

In the matter of Aquila, Inc. d/b/a Aquila)
 Networks- L&P's Purchased Gas Factors to be) Case No. GR-2003-0369
 Audited in its 2002-2003 Actual Cost Adjustment)

1. On December 28, 2004, 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 1, 2002 through August 31, 2003, included in Aquila's 2002-2003 Actual Cost Adjustment (ACA) filing. Staff also stated that it has reviewed Aquila's gas purchasing practices for the same period and conducted a reliability analysis and hedging review. Aquila will respond to the various issues identified by Staff in the following paragraphs.

2. The Storage adjustment of \$1,637 was embedded in the beginning balance of the 2002/2003 ACA filing. It was also included in the entry made in the August 2003 tracker (\$45,923.97). Had an adjustment not been made, this settlement amount would have been accounted for twice. Accordingly, Aquila does not agree that an adjustment needs to be made in the amount of \$1,637 to reduce the amount collectible from customers. Aquila does, however, agree that the imbalance settlement amount of \$22,915 should be adjusted to reduce the amount collectible from customers.

IMBALANCE COSTS

3. No adjustment was required at this time. Aquila understands that Staff will be reviewing the Company's application of its adjustment in the 2003/2004 ACA and will review the Company's cash-out treatment of monthly imbalances.

STORAGE COSTS

4. Aquila agrees with the Staff's proposed net increase of \$18,921 in storage costs.

TRANSITION COST BEGINNING BALANCE

5. Aquila agrees that an adjustment of \$3,782 to the transition cost balance is necessary to arrive at the agreed upon under-collected balance of \$2,431.

HEDGING

6. Aquila is currently reviewing the hedging strategy on a monthly basis instead of winter as a whole. The Company's goal will be to analyze the data, establish a plan based on normal weather and ensure that each winter month (November – March) is hedged at 70%, whether by storage and/or other hedging tool. This analysis will be performed and in place for the 2005/2006 winter portfolio plan.

RELIABILITY ANALYSIS

7. Aquila responds as follows concerning the Staff's reliability analysis comments:

(1) Aquila agrees to review the peak day estimates and how a growth factor is applied to these estimates. It is the Company's current policy to establish a growth factor based on customer counts and apply accordingly.

(2) Aquila agrees to amend the storage guidelines for the winter of 2005/2006 to withdraw storage for the SJLP systems during the winter (November through

March). The proposed amended storage guidelines are as follows:

Proposed Amended Storage Guidelines

Month	SJLP System		
	Planned Withdrawal	Storage Balance	421,800 % of Storage MSQ
		400,710	95.0%
November	(61,372)	339,338	80.45%
December	(89,633)	249,706	59.20%
January	(88,578)	161,128	38.20%
February	(78,666)	82,462	19.55%
March	(61,372)	21,090	5.00%

Since the weather is so unpredictable and there is no reliable and accurate forecast to determine when, and for what duration, the winter colder/warmer weather will occur, Aquila is establishing storage guidelines to withdraw storage based on normal weather. The Company has amended the storage balance to have 70% of each monthly normal requirement hedged by storage and/or other hedging tool. For the months of November, December, February and March, Aquila has amended the storage withdrawals to account for approximately 70% of normal requirements. During January, the Company will utilize other hedging tools in conjunction with storage to ensure hedging 70% of normal requirements.

Aquila leaves a 5% buffer at the beginning of withdrawal season (November 1) and at the end of the withdrawal season (March 31), to assist if weather is warmer/colder than normal.

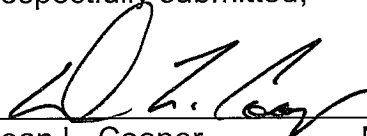
Aquila's policy will be to attempt to not deviate anymore than 10% from the storage guideline within in a month. If the storage balance reaches the 10%

level, then gas will be purchased in the daily market.

During the setup for the next month, storage will be reviewed and adjusted to correspond to the storage guidelines. For example, if December is colder than normal and more gas is withdrawn, causing a deviation from the storage guidelines, additional flowing gas will be purchased and less storage withdrawals will be utilized in the month of January. For warmer than normal weather, the opposite would occur. That is, less flowing gas would be purchased and more storage withdrawals utilized.

WHEREFORE, Aquila respectfully requests the Commission issue an Order that is consistent with the above response.

Respectfully submitted,



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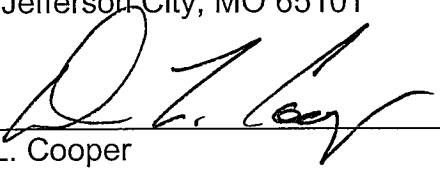
ATTORNEYS FOR AQUILA INC.
D/B/A AQUILA NETWORKS – L&P

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered on January 31, 2005, to the following:

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