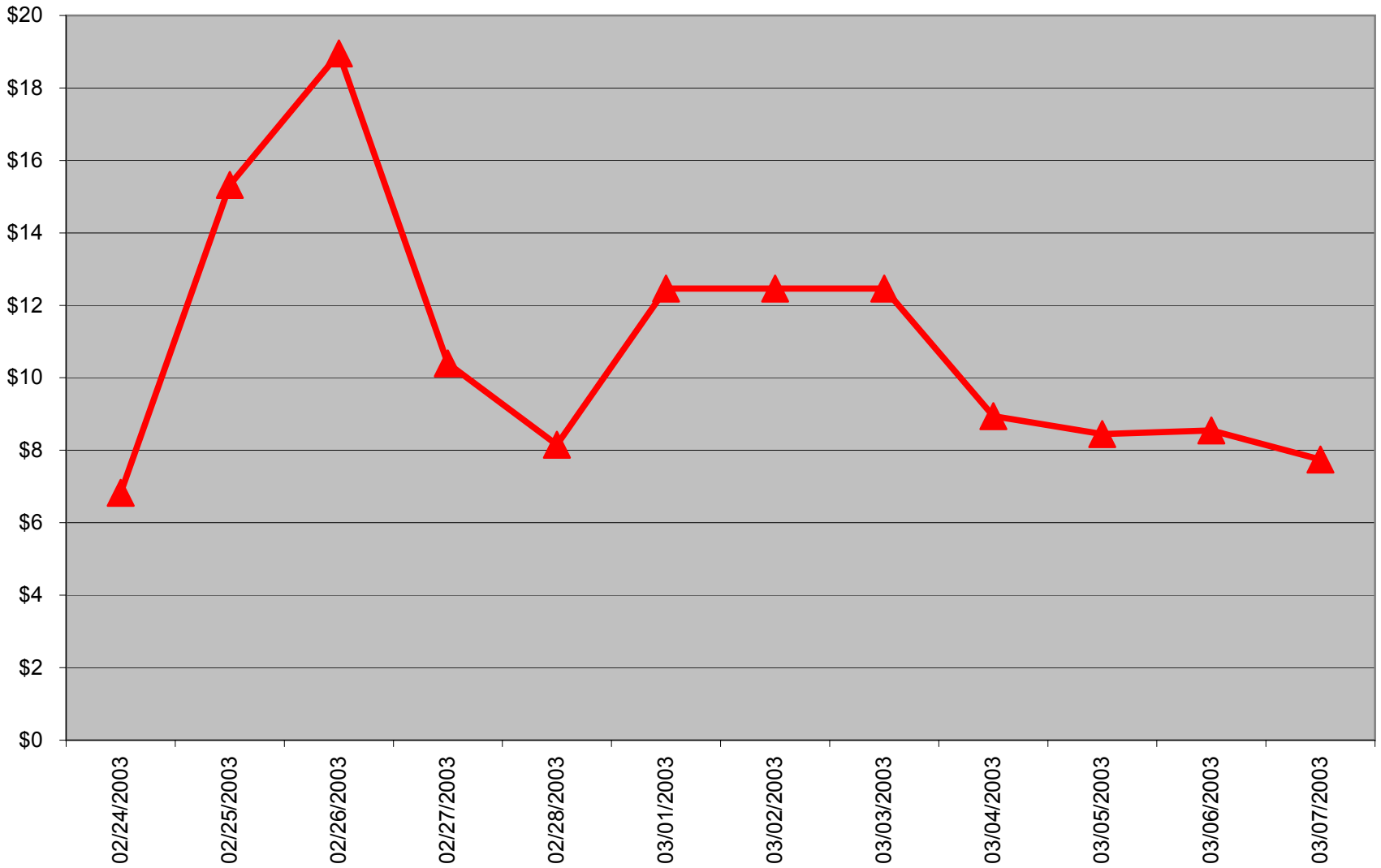
ATTACHMENT: NA

ANSWERED BY: Mike Cole

_____

SIGNATURE OF RESPONDENT

Daily Gas Prices at NNG Demarcation Point



AQUILA, INC.
CASE NO. EF-2003-0465
MISSOURI PUBLIC SERVICE COMMISSION
DATA REQUEST NO. MPSC-43

DATE OF REQUEST: June 9, 2003

DATE RECEIVED: June 9, 2003

DATE DUE: June 29, 2003

REQUESTOR: Joan Wandel

QUESTION:

Please provide a detailed definition of the phrase "working capital" and "working cash" as used in this Application and the direct testimony filed in this proceeding from the Company's perspective and compare this definition with the phrase "cash working capital."

RESPONSE:
The phrases "working capital" and "working cash" as used in the application and testimony filed are synonymous. The definition for both phrases is a ***daily*** cash requirement that determines the amount of cash the Company may need to meet on the peak day during the year. This analysis is used to inform treasury of the amount the Company needs to be able to access for daily liquidity purposes which is then used to determine for *financing purposes* the amount of a short-term credit facility.

The phrase "cash working capital" refers to the calculation used for rate-making purposes to determine an average difference ***in number of days*** between cash collected from the customer and cash paid out for expenses over the entire year. This calculation is averaged for the year and is included in rate base as a permanent investment. This calculation does not consider such items as the difference in the gas cost rate collected in revenue and the gas costs incurred that month; it merely calculates the difference in the number of days outstanding, not any differences attributable to rate changes. The formula is not designed to calculate the cash needs on a given day but rather an average for the year.

ATTACHMENT: None

ANSWERED BY: Carol Lowndes

AQUILA, INC.
CASE NO. EF-2003-0465
DATA REQUEST NO. OPC-629

DATE OF REQUEST: August 19, 2003

DATE RECEIVED: August 19, 2003

DATE DUE: September 3, 2003

REQUESTOR: James Busch

QUESTION:

Please answer the following: 1) Does Aquila believe that being required to prepay for natural gas supplies and pipeline transportation capacity is a detriment to Aquila? 2) Does Aquila believe that being required to prepay for natural gas supplies and pipeline transportation capacity is a detriment to Aquila's customers? Please explain your answer. Please explain your answers.

RESPONSE:

1. No. While there is a financial impact on Aquila, it has not been detrimental to our ability to provide safe and reliable service to our customers.
2. No. There is no adverse financial impact on Aquila's customers. The working capital is being funded from an "internal revolver" which would be considered short term debt The use of this revolver is priced at a short term, investment grade rate. Aquila has also committed to using a lead-lag calculation in rate cases that would neutralize any potential impact of prepayment for gas supplies and pipeline capacity.

ATTACHMENT: None

ANSWERED BY: Carol Lowndes

_____
SIGNATURE OF RESPONDENT

Aquila

Aquila, Inc.
Missouri Electric & Gas Utilities
Working Capital Facilities ($ in Millions)

Company	Footnote	2002 Revenue	06/30/2003 Net Plant	06/30/2003 Short-Term Credit Capacity	Credit Capacity as a % of Revenues	Credit Capacity as a % of Net Plant
Ameren		$ 3,841	$ 10,197	$ 772	20%	8%
ATMOS		$ 938	$ 1,494	$ 350	37%	23%
Kansas City Power & Light	1)	$ 1,071	$ 2,670	$ 130	12%	5%
Empire District Electric		$ 296	$ 826	$ 100	34%	12%
Group Average		**$ 878**	**$ 2,170**	**$ 193**	**15%**	**7%**
Missouri Network System		**$ 498**	**$ 936**	**$ 65-75** 2)		

1) KCPL is a wholly-owned subsidiary of Great Plains Energy Co.
Data taken from respective Company 2002 SEC Form 10K Annual Reports and 2003 2nd quarter 10Q reports.

2) **Amount of credit facility requirement using Missouri group average.**

Surrebuttal Schedule CL-5

Accounting Schedule 8
Sponsor: Teel
2/28/02 8:38 AM

Union Electric Company d/b/a Ameren UE
Case No. EC-2002-1
For Year Ending June 30, 2001 Updated Through September 30, 2001

Cash Working Capital

Line	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Operation & Maintenance Expense						
2	Base Payroll	$ 171,064,536	38.8700	10.6100	28.2600	0.077425	$ 13,244,672
3	Vacation Payroll	15,029,233	38.8700	365.0000	(326.1300)	(0.893507)	(13,428,725)
4	Federal Withholding Taxes	47,011,376	38.8700	12.9700	25.9000	0.070959	3,335,880
5	State Withholding Taxes	11,267,880	38.8700	16.4200	22.4500	0.061507	693,058
6	Employer FICA Taxes	15,529,804	38.8700	12.9700	25.9000	0.070959	1,101,979
7	Fuel - Nuclear	28,256,179	38.8700	34.5500	4.3200	0.011836	334,449
8	Fuel - Coal	220,436,932	38.8700	22.4100	16.4600	0.045096	9,940,824
9	Fuel - Gas	14,036,178	38.8700	12.6100	26.2600	0.071945	1,009,833
10	Fuel - Oil	408,568	38.8700	14.4000	24.4700	0.067041	27,391
11	Uncollectible Expense	9,009,371	38.8700	38.8700	0.0000	0.000000	0
12	Cash Vouchers	620,490,460	38.8700	27.0000	11.8700	0.032521	20,177,019
13	Total Operation & Maintenance Expense	$ 1,152,480,516					$ 36,436,366
14	Taxes						
15	FICA - Employer Portion	$ 15,529,804	38.8700	12.9700	25.9000	0.070959	$ 1,101,979
16	Unemployment Taxes	188,986	38.8700	87.4000	(48.5300)	(0.132959)	(25,114)
17	Corporate Franchise	569,619	38.8700	(77.5000)	116.3700	0.318822	181,607
18	Property Tax	82,671,883	38.8700	186.5200	(147.6500)	(0.404521)	(33,442,513)
19	Sales & Use Taxes	45,648,302	22.2200	6.8000	15.4200	0.042247	1,928,504
20	Gross Receipts Taxes	93,000,759	22.2200	49.3600	(27.1400)	(0.074356)	(6,915,164)
21	PET	95,928	38.8700	76.3750	(37.5050)	(0.102753)	(9,857)
22	Total Operating Taxes	$ 237,705,182					$ (37,180,558)
23	Total Cash Working Capital Requirement Related to Test Year						$ (744,192)

Accounting Schedule: 8
Eaves
12:48 08/22/2002

Empire District Electric Company
Case: ER-02-424A
Twelve Months Ended December 31, 2001 updated June 30, 2002

Cash Working Capital

Line No	Acct Description	Test Year Expenses	Revenue Lag	Expense Lag	Net Lag (C) - (D)	Factor (Col E/365)	CWC Req (B) x (F)
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Operation and Maintenance Expense						
1	Cash Vouchers	$ 18,955,375	38.1500	33.0649	5.0851	0.013932	$ 264,086
2	Fuel - Coal	20,756,462	38.1500	18.9386	19.2114	0.052634	1,092,443
3	Fuel - Gas	28,057,658	38.1500	36.3005	1.8495	0.005067	142,160
4	Fuel - Oil	141,743	38.1500	28.3765	9.7734	0.026776	3,795
5	Purchased Power	39,040,453	38.1500	34.9314	3.2186	0.008818	344,259
6	Payroll Expense	23,406,483	38.1500	12.0264	26.1236	0.071572	1,675,249
7	Federal Income Tax Withheld	3,415,132	38.1500	15.0575	23.0975	0.063281	216,113
8	State Income Tax Withheld	706,834	38.1500	19.5132	18.6368	0.051060	36,091
9	FICA Tax Withheld	1,783,168	38.1500	15.0525	23.0975	0.063281	112,841
10	Medical Care Expense	3,491,885	38.1500	(12.2900)	50.4400	0.138192	482,550
11	Employee 401K	1,441,904	38.1500	15.0525	23.0975	0.063281	91,245
12	Employers 401K	534,241	38.1500	41.6702	(3.5202)	(0.009644)	(5,152)
13	Vacation Expense	182,962	38.1500	365.0000	(326.8500)	(0.895479)	(163,838)
14	Total Operation and Maintenance Expense	$ 141,913,308					$ 4,291,848
	Taxes						
15	Employers FICA Tax	$ 1,783,168	38.1500	15.0525	23.0975	0.063281	$ 112,841
16	Federal Unemployment Tax	28,059	38.1500	75.1367	(36.9867)	(0.101333)	(2,843)
17	State Unemployment	6,012	38.1500	75.0673	(36.9173)	(0.101143)	(608)
18	Property Taxes	7,209,394	38.1500	182.1932	(144.0432)	(0.394639)	(2,845,108)
19	Gross Receipts Taxes	4,385,568	18.6600	20.6300	(1.9700)	(0.005123)	(22,467)
20	Sales & Use Taxes	0	18.6600	19.1500	(0.4900)	(0.001342)	0
21	Total Taxes	$ 13,412,201					$ (2,758,185)
22	Total Cash Working Capital Req						$ 1,533,664

AQUILA, INC.
CASE NO. EF-2003-0465
DATA REQUEST NO. MPSC-8-1

DATE OF REQUEST: July 17, 2003

DATE RECEIVED: July 17, 2003

DATE DUE: July 31, 2003

REQUESTOR: Joan Wandel

QUESTION:

1. As identified in the response to Data Request No. 8, did the $190.3 million maturing working capital facility, that was paid off by the 3-year Term Loan, in any way relate to the Missouri regulated utilities? If so, please identify the amount.
2. Please identify the portion of the $190.3 million maturing working capital facility that was related to non-regulated operations.
3. Please explain the phrase "synthetic lease agreement."
4. As identified in the response to Data Request No. 8, a certain portion of the $100 364-day Term Loan was used to increase existing working capital. Did any portion of the new working capital relate to the Missouri regulated utilities? If so, please identify the amount.
5. Did any portion of this new working capital from the 364-day Term Loan relate to non-regulated operations? If so, please identify the amount.
6. Please provide details regarding the $165.5 million cash collateralization of the outstanding letters of credit as identified in the response to Data Request No. 8. Please specifically identify any portion relating to Missouri regulated utilities and non-regulated operations.

RESPONSE:

1. The $190.3 million was used to meet the daily working capital needs of Aquila Inc. The cash working capital of Aquila Inc is managed on a daily basis by the Corporate Treasury function. It is not tracked daily at a utility level. This allows efficiencies across the various business operations to mitigate the cost of managing the working funds on a single utility basis. This $190.3 million facility would be used as needed to supply any daily working capital requirements for Missouri Public Service or St. Joseph Power and Light. An example of when we would expect to draw against the working capital facility would be during the second quarter when cash receipts tend to run lower between the U.S. utilities winter and summer peaks and construction expenditures are high due to summer opportunities to invest in system integrity and customer growth. The daily draws against the working capital facility are tracked at the corporate level. Individual utility activity for both cash receipts and disbursements is posted in the general ledger periodically (i.e. receipts are posted weekly to CIS+ and disbursements are posted monthly). See attached memo describing the cash management and general ledger recording process (Attachment #1, MPSC-8-1).
2. A portion of the $190.3 million facility would also be used to fund non-regulated cash working capital requirements as part of the overall corporate treasury function. See answer to question number 1 above.
3. The reference in our response to Data Request no. 8 was to our leases of the Piatt County and Clay County Power Plants and the Turbine Facility. These are described in greater detail on pages 109 – 110 and 115 – 116 of our 2002 Form 10-K. (Attachment #2, MPSC-8-1)

4.
5. As mentioned in response 1 above, the working capital of Aquila Inc is managed on a daily basis by the Corporate Treasury function. It is not tracked daily at a utility level, but would be utilized as required to meet the fluctuating requirements as required at the utility level. Please refer to response 1 for additional information.
6. A portion of the $100 million facility would also be used to fund non-regulated cash working capital requirements as part of the overall Corporate Treasury function. Please refer to response 1 for additional information.
7. The cash collateralized letters of credit for Missouri as follows:

Regulated -- Missouri:	
Workers' comp. insurance (3 LCs)	$ 3.569 million
Pollution control bonds	$ 5.375 million
Mo. Dept. of Natural Resources	$ 0.825 million
KCP&L	$ 0.900 million
Non-regulated -- Total:	$120.200 million

ATTACHMENT:

#1 – Description of the cash management and general ledger recording process (soft copy) – Word document – cash mgmt-accounting overview

#2 – Pages 109 – 110 and 115 – 116 of Aquila, Inc. Form 10K.

ANSWERED BY:
Randy Miller

_____
SIGNATURE OF RESPONDER

Draft

Aquila, Inc. Domestic Cash Management Overview

Aquila Inc manages the cash for the entire organization through a Corporate Treasury function. Cash is received and disbursed in a number of corporate bank accounts and the accounting for each transaction by utility and non-utility business units is done on the general ledger. There is a common misperception that all utilities and non-utility businesses have their own bank accounts and the balances in these accounts are swept to Aquila corporate periodically. The following documentation will provide an overview of how the cash is managed by bank account on a daily basis and how the accounting system is used to track cash activity by business unit.

Treasury Management of Bank Accounts

Aquila's primary, domestic cash management bank is The Northern Trust Company, Chicago. A zero-balance account structure is utilized, whereby cash is automatically swept to a concentration account at the end of each day. Following guidelines of the Board approved investment policy, investments in and/or redemptions from institutional money market funds are executed each business day. Excess funds residing in the bank concentration account are automatically swept to investments offered by Northern Trust (government money market fund and Repurchase Agreements). Stand-alone bank accounts are utilized if required for legal purposes.

Aquila Merchant Services and Capacity Services primarily collect and disburse payments via electronic means (ACH/wire transfer) at Northern Trust. Aquila Networks collects payments made via check through a single lockbox at UMB Bank, Kansas City. A wire transfer is automatically made early each morning to transfer available funds from UMB to Northern Trust. Customers remitting payment electronically to Aquila Networks transmit payments to an account at Northern Trust. Aquila Network payments collected by third party vendors are remitted electronically to an account at Northern Trust.

The cash accounts are reconciled by the general ledger team monthly.

Accounting for the Transactions by Business Unit

Cash Receipts Accounting

Customer receipts are primarily received through the lockbox account at UMB Bank described in the preceding paragraph. The accounting for these receipts against the accounts receivable balances are recorded directly into the general ledger business unit to which these receipts relate by uploading the data received via tape from UMB to the CIS+ (billing) system. The receipts post against individual detail A/R daily and post to the appropriate general ledger weekly as a credit to A/R and debit to Cash. At month end the cash balance on the utility general ledger is closed to the *Accounts Payable Inter-unit account (#234000)* by crediting *Cash* and debiting *A/P Inter-unit with Corporate (UCU)*.

The corporate entry is to debit *Cash* and credit *A/P Inter-unit with the G/L business unit*. The primary domestic utility and corporate general ledger business units are:

US Utility	
MPD	Missouri Public Service – Electric & Gas Distribution/Transmission
MPG	Missouri Public Service – Electric Generation
SJD	St. Joseph Power & Light – Electric & Gas Distribution/Transmission
SJG	St. Joseph Power and Light – Electric Generation
PND	Peoples Natural Gas (NE, IA, MN, CO, KS) – Gas Distribution
PNP	Peoples Natural Gas Pipeline
MGD	Michigan Gas Utilities – Gas Distribution
WCD	West Plains Colorado – Electric Distribution/Transmission
WCG	West Plains Colorado – Electric Generation
WKD	West Plains Kansas – Electric Distribution/Transmission
WKG	West Plains Kansas – Electric Generation
Utility Headquarters	
UPG	UtiliCorp Power Services – Generations (Book 3)
UED	U.S. Networks Headquarters
UPS	UtiliCorp Power Services – Dispatch & other shared costs
GSS	Gas Supply Services
AEQ	Aquila Equipment Company
UGR	UtiliCorp Greenwood Resources – Previously held Greenwood Lease
SCP	Seward County Pipeline – Part of Peoples Natural Gas
Corporate	
UCU	UtiliCorp Corporate
UCF	UtiliCorp Finance – Investments
SJI	SJLP Investments (minor activity)

Disbursement Accounting

Aquila Inc. disbursements are processed centrally by the Payroll and Accounts Payable departments.

Payroll

Aquila's payroll account is maintained at Commerce Bank, Kansas City. Employees are paid every other Friday. These bank accounts utilize positive pay (fraud protection) services. Commerce now requires funding for ACH direct deposit transactions on the date of file transmission (every other Wednesday). Check disbursements are funded on pay date (every other Friday). Funding is provided by Aquila, Inc. The payroll is supported by timesheets submitted by each employee. The timesheet indicates the

general ledger business unit where the employee works and the account coding indicating the type of work performed (i.e. operating expense, maintenance or capital). This account coding drives where the expense is reflected in the accounting records. For example: An employee working in the MPS service area on capital would record his/her time to a capital project on his/her timesheet. The general ledger for MPS would reflect a debit to construction work in progress and a credit to the *A/P Inter-unit (234000)* account. A corresponding entry would be recorded on the corporate general ledger, which reflects a debit to the *A/P Inter-unit (234000)* account and a credit to the payroll liability. As the payroll is funded at Commerce Bank, the payroll liability is debited on the Corporate general ledger and cash is credited.

Accounts Payable

Aquila Networks and Corporate disburse funds via check, ACH and wire transfer primarily from a bank account at Northern Trust. Disbursement accounts at Northern Trust utilize positive pay (fraud protection) and controlled disbursement (cash management) services. We have real-time access to prior day and current day bank account activity reporting. A match of the purchase order, receiving report, and vendor invoice are used to disburse funds for materials and equipment purchases ordered using our purchasing system. Non-PO disbursements are documented using a payment request form. Both types of transaction documents contain account coding that indicates to which general ledger business unit the disbursement relates and the authorization for such expenditure. When the invoice is processed, the Corporate general ledger reflects a credit to the *Account Payable* account and a debit to the appropriate *asset, expense, or liability account* at Corporate or to the *A/P Inter-unit account*, if the invoice relates to a non-Corporate business unit. Correspondingly, the *A/P Inter-unit account* for the appropriate general ledger business unit is credited when the invoice is processed and the debit is recorded to the appropriate asset, expense, or liability account. When the check is cut, wire is sent or ACH is processed, the *accounts payable for Corporate* is debited and *cash* is credited.

Accounts Payable Inter-unit and Advances To/From Parent Accounting

At the end of each quarter, the *A/P Inter-unit 234000* account for each general ledger business unit is closed into the *Advances to/from Parent 233000* account based upon the prior month ending balance. This entry moves the net cash receipts and disbursements activity posted to the *A/P Inter-unit 234000* account to an interest bearing account with Corporate. At the end of each month interest is charged to each general ledger business unit by applying a short term borrowing rate to the month end balance.

Other Corporate Bank Accounts

Payment of principle and interest on debt obligations are disbursed from the Aquila, Inc concentration bank account. Transactions related to this account are recorded only on the Corporate general ledger. Utility and non-utility capital assignments and the computation of interest charges associated with debt assigned is accounted for using an assigned

capital structure that reflects the debt and equity structure appropriate for the type of business and financing requirements of that business. See separate memo on the Business Unit Capitalization Procedures.

Other Network Accounts

There are a limited number of local depository and petty cash bank accounts at various banks located throughout the Midwest. These cash balances are maintained directly on the general ledger business unit books. Excess cash is routinely transferred from these accounts to a Northern Trust bank account.

AQUILA, INC.
CASE NO. EF-2003-0465
DATA REQUEST NO. MPSC-16

DATE OF REQUEST: May 29, 2003

DATE RECEIVED: May 29, 2003

DATE DUE: June 18, 2003

REQUESTOR: Joan Wandel

QUESTION:

1. Why did the Company choose to structure the loan agreements in such a way as to cause the loan proceeds for the cash working capital loan facilities to be commingled?
2. What guarantees has the Company implemented to ensure that the loan proceeds will not be used to subsidize or otherwise finance the Company's non-regulated activities?
3. Has the Company made any journal entries within the previous year transferring funds by crediting cash and debiting retained earning on the books and records of the regulated utilities operating as part of Aquila and correspondingly debiting cash and crediting earnings on the Aquila's corporate books? In other words, have there been any internal "dividends" recorded?

RESPONSE:

1. Cash is managed on a centralized basis but used, as Mr. Dobson describes in his testimony, by each business entity. The use for the utility was projected based upon day-to-day needs. Since the collateral was for a term loan but the needs were based upon daily requirements, Aquila, Inc. is in effect functioning as the bank for all operations. However, internally the utility is only being charged for the funds when used and then at an investment grade rate through our allocation process.

   As we execute our financial plan it is important to make sure there is enough cash on hand and working capital borrowing facilities to fund the overall day-to-day needs of the company as we make the transition to our core regulated utility base. Requiring the extra complexity of segregating cash proceeds would be more expensive and could in fact expose the Company's utilities assets to **greater** risk not less, since a default on the working capital loan, whether triggered by the nonutility or utility operations, would result in the utility assets being included in any bankruptcy proceedings.

2. As stated in previous testimony, a portion of the 3-year term facility will be required to bridge the cash requirements for our non-regulated business until such time as the company has made a full exit from these investments. Currently the collateral derived from our nonutility operations subsidizes the utility working capital needs. The Company has committed that the utility business will have access to $250 million of working capital of the $430 million facility. The Company is regularly monitoring the cash working capital requirements of the utility to ensure the cash required is available. In the near term as we execute this financial plan it is equally important to make sure there is enough cash on hand and working capital borrowing facilities to fund the overall needs of the company as we make the transition to our core regulated utility base. "Safeguards" for the customer include the company's

3. commitments as outlined in Jon Empson's testimony. These are made possible through the existence of the new loan facility.
4. The company has made entries to record dividends from our utility divisions to our corporate books. The entry would be as follows:

Parent/Corporate Entry:

Debit Advances to/from Parent
Credit Investment in Division

Utility Division Entry:

Debit Retained Earnings
Credit Advances to/from Parent

To be clear, the above entry is a bookkeeping entry only. The actual cash centralization occurs on a daily basis via automated bank services. If an entity is a net supplier of cash on any given day, the cash balance is automatically transferred to a central cash pool. If an entity is a net user of cash on any given day, cash is automatically transferred from the central cash pool to fund that entity's account. These cash transfers are recorded in the Advances to/from Parent general ledger account and enable Aquila to track which entity has been a net supplier/user of cash. This cash management structure is a common and efficient way to manage the day-to-day cash swings throughout the various divisions of an organization to ensure funding is available where and when needed.

ATTACHMENT:

No specific attachments

ANSWERED BY:

Steve Fisher and Beth Armstrong