



Aquila

## News Release

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### **AQUILA FILES ELECTRIC RATE CASE FOR ST. JOSEPH AREA TO RECOVER COSTS OF ELECTRIC SERVICE OPERATIONS**

#### ***Proposes to Share 75 Percent of Merger Savings with Customers***

ST. JOSEPH, MO, July 3, 2003 – Aquila, Inc. (NYSE:ILA) today filed a request for an electric rate increase with the Missouri Public Service Commission.

In its request, the company seeks to recover the higher cost of natural gas needed to generate electricity; system improvement costs; and funding for employee pensions in the electric service operations of the company's former St. Joseph Light & Power properties. The company is requesting a 15.5 percent increase in annual revenues.

The 64,000 electric customers served by the former St. Joseph Light & Power Company currently pay rates near 1983 levels.

The company also filed for a 19.2 percent rate increase for six commercial customers that receive steam from one of the company's power plants.

“We've taken a number of steps, totaling approximately \$6 million, to reduce the amount of the rate filing request,” said Jon Empson, senior vice president of Regulatory, Legislative and Gas Supply Services for Aquila. “It's important for the company to recover its electrical system operating costs that were incurred to provide safe and reliable service for our customers.”

To further help reduce the electric rate increase, the company proposes to share with all its Missouri customers 75 percent of the savings achieved through the consolidation of St. Joseph Light & Power. The plan is to use 50 percent of those savings

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to reduce the size of the rate increase. Aquila proposes that another 25 percent of the savings will be used to provide funds for residents in Aquila's Missouri service territory who cannot afford to pay their utility bills.

If the rate increase is approved by the commission, an average residential customer using 10,000 kilowatt-hours (kwh) of electricity a year would see an increase of approximately \$8.95 a month. The rate increases would total \$14.6 million for electric customers and \$1.3 million for steam customers.

The key factors in the company seeking an electric rate increase are:

- 36 percent is caused by contributions required to properly fund pension plans for the employees.
- 25 percent reflects recovery of capital investments made to provide electric service to customers.
- 21 percent is caused by the requirement for a new transmission capacity contract.
- 16 percent is driven by higher costs for natural gas related to generating and purchasing electricity to serve customers.
- 12 percent reflects the traditional subsidy for steam plant operating costs.

(NOTE: These percentages add up to more than 100 percent because the request was reduced by 10 percent due to various administrative and general cost savings resulting from Aquila's acquisition of St. Joseph Light & Power Company in 2001.)

The \$6 million in annual savings was achieved through several initiatives, including reducing operating costs through office and service center consolidations and employee reductions, as well as adding new growth through joint community efforts.

Aquila's current St. Joseph area customer electric rate allows for a gas cost of about \$2.50 per thousand cubic feet (Mcf), while the current market price for natural gas is around \$6. Aquila is asking the commission to increase the rate the company charges

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for natural gas from the current level of \$2.50 per Mcf to \$5.64 per Mcf. The company also is recommending that any amount collected above the company's actual costs would be refunded to its customers at the end of each year.

In addition, capital expenditures needed to update the company's power plants and electric distribution system throughout the St. Joseph area total \$11 million to \$13 million annually. The current rate structure does not have a provision for these necessary expenditures.

Likewise, the current rate structure does not fully cover current pension costs. Customer rates were reduced to reflect the favorable market investment returns enjoyed over the last several years. However with the stock market now depressed and interest rates lowered, those favorable returns no longer exist. Aquila, like many other U.S. companies, must now make contributions to cover these costs. In 2002, Aquila contributed \$35 million to its pension funds and may have to contribute a similar amount in 2003.

Prior to filing the rate increase, Aquila held outreach meetings to discuss the proposed increase with Missouri community and legislative leaders.

Aquila serves 338,000 electric and natural gas customers in Missouri. Based in Kansas City, Missouri, Aquila operates electricity and natural gas distribution networks serving customers in the U.S., Canada, the United Kingdom and Australia.

In the U.S., the company provides energy service to 1.3 million customers in Missouri, Kansas, Colorado, Michigan, Minnesota, Iowa and Nebraska. More information is available at [www.aquila.com](http://www.aquila.com).

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