

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

In the Matter of the Application of Aquila, Inc., for)
the Issuance of An Accounting Authority Order) Case No. EO-2008-_____
Relating to its Electrical Operations)

**APPLICATION OF AQUILA, INC, FOR AN
ACCOUNTING AUTHORITY ORDER**

Aquila, Inc. ("Aquila" or "Company"), by and through its undersigned counsel and in accordance with 4 CSR 240-2.060, hereby requests the Missouri Public Service Commission ("Commission") to issue an Accounting Authority Order ("AAO") authorizing Aquila to defer certain extraordinary operating and maintenance expenses associated with winter storms that occurred in December 2007, and to amortize those costs, for financial reporting purposes, beginning in January 2008 and continuing for a period of five years thereafter. In support of its application, the Company states as follows:

1. Aquila is a Delaware corporation, duly authorized to conduct business in Missouri, whose principal office and place of business is located at 20 W. Ninth Street, Kansas City, Missouri 64105. Under operating authority granted by the Commission, the Company provides service in Missouri as an electric utility and also as a heating company through two operating divisions: Aquila Networks-MPS and Aquila Networks-L&P. A certified copy of Aquila's amended Certificate of Authority to do business in Missouri as a foreign corporation was filed with the Commission in Case No. EU-2002-1053 and that document is incorporated herein by reference, as allowed by 4 CSR 240-2.060(1)(G). Similarly, copies of the Registrations of Fictitious Name of Aquila Networks-MPS and Aquila Networks-L&P were filed in Case No. EU-2002-1053 and those documents also are incorporated herein by reference, as allowed by 4 CSR 240-2.060(1)(G).

2. Aquila is an "electrical corporation," a "heating company," and a "public utility" as each of those terms is defined in Section 386.020, RSMo. 2000; therefore, the Company is subject to the jurisdiction and regulatory supervision of the Commission, as provided by law.

3. The Company has no final, unsatisfied judgments or decisions against it from state or federal regulatory agencies or courts that involve customer service and that have occurred within the three (3) years immediately preceding the filing of this application. Aquila also has no overdue Commission annual reports or assessment fees. The Company currently has the following other matters pending before the Commission: Case No. EO-2008-0216, Case No. EO-2008-0156, Case No. EO-2007-0046, Case No. EO-2007-0298, Case No. EM-2007-0374, and Case No. EO-2008-0220.

4. Pleadings, notices, orders, and other correspondence and communications related to this application should be sent to the undersigned counsel and also to:

Dennis R. Williams
Vice President - Electric Regulatory Affairs
Aquila, Inc.
20 W. Ninth Street
Kansas City, MO 64105
Tel: (816) 467-3534
E-mail: denny.williams@aquila.com

5. In December 2007, severe winter storms struck Aquila's Missouri service area causing significant damage to the Company's transmission and distribution facilities and disrupting electric service to thousands of Aquila's customers in both the MPS and L&P operating divisions. Damage caused by ice and snow accumulation disrupted

service to approximately ten percent (10%) of the Company's customers in the MPS division and to more than ninety percent (90%) of customers in the L&P division.*

6. To repair damage caused by the storms, Aquila was required to supplement its workforce with the equivalent of almost 950 additional full-time employees. The Company brought in outside repair crews from Colorado, Kansas, Indiana, Texas, Wisconsin, Ohio, and Michigan and incurred significant costs to support these outside crews (including meals, lodging, and travel costs). In addition, Aquila incurred extraordinary overtime and other related expenses for work performed by the Company's own personnel, as well as capital costs associated with the replacement of outside plant damaged or destroyed by the storm. Although a final tally of all of the extraordinary, additional costs that the Company incurred because of the storms is not yet available, Aquila estimates costs likely will exceed \$13.5 million, which represents more than ten percent of the Company's total, projected 2007 EBIT for its Missouri utility operations.

7. Statement of Financial Accounting Standard No. 71 and the Uniform System of Accounts for Electric Companies allow the Company to defer extraordinary operations and maintenance expenses, like those for storm-related repairs, only if the Commission specifically authorizes such accounting treatment. Accordingly, Aquila requests the Commission to issue an AAO authorizing the Company to defer and record in USOA Account 182.3, as a regulatory asset, the additional, incremental operating costs incurred as a result of the December 2007 ice storms. The Company further requests that the regulatory asset established by these deferrals be amortized over a five-year period commencing in January 2008. In its next general case, the Company may request authority to recover all or part of the storm-related regulatory asset through

* Approximately 22,000 of the customers in Aquila's MPS division experienced service interruptions as a result of the storm while approximately 59,000 customers in the L&P division were similarly affected.

rates charged to customers for electric service; however, unless and until such recovery is authorized by the Commission, the AAO that is requested in this application will have no impact on customer rates.

8. The Commission has a history of issuing AAOs for utilities when natural disasters, like the recent ice storms, cause the utilities to incur significant, extraordinary costs. An AAO allows a utility to amortize extraordinary expenses over multiple years; otherwise, financial accounting rules require the utility to record the expense in the period in which the extraordinary expenses were incurred. Requiring Aquila to record all of its extraordinary, storm-related costs in a single reporting period will significantly reduce the Company's earnings for that period. And the reduction in earnings that would result could have adverse consequences for the Company as it seeks to raise funds in the capital markets.

9. As noted previously in this application, authorizing an AAO does not impact customer rates. Although an AAO puts Aquila in a position where it can, in a future rate case, request recovery in rates of all or a portion of its storm-related costs, a Commission order authorizing an AAO carries with it no guarantees that such rate recovery will be allowed. All an AAO ensures is that, by amortizing extraordinary, storm-related costs over an extended period, Aquila will avoid distorting its financial results – through a significant reduction in earnings – and may escape the potential adverse consequences that often follow from such a distortion. Aquila will begin amortizing the costs in January 2008. In its next rate case, Aquila anticipates it will seek recovery of the AAO incremental costs amortized over a five-year period. Aquila will not ask for return on (rate base treatment) the unamortized balance.

WHEREFORE, for the reasons stated above, Aquila requests that the Commission grant the Company's application and:

a) issue an AAO that authorizes Aquila to record all extraordinary, incremental operating expenses associated with the December 2007 ice storms in USOA Account 182.3, as requested; and

b) provide the Company such other relief that the Commission believes is necessary and appropriate and that is not inconsistent with the AAO requested in this application.

Respectfully submitted,



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ATTORNEYS FOR AQUILA, INC.

VERIFICATION

STATE OF MISSOURI
COUNTY OF JACKSON


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) SS
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Dennis R. Williams, being duly sworn on oath, deposes and says that he is Vice President – Electric Regulatory Affairs of Aquila, Inc., that he has read the foregoing Application and knows the contents thereof, and that the information contained in that Application is true and correct to the best of his knowledge and belief.

AQUILA, INC.

BY: Dennis R. Williams
Dennis R. Williams

Subscribed and sworn to before me, the undersigned Notary Public in and for the
county and state aforesaid, on the 10th day of January, 2008.


Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was delivered by first class mail, electronic mail, or hand delivery, on the 10th day of January, 2008, to the following:

Missouri Public Service Commission
200 Madison Street, Suite 800
P.O. Box 360
Jefferson City, MO 65102-0360

Office of the Public Counsel
Governor Office Building
200 Madison Street, Suite 650
P.O. Box 2230
Jefferson City, MO 65102-2230

/s/ L. Russell Mitten
L. Russell Mitten