

Testimony for Missouri Public Service Commission at January 23, 2007
hearing in Sedalia, Mo. regarding Aquila rate case filed in July, 2006

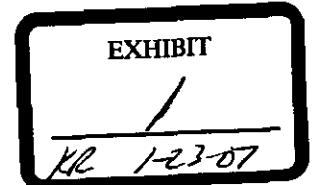
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FEB 05 2007

Missouri Public
Service Commission

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ER-2007-0004



There are two primary purposes for my being here tonight.

Public hearing in
Sedalia

1. To urge you to give primary consideration to the long run welfare of the customers that Aquila serves. To do that I realize that the company providing the utility services must pay their costs of operation including a REALISTIC level of wages to their employees and management and also earn a reasonable return for the utilities investors. By reasonable and realistic I mean calculated on current operating costs—not the horrendous losses from Aquila adventures of several years ago which might have been beneficial to investors if the deals had worked out and did cost the company ridiculous salaries paid to at least some of those involved. Customers of today have absolutely no responsibility to make up any part of those losses. By definition, shareholders assume 100% of the capital risk of new ventures to increase the value of their investment. Realistic costs do include spending what is necessary to keep the system in good working condition along with wages adequate to maintain a workforce that can't complain they are underpaid by comparison to the standards for comparable work in this region. Anything less than that will not provide the level of service which we have a right to expect.

At the time of the rate request in June coal & natural gas prices were at, or near, their peak. Those prices were most likely far above averages for the next few years.

2. Attached are several pages which may be ~~useful~~ to the commission in its study of this rate hike request. Hopefully you have access to knowledgeable independent experts to help you determine what normal and expected future energy costs are likely to be. Certainly the prices of oil, coal and gas which have prevailed since the Katrina and related disasters of Summer 2005 have not been remotely normal in any sense of the word. The attached sheets include 2 pages of market commentary concerning today's energy markets with emphasis on natural gas prices and several price charts for 3 of the major coal producers in the U.S. These charts show stock price trends over the past several years for Peabody Coal, Arch Coal Company and Consol Energy. This represents the dominant coal producers in Wyoming, the Midwest and Appalachia which I suspect will cover most of the sources of coal available to Aquila. The primary point I hope you will see in these charts is that during the past year the stock prices of coal companies have been vastly higher than they were during the previous several years and probably ever before. Why? You will note that in May and early June of 2006 the coal company stock prices were peaking then started dropping soon afterward to today's 55 to 70% of the peak price. What events or fears caused traders to bid the price so high? Two particular things come to mind. The traders were determined that last summer was going to be another summer with catastrophic hurricanes on the order of Katrina. That was also the time period of lots of concern over Iran and their nuclear threats. This led to much market speculation. Natural gas futures traded at over \$15. Spot prices on coal skyrocketed. The idea that coal could and should replace a large part of imported oil gained lots of credibility. All this played a part in the high prices you see on the charts.

prices which are about

Before you make rate decisions get competent advice on what realistic prices are likely to be.

and projections

Thank you

FUTURES MOVERS

Cold weather lifts crude, natural gas*By Ciara Linnane, MarketWatch**Last Update: 8:32 AM ET Jan 23, 2007*

NEW YORK (MarketWatch) – Continued cold weather conditions across much of the U.S. and forecasts they will persist for at least another week sent crude-oil futures higher early Tuesday and lifted natural gas to its highest level in a month.

Crude for March delivery was up 80 cents at \$53.38 a barrel in electronic trade on its first day as the front-month contract. The Feb. contract expired Monday in a volatile session that saw it trade above \$53 a barrel before closing below \$52.

Natural gas was up 25.6 cents at \$7.575 per million British thermal units. That contract also traded in choppy fashion Monday, although it closed with a 6.3% gain at its highest level since Dec. 15 amid expectations for more winter weather.

Bitterly cold air and biting winds will make Friday the coldest day of this winter across the Northeast, according to forecaster Accuweather. Temperatures will be seasonably cold until a cold front sweeps in on Wednesday, bringing colder air that will blanket the Northeast on Thursday, it said.

Still, analysts are not expecting the cold spell to be sufficient to sustain a rally in energy futures.

"Weather is only bullish if it increases heating demand or decreases stocks," said Edward Meir, analyst at Man Financial. "Neither of these factors is manifesting itself in any meaningful way, at least for now.

Forecasts for inventory data due for release on Wednesday bear that out, with most pointing to another build in supplies of crude and only a small draw in distillates, which includes heating oil.

The Energy Department and American Petroleum Institute will release separate updates on U.S. petroleum supplies on Wednesday.

Wachovia expects the report to show that crude supplies rose 2.5 million barrels for the week ended Jan. 19. It also expects gasoline inventories to be up 1.5 million, but distillate supplies will likely be unchanged for the week.

Fimat USA predicts a rise of 2.1 million for crude supplies, a fall of 1 million for distillates and a rise of 1.8 million for gasoline.

Meanwhile, UBS today lowered its 2007 oil price estimate to \$60 a barrel from \$69.

"Much of the recent oil price pullback was not fundamentals driven," said analyst Jon Rigby. "And we believe it will take time before tightening crude oil supply/demand balances can shore up and lead markets higher again."

Gasoline futures were last up 2.46 cents at \$1.40 a gallon and heating oil was up 2.28 cents at \$1.5312 a gallon. □

Ciara Linnane is markets editor for MarketWatch in New York.

The other commentary is about 2 1/2 hours later in the day.

FUTURES MOVERS

Crude, natural-gas futures rise on cold weather**Natural gas taps a more than 5-week high; Iran concerns add to oil's strength**

By Myra P. Saefong, MarketWatch

Last Update: 11:04 AM ET Jan 23, 2007

SAN FRANCISCO (MarketWatch) – Continued cold weather across much of the U.S. and forecasts it will persist for at least another week sent crude-oil futures higher Tuesday morning and lifted natural gas to its highest level in more than five weeks.

Escalating tension between Iran and the U.S. over Iran's continued nuclear activities added to oil's strength, as did uncertainty ahead of Wednesday's updates on U.S. petroleum supplies.

"Given the shift to colder weather, escalating geopolitical tensions, and likely more OPEC compliance, the odds may be increasing for a rally above \$55 rather than a break under \$51," Michael Fitzpatrick, an analyst at Fimat USA, wrote in a note to clients.

Crude for March delivery was last up 97 cents at \$53.55 a barrel on the New York Mercantile Exchange on its first full day as the front-month contract. The February contract expired Monday in a volatile session that saw it trade above \$53 a barrel before closing below \$52.

Natural gas was above \$15 last summer at the same time

February natural gas was up 16.1 cents at \$7.48 per million British thermal units. It had reached a high of \$7.53, a level it hadn't seen since Dec. 15. That contract also traded in choppy fashion Monday, although it closed with a 6.3% gain amid expectations for more winter weather.

Prices follow the weather in New York

Bitterly cold air and biting winds will make Friday the coldest day of this winter across the Northeast, according to forecaster AccuWeather. Temperatures will be seasonably cold until a cold front sweeps in on Wednesday, bringing colder air that will blanket the Northeast on Thursday, it said.

Still, analysts are not expecting the cold spell to be sufficient to sustain a rally in energy futures.

Weather is bullish only "if it increases heating demand or decreases stocks," said Edward Meir, analyst at Man Financial. "Neither of these factors is manifesting itself in any meaningful way, at least for now."

Forecasts for inventory data due for release on Wednesday bear that out, with most pointing to another increase in supplies of crude and only a small reduction in distillates, which include heating oil.

The Energy Department and American Petroleum Institute will release separate updates on U.S. petroleum supplies on Wednesday.

Wachovia expects the report to show that crude supplies rose 2.5 million barrels for the week ended Jan. 19. It also expects gasoline inventories to be up 1.5 million and distillate supplies unchanged for the week.

Fimat USA predicts a rise of 2.1 million for crude supplies, a fall of 1 million for distillates and a rise of 1.8 million for gasoline.

February reformulated gasoline was up 4.56 cents at \$1.421 a gallon and February heating oil traded at \$1.5425 a gallon, up 3.41 cents.

Iran woes

Adding to oil's strength Tuesday were concerns over escalating tension between the U.S. and Iran.

A report in the Kuwait-based Arab Times Online, citing "reliable sources," says the U.S. will launch a military strike on Iran before April 2007, Ashraf Laidi, an analyst at CMC Markets in New York, wrote in an e-mail to clients Tuesday.

"We do not expect these jitters to cool off anytime soon, especially as President Bush is expected to reiterate the Iran element in the Iraq war at this evening's State of the Union address," said Laidi.

"Iran is testing missiles in war games," said Phil Flynn, a senior analyst at Alaron Trading, citing news reports. That's obviously "a concern as the tensions between Iran and the West are very strained."

Oil prices will eventually "snap back sharply and be back over \$60 lickety-split as demand starts to send some very

bullish numbers each week," according to Kevin Kerr, editor of Global Resources Trader, a newsletter service of MarketWatch, the publisher of this report.

"The snap back could be so sharp [that] the shorts will panic and more bulls will pile in and the pendulum will swing to the upside," he said.

And "by summer, I think we will ebb around \$80 or higher if the whole Iran thing gets worse -- which it likely will," he said.

Meanwhile, UBS today lowered its 2007 oil-price estimate to \$60 a barrel from \$69.

"Much of the recent oil-price pullback was not fundamentals-driven," said analyst Jon Rigby in a research note. "And we believe it will take time before tightening crude-oil supply/demand balances can shore up and lead markets higher again."

On the natural-gas front, early forecasts for Thursday's Energy Department update on supplies call for a withdrawal of 150 billion to 190 billion cubic feet, according to Fimat, which predicts a decline of 181 billion.

Overall, "the bearish factors for the coming non-heating season are growing U.S. natural-gas production, the expected high level of working gas storage at the end of March, and slower economic growth," Ron Denhardt, a vice president at Strategic Energy & Economic Research, wrote in a recent monthly report.

Still, he expects working gas storage to end the non-heating season at 3.405 trillion cubic feet, 48 billion cubic feet below last year. Given that, "we expect prices to be higher this non-heating season than last year," he said. "Of course, everything depends on the weather."

AMEX Natural Gas Index (INDEX) Delayed quote data

Chart Msg News Option

XNG

448.36

+6.89

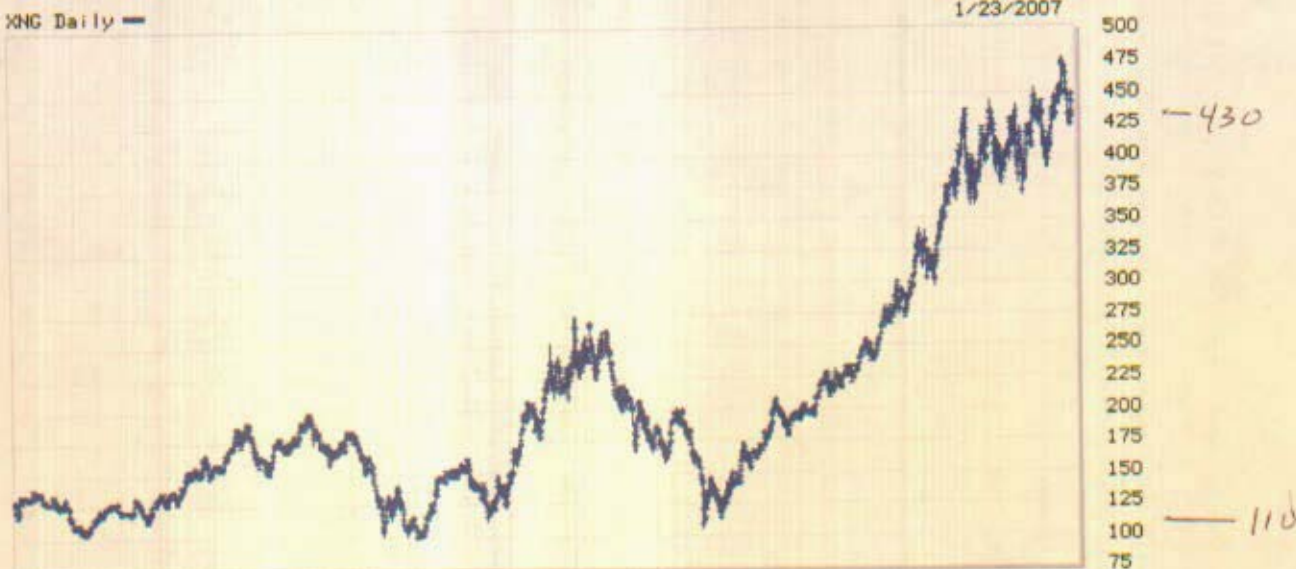
+1.56%

Vol: n/a

10:59am 01/23/07

XNG Daily —

1/23/2007



Volume —

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Exchange provides
no volume data.

95 96 97 98 99 00 01 02 03 04 05 06

1995
JAN. 1JAN 1
2006

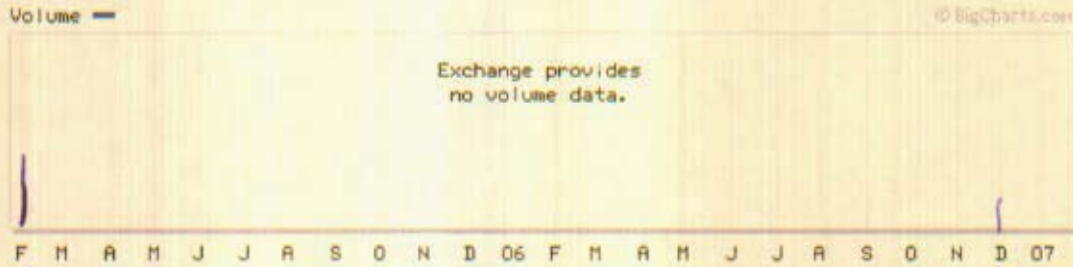
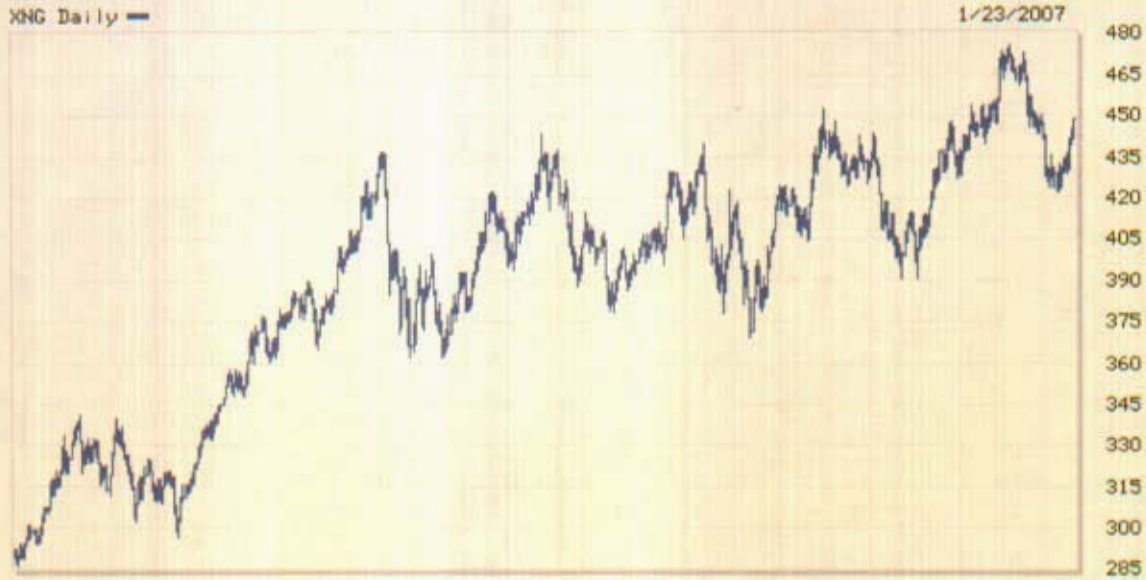
Twelve Year Natural Gas Prices.

Price now is about 4 times the summer of 2002 price.

AMEX Natural Gas Index (INDEX) Delayed quote data

Chart Msg News Option

XNG 448.42 +6.95 +1.57% Vol: n/a 10:54am 01/23/07



Feb 2005

Dec. 1
2006

Past 2 Years - Natural
Gas - Futures

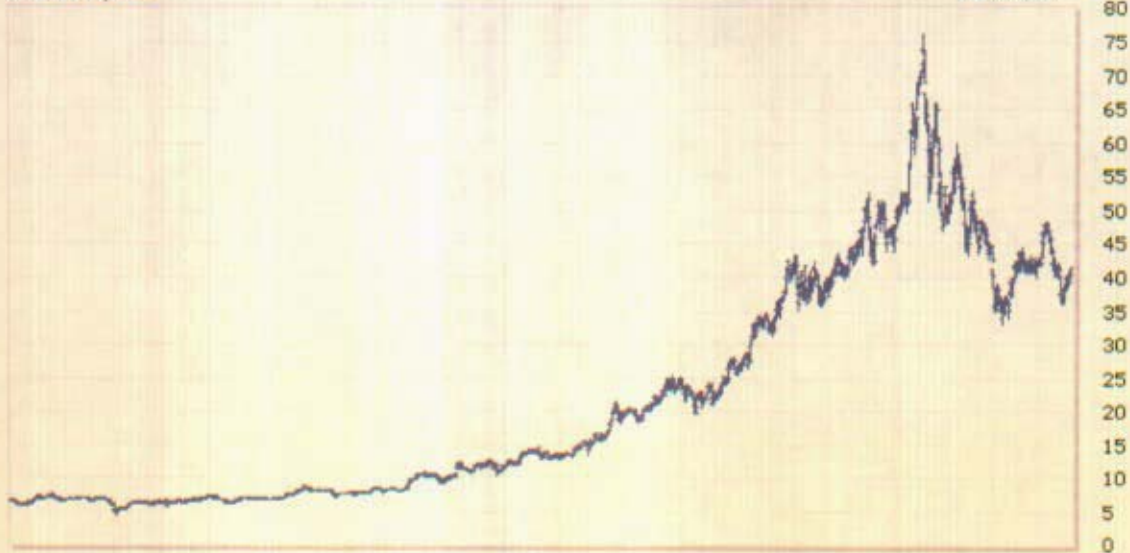
Peabody Energy Corp (NYSE) Delayed quote data

Chart Financial Analyst Insider Msg News Option SEC

BTU 41.40 +0.78 +1.92% Vol: 1,923,600 11:47am 01/23/07

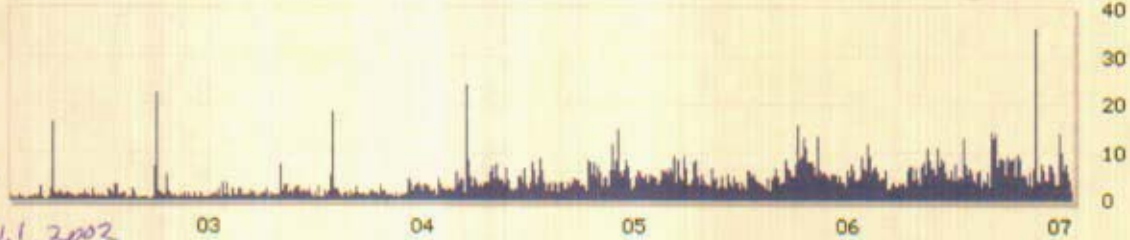
BTU Daily

1/23/2007



Volume

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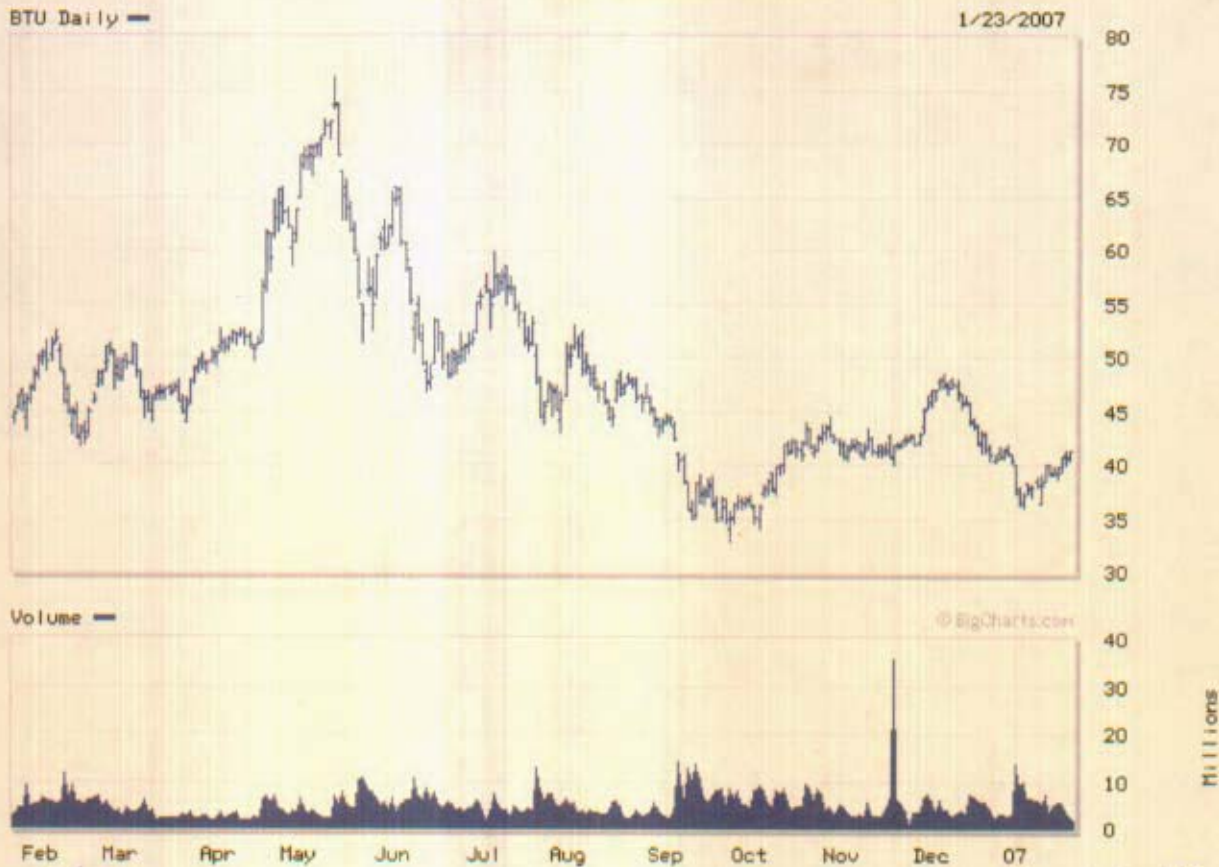


5 Year Price Chart of Peabody Coal

Peabody Energy Corp (NYSE) Delayed quote data

Chart Financial Analyst Insider Msg News Option SEC

BTU 41.41 +0.79 +1.95% Vol: 1,853,100 11:39am 01/23/07



Peabody Coal 1 year Price Chart showing price spike of late spring 2006 followed by rapid decline to a still relatively high price level. The spike to over \$75 was caused, at least in part, by fears that Iran would cause major disruptions in oil supplies and the result market thought that development of US & Canada coal deposits would become the essential and limited source of U.S. power supplies.

BTU		Last: 41.44	Change: +0.82	+2.02%	Volume: 1,848,200	11:38am 01/23/2007	Choose your broker											
Open:	40.90	Yield:	40.90	0.58% Dividend														
High:	41.50	P/E Ratio:	41.50															
Low:	40.48	EPS:	40.48															
Bid:	n/a	Ex Date:	n/a															
Ask:	n/a	Dividend:	n/a															
Avg Volume:		0.06																
52wk High:		2.19																
52wk Low:		10/30/2006																
Market Cap:		18.89																
Shares Out:		0.58																
263.81M																		
10.92B																		
76.29																		
32.94																		
5.85M																		

BTU 1-Minute

Chart: 1dy 1mo

Create BTU Alert at: \$33-\$37 \$46-\$50

Add to Alerts

Add to My Portfolio

Peabody Energy Corp (NYSE)

Delayed quote data |

Disable MarketWatch live quotes

Sneak Preview

Profile | News | Chart | Analyst | Insider | Financials | Msgs | SEC | Options | Hull | Historical | Industry | Market | Advisers | Annual Report

Arch Coal Inc (NYSE) Delayed quote data

Chart Financial Analyst Insider Msg News Option SEC

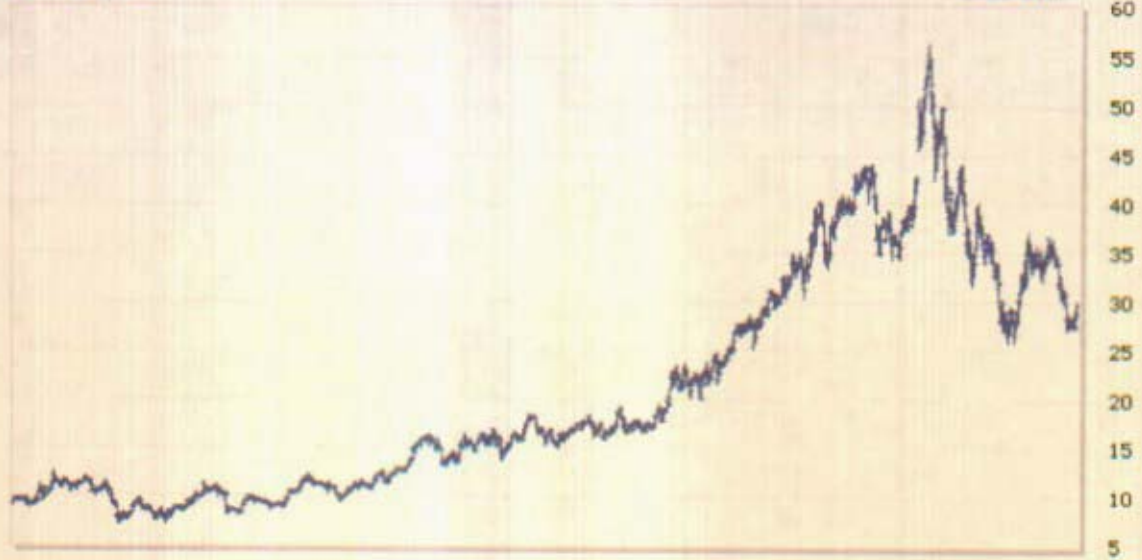
ACI 29.79 +0.86 +2.97%

Vol: 2,010,400

11:30am 01/23/07

ACI Daily

1/23/2007



Volume

© BigCharts.com

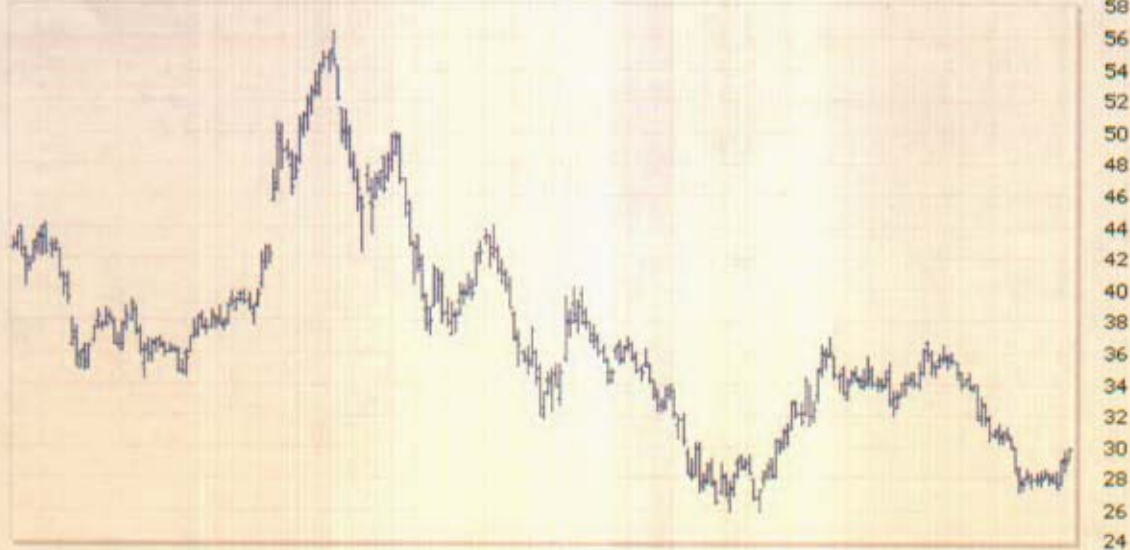


JAN 1, 2002 03 04 05 06 07
 JAN 1, 2003 JAN 1, 2007

5 Year Stock Price Quotes for Arch Coal Co. (ACI)

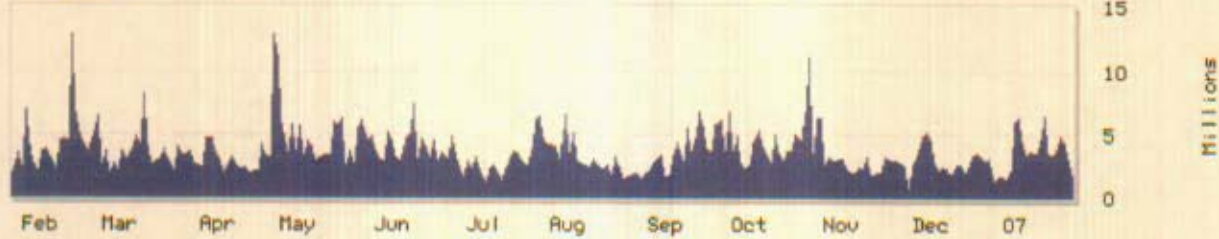
ACI Daily —

1/23/2007



Volume —

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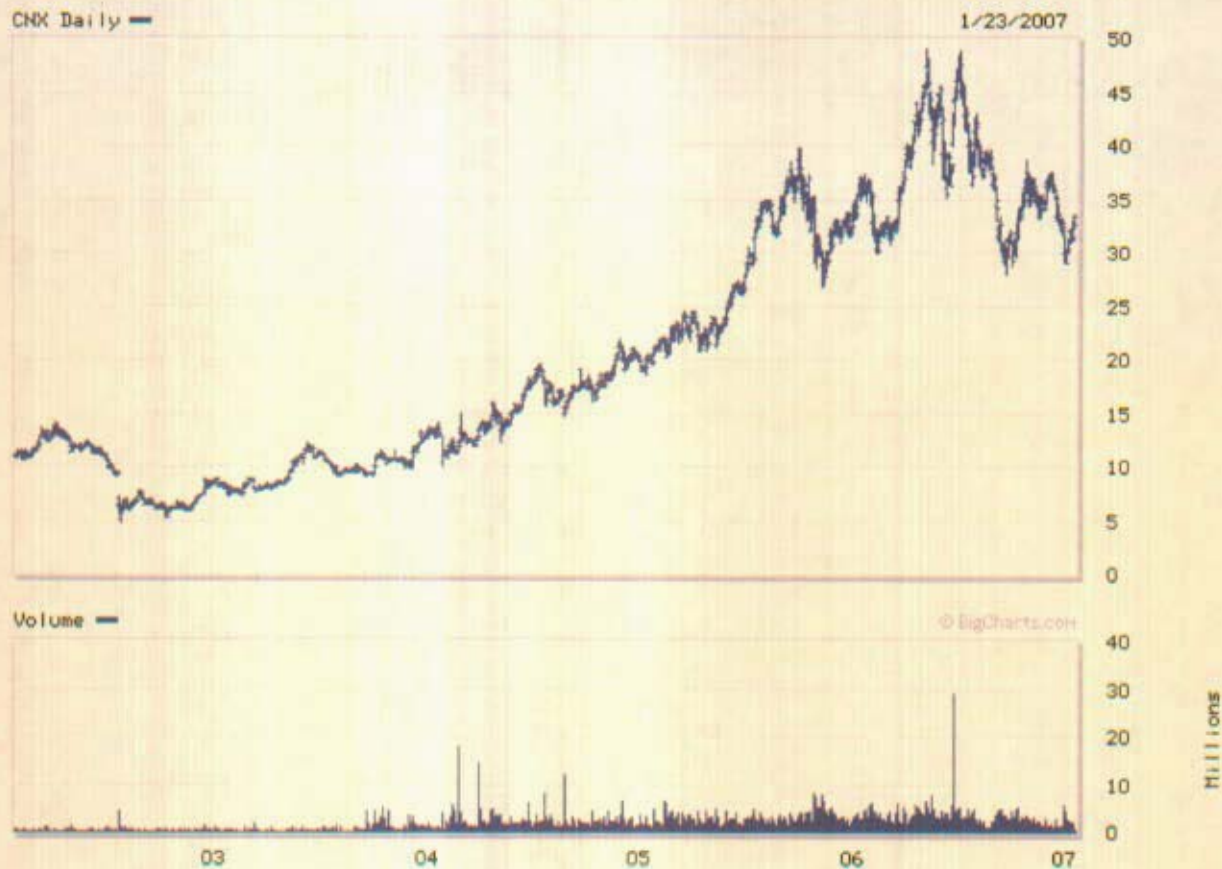
Feb, 2006

Jan '07

1 Year Price Chart for ACI (Arch Coal Company)

Consol Energy Inc (NYSE) Delayed quote data

Chart Financial Analyst Insider Msg News Option SEC

CNX **33.59** **+0.79** **+2.41%** Vol: 766,200 12:03pm 01/23/07


Consol Energy Inc 5 Year Price Chart

Consol is one of the top coal producers in the US operating primarily in the Appalachians. They are also a producer of high grade metallurgical coal used by metal and coke manufacturers.

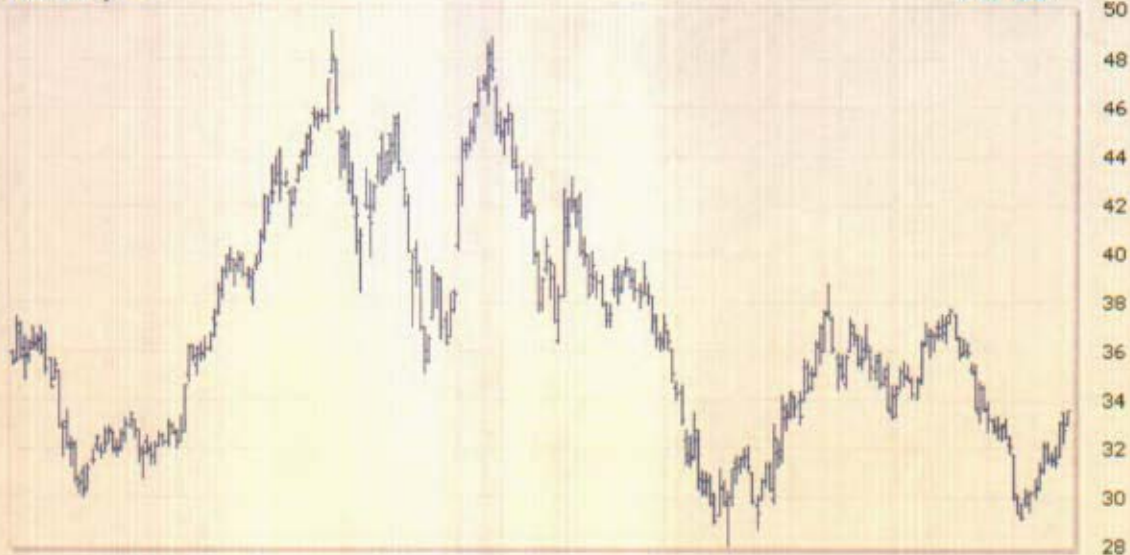
Consol Energy Inc (NYSE) Delayed quote data

Chart Financial Analyst Insider Msg News Option SEC

CNX **33.59** **+0.79** **+2.41%** Vol: 759,100 11:58am 01/23/07

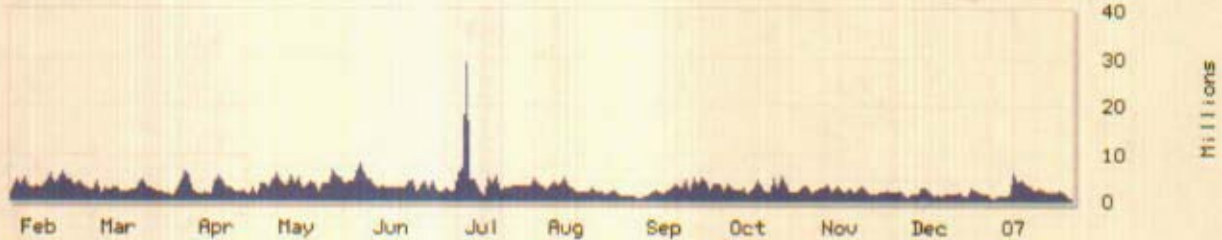
CNX Daily —

1/23/2007



Volume —

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Consol Energy past 12 months price chart