

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

In the matter of Aquila, Inc. d/b/a Aquila)
 Networks-MPS' Purchased Gas Factors to be) Case No. GR-2003-0311
 Reviewed in its 2002-2003 Actual Cost Adjustment)

RESPONSE TO STAFF RECOMMENDATION

Comes now Aquila, Inc., d/b/a Aquila Networks – MPS (“Aquila”), and respectfully provides to the Missouri Public Service Commission (“Commission”) the following response to the Staff Recommendation:

1. On December 22, 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. Aquila will respond to the various issues identified by Staff in the following paragraphs.

REQUEST FOR PROPOSAL

2. Company will agree to utilize a modified Request for Proposal (RFP) process during the bid-week cycle for purchases of one month or less. The Company is currently practicing this in some situations by the use of Instant Messaging (IM) and documenting the IM conversations. However, not all suppliers utilize IM. In the daily market due to the short duration of time to purchase daily gas, an RFP process would not effectively work and would be quite cumbersome. Company would agree to develop a daily log sheet indicating: Requirement, Volume, Supplier and Bid Price. The daily log sheet would be in electronic form. Company will agree to begin documenting

all gas purchases effective April 1, 2005.

ACA BALANCE – PRIOR PERIOD ADJUSTMENTS

3. Aquila agrees with the Staff statement that adjustments prior to the 2002/2003 ACA case have been included in the 2004 Winter filings for all Aquila systems.

CAPACITY RELEASE

4. Aquila agrees with the Staff's recommendation to reduce Southern System gas costs by an additional \$5,195.

IMBALANCES

5. Aquila responds as follows to the recommendations concerning imbalances on the Southern and Eastern Systems:

A. Southern System: On January 14, 2005, Staff provided Aquila with a revised Imbalance calculation which created an adjustment to reduce the cost of gas by \$13,194.37 (instead of \$13,306). After review of Staff's revised calculations, Aquila agrees that an adjustment should be made to the Southern System to reduce gas cost in the amount of \$13,194.37.

B. Eastern System: The 98/99 Eastern System Imbalance settlement of (\$4,860) was included in the 2001/2002 ACA filing. As a result, this adjustment was then embedded in the Beginning Balance of the 2002/2003 ACA filing. Aquila believes that this adjustment, through the beginning balance, was therefore included in the 2002/2003 ACA filing. Aquila agrees with Staff that the 98/99 Imbalance Settlement adjustment was made in the September 2002 Tracker and then through the imbalance procedure, was reversed in the October 2002 imbalance entry. In summary, Aquila believes that an adjustment of \$4,860 (instead of \$9,705) will correct the Eastern

System Imbalance.

HEDGING

6. Staff's paragraph entitled "Hedging" does not contain a recommendation to which Aquila can respond. Aquila appreciates the Staff's positive comments concerning the appropriateness of Aquila's hedging strategy for the 2002/2003 ACA period.

RELIABILITY ANALYSIS

7. Aquila responds as follows to the Staff's comments concerning reliability analysis for the Southern, Northern and Eastern service areas:

A. First of Month Winter Requirements –

Aquila typically regresses the previous winter (November through March) unadjusted Heating Degree Day (HDD) to usage. The net result of the regression analysis is establishing a Base, or a number that will at a minimum occur every day and a Variable, or the incremental gas usage per one HDD increase. There should be no need to regress more than one season, unless the resulting R Squared Factor is not sufficient for confidence level.

The results of the Base and Variable numbers are applied to a HDD to calculate a forecast, whether monthly or daily. In the Portfolio Planning phase, Aquila has accumulated the HDD information to establish a warmer than normal, normal and colder than normal scenarios. Doing this in the planning phase aides the hedging process. Aquila is willing to adopt Staff's suggestion to use two years of usage in regressing data, beginning with the Spring of 2005. That is, regressing winter usage from November 2003 through March 2004 and November 2004 through March 2005 in determining peak day analysis and

forecasting for the winter of 2005/2006.

B. Supply Plan –

Aquila agrees to amend the storage guidelines for the winter of 2005/2006 to withdraw storage on a pro-ratable basis for the MPS systems during the winter (November through March). The proposed amended storage guidelines are as follows:

Proposed Amended Storage Guidelines

Month	MPS Southern System			MPS Northern System		
	Planned Withdrawal	Storage Balance	789,624 % of Storage MSQ	Planned Withdrawal	Storage Balance	800,000 % of Storage MSQ
November	(142,132)	750,143	95.0%	(144,000)	760,000	95.0%
December	(142,132)	608,011	77.00%	(144,000)	616,000	77.00%
January	(142,132)	465,878	59.00%	(144,000)	472,000	59.00%
February	(142,132)	323,746	41.00%	(144,000)	328,000	41.00%
March	(142,132)	181,614	23.00%	(144,000)	184,000	23.00%
	(142,132)	39,481	5.00%	(144,000)	40,000	5.00%

C. Southern System Capacity –

As indicated in its response to A above, Aquila is willing to use two years of data in the regression analysis.

D. Northern System Storage Withdrawals –

Because storage mitigates price volatility, has repeatedly demonstrated a savings for customers, and Aquila has a negotiated transportation discount rate, Aquila recently decided to extend the contract term. The storage contract has been renewed at the same levels through March 31, 2008.

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

Respectfully submitted,



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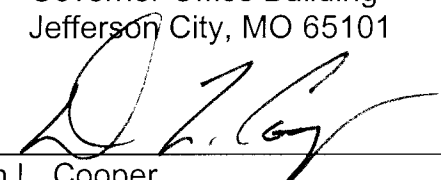
ATTORNEYS FOR AQUILA INC.
D/B/A AQUILA NETWORKS – MPS

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered on January 24, 2005, to the following:

Robert Franson
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Dean L. Cooper