BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Aquila Networks – MPS and L&P's Purchased Gas Adjustment (PGA) Factors to be Reviewed in its Actual Cost Adjustment.	)))	Case No. GR-2005-0271

RESPONSE TO STAFF RECOMMENDATION

Comes now Aquila, Inc. (Aquila or Company), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Staff Recommendation in this Case (Recommendation):

1. On December 6, 2006, 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 2004 through August 2005. Staff also stated that it has reviewed Aquila's gas purchasing practices for the same period. The Commission's Order Directing Filing, issued on December 8, 2006, directed that Aquila respond to the Recommendation by January 8, 2007.

2. Aquila will respond to the various issues identified by Staff in the following paragraphs. However, subsequent to the subject ACA period, The Empire District Gas Company (EDG) completed its purchase of the Aquila natural gas properties on June 1, 2006 (See Case No. GO-2006-0205). Aquila provides herein an affidavit to address those issues found in the Recommendation that are more appropriately addressed by EDG.

STORAGE

3. Aquila agrees with Staff's recommendation to include storage injection costs (included on the ANR pipeline statements) in its storage calculations during the months of September 2004 to November 2004 and from April 2005 to August 2005. This is consistent with the methodology used by the Company in the 2003-2004 ACA case.

4. Aquila does not agree with the amount of the adjustment and believes the following corrections need to be made to Staff's calculations to properly reflect the cumulative storage balance for the month ending August 2005. First, Aquila believes that the beginning balance in Staff's calculation carried forward from August 2004 needs to be corrected to $1,303,192, from the $1,303,197 included in Staff's workpapers, to reflect the agreed upon balance from the 2003/2004 ACA case. Staff's balance was based on a calculation. Also, Staff used a Weighted Average Cost of Gas (WACOG) to price out June 2005 storage injections of **_______** per Mmbtu. The WACOG should be **_______** based on the current month commodity cost from the June 2005 gas cost tracker page; therefore, a correction needs to be made to Staff's calculation lowering June 2005 injections costs from $314,811 to $314,784. Finally, Staff's calculation of August 2005 injection costs needs to be lowered from $497,039 to $496,945. Staff used injection charges from August 2004 of $183.03 in its calculation of August 2005 injection costs. The correct amount for injection charges listed on the ANR pipeline statement for August 2005 is $75.82 + $13.70, or a total of $89.52.

5. After incorporating these corrections into Staff's workpapers along with minor amounts for rounding, Aquila believes the total cost of gas on the L&P System should be reduced by $5,990 ($3,587 + $2,403). Aquila also believes the cumulative storage balance for the month ending August 2005 should be $1,856,319.

REFUNDS

6. See EDG's response found on **Appendix A** (paragraph 4) attached hereto.

AD VALOREM REFUNDS

7. See EDG's response found on **Appendix A** (paragraph 5) attached hereto.

LINE LOSSES

8. Aquila agrees with Staff's comments that line losses credited to the Northern System of $47.40 + $1,475.28 for a total credit of $1,523 during April 2005 and July 2005 should have been credited to the L&P System. The adjustments, however, were not made in April 2006 as expected. An adjustment will be required by EDG to increase gas costs by $1,523 on the Northern System and reduce gas cost by $1,523 on the L&P System.

DAILY BALANCING

9. See EDG's response found on **Appendix A** (paragraph 2) attached hereto

HEDGING

10. Aquila appreciates the Staff's positive comments concerning the appropriateness of Aquila's hedging strategy for the 2004/2005 ACA period. However, because Aquila has since sold its Missouri natural gas properties to EDG, Staff's paragraph does not contain any recommendations that Aquila can implement.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

11. Aquila's decision not to purchase call options/daily peakers or additional storage for the winter of 2004-2005 was prudent because the company believes that it can purchase the supply it needs on a very cold/peak day in the daily market. Aquila made only one daily gas purchase over the course of the 151 winter days from November 2004 - March 2005. Because of cold weather forecasts for gas day December 22, the Company purchased 1,211 Dth at a price equivalent to **___________**. When compared to other Missouri LDC's, Aquila has a relatively small amount of supply that it would have to buy to cover a peak day. Aquila has established relationships with many of the major suppliers on Southern Star and is experienced in buying daily gas because of the significant amount of gas-fired generation it has on Southern Star.

12. Although Aquila doesn't purchase daily peakers to cover its entire "peak day" load for any of its operations, the Company did purchase some daily peakers on other mid-continent pipelines where it has higher loads and supply was more constrained for the winter of 2004-2005. The average weighted cost for those Gas Daily peakers was **__________**. If Aquila had purchased the amount that Staff noted in the recommendation – **__________** – the demand cost for a Gas Daily peaker would have been **__________** for the winter. Aquila only purchased daily supply once during the winter of 2004-2005 (1,211 Dth) and it was purchased at a price equivalent to **________________**. If Aquila had purchased the daily peaker, the Company would have utilized it on that day and received the gas at **______________** as opposed to paying the actual **________________** equivalent price. Therefore, the peaker would have saved **_____** on the cost of gas on that one day (**_____ __________**). However, when compared to the seasonal demand cost for the peaker of **__________**, General System would have incurred an additional net cost of **__________ ____________________** for the winter of 04-05.

13. Storage is another option to cover peak loads. However, Southern Star did not have Market Area storage available at that time. If it had been available, the annual cost for Market Area storage and the required additional transportation would be about $750,000. Another option is "synthetic storage," where Aquila would deliver gas to a party during the summer and they would re-deliver it to Aquila during the winter. However, the cost would be very similar to traditional pipeline storage.

14. Aquila reviews its loads/forecasts on a daily basis. It also closely monitors the 6, 30, and 90 day weather forecasts. If there was a strong indication that there was going to be an extended period of cold winter weather during the winter of 2004-2005, the Company could have

purchased Gas Daily supply for the period of the cold weather (eg: a supply package lasting a few days, a week, or the balance of the month, depending on the duration of the forecasted cold). The purchase would have been made a few days prior to the start of the extreme cold.

15. Aquila believes that the combination of baseload/term purchases and storage, supplemented with occasional daily gas purchases, is a prudent supply approach. Since it is such a small portion of the Company's winter supply plan, Aquila believes it was prudent in not purchasing Gas Daily call options/peakers for the winter 2004-2005. It saved the ratepayers a minimum of **___________** while being able to provide reliable gas supply.

16. Additionally, see EDG's response found on **Appendix A** (paragraph 3) attached hereto.

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

Respectfully submitted,

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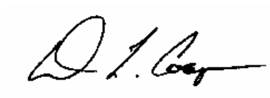
ATTORNEYS FOR AQUILA INC.

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered on January 5, 2007, to the following:

Lera Shemwell Office of the General Counsel Governor Office Building Jefferson City, MO 65101	Marc Poston Office of the Public Counsel Governor Office Building Jefferson City, MO 65101



Dean L. Cooper

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