

NorAm Energy Services, Inc.

A Subsidiary of Houston Industries Incorporated

December 1, 1998

Frank A. DeBacker
Utilicorp United
P.O. Box 11739
Kansas City, MO 64138

Dear Mr. DeBacker:

As a result of our meeting at your office on November 9, 1998, Houston Industries is submitting the attached Long-Term Peaking Capacity and Energy Proposal for discussion purposes. We look forward to discussing it in detail with you in the near future. If you have questions or comments, please call me at 713.207.5117.

Sincerely,



Terry D. Lane
Marketing Director, MAPP/SPP

SCHEDULE FAD-17

Page 1 of 20

LONG-TERM PEAKING CAPACITY AND ENERGY PROPOSAL

- Buyer:** UtiliCorp United d.b.a Missouri Public Service Company (MPS)
- Seller:** Houston Industries Power Generation and NorAm Energy Services (HIPG/NES)
- Term:** Five years starting June 1, 2001 and ending May 31, 2006
- Capacity:** 300 MWs at 99 degrees F; 326 MW at 55 degrees F (yearly average)
- Delivery Point:** MPS Pleasant Hill Substation
- Capacity Price:** \$4.50/kW-mo (escalated at 2.5% per contract year) paid on the average annual Capacity of 326 MWs; includes 16" lateral pipeline cost.
- Energy Price:** For all hours, MPS will have the option to call on the Energy at \$1.00/MWh (escalated at 2.5% per contract year) plus the product of a 10,600 Btu/kWh heat rate and the natural gas fuel cost.
- Flexibility:** MPS has full dispatch rights to 300 MWs limited only by the scheduling provisions below and the operational constraints of the unit (such as, but not limited to, a 4 hour minimum run time).
- Fuel:** Natural gas supply and transportation will be managed by Seller. Seller will supply fuel at a mutually acceptable index, adjusted for delivery to the generating facility, along with a fixed charge for six Summer months of Firm Transportation. Seller will maintain Firm Transportation for natural gas for the generating facility in the November through April period.
- Unit Starts:** MPS will not be charged for the first 50 starts per contract year. MPS will be charged \$2,500 per start for the second 50 starts per contract year. However, should MPS request more than 100 starts per contract year, MPS will be subject to paying incremental increases in maintenance and operating costs.
- Scheduling:** MPS will notify Seller of total planned output and number of starts by 9:00 AM Central Prevailing Time (CPT) one business day prior to flow so that fuel can be procured and transported.
- If MPS provides a schedule after the 9:00 AM deadline, the gas price component of the Energy Price will be based on actual purchase cost and actual production from the unit will be conditioned on fuel availability.

- Availability:** The development plan envisions using proven technology which has historically attained very high availability levels. Availability targets will be set following further development effort. Seller envisions targets of 98% for all hours during the six Summer months. To provide appropriate operational incentives, the capacity payment will be adjusted (up or down) based upon actual performance relative to a specific target during the six Summer months of May through October.
- Operations:** HIPG will be responsible for managing operations and maintenance in accordance with generally accepted utility practices. MPS and Seller will cooperate to set scheduled maintenance outages. MPS will provide an on-site operations staff to Seller under a separate agreement.
- Transmission:** MPS will cooperate with Seller to accelerate the planned connection of the Pleasant Hill Substation to the 345 kv system.
- Site:** Under separate agreement, Seller will acquire approximately 70 acres of land near the Pleasant Hill Substation from MPS for approximately \$3000 per acre.
- Resale:** In periods where MPS has not scheduled the Energy, Seller will have the right to sell the Energy.
- Credit Support:** The Seller's contract obligations are backed by a multi-billion dollar corporation with an investment grade rating. MPS's contract obligations are backed by _____.
- Note:** If MPS provides fuel to the facility under a tolling arrangement, Seller will require access to Incremental Firm Transportation of natural gas for:
- (a) Any Energy sales above the 326 MWs contracted for by MPS
 - (b) Energy sales by Seller when MPS does not call on its Energy
 - (c) Energy sales from this facility after the termination of this five-year agreement, if it is not renewed by both parties.

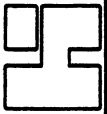
This document is not intended to create a binding offer or contract of purchase and sale of electric power or natural gas between MPS and Seller. Moreover, this document does not in any way whatsoever obligate either of the parties to enter into any agreements or to proceed with any possible relationship or transaction. The terms and conditions set forth above are subject to negotiation, completion and incorporation into and the execution by both parties of a definitive agreement. Either party may terminate discussions and/or negotiations regarding this document at any time.

Mid December

Notified HI that their proposal was not
low bid.

12/29/98 - 8:30 AM DAYTOWN

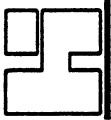
MET WITH HI TO DISCUSS THEIR PROPOSAL
& OFFER THEM OPPORTUNITY TO REVISE PROPOSAL.



HI Wholesale Energy Group
A Division of Houston Industries Incorporated

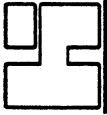
Proposal to:
Missouri Public Service Co.

January 6, 1999



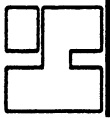
Assumptions - OCGT

- 500MW OCGT facility built on MPSC site
 - 10,600 net unit heat rate
 - Availability guarantee of 98% in summer
- Capacity available year round - 500 MW
- Day ahead scheduling
- Strike at Spot Natural Gas Price x Heat Rate
 - Energy from lowest cost source
 - Market
 - Peaker



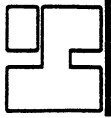
Analysis methodology

- Simulate hour by hour forward market
- Simulate MPS plant dispatch and wholesale market activity
 - Plant analysis - forced and scheduled outages
 - Market analysis - Optimization of plants vs. market power
- Simulate OCGT capacity and match to MPS demand shape
 - Only run OCGT when economical relative to prevailing market
 - Determine “credit” for merchant capacity
- Determine overall cost to serve demand with OCGT configuration



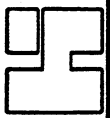
Analysis Methodology - continued

- Simulate CCGT capacity and match to MPS demand shape and proposed seasonal capacity arrangement
 - Only run CCGT when economical relative to prevailing market
 - Determine “credit” for merchant capacity
- Major CCGT Assumptions
 - Heat Rate at 6200 Btu/kWh
 - Capacity Charge \$7.50/kW-Mo.
 - \$2.00/MWh Variable O&M (start-up, chemicals, water, etc.)
- Determine overall cost to serve demand with CCGT configuration
- Revise HI’s initial OCGT offering to match CCGT economics



Results of Analysis

- HIPG's initial proposal was 5% higher than CCGT proposal
 - Not an “apple to apple” comparison due to varying risk profiles
- Significant portion of the value in CCGT proposal is from the resale of excess energy to the market
 - Higher merchant risk to MPS vs OCGT proposal
 - Significantly more risk to MPS in bear market than OCGT proposal
- Actual demand curves show that 500 MW of capacity needed in four summer months not six months
 - CCGT offering needs the two additional months to make economics work
- Revised OCGT proposal makes apparent cost equal to CCGT
 - Reduced merchant risk
 - Market upside potential with limited down-side risk
 - Matches load profile more efficiently



HI Wholesale Energy Group
A Division of Houston Industries Incorporated

Regulatory capacity

- 200 MW of winter and shoulder capacity fully NERC creditable in SPP
- 500 MW of “Summer Peaking” capacity fully NERC creditable in SPP (meets 4-month criteria)

Revs: 1/6/99 1100

UtiliCorp United d.b.a. MPS

8:02 PM 01/05/99
For Discussion Only

LONG-TERM PEAKING CAPACITY AND ENERGY PROPOSAL

Buyer: UtiliCorp United d.b.a Missouri Public Service Company (MPS)

Seller: Houston Industries Power Generation and NorAm Energy Services (HIPG/NES)

Term: Five years starting June 1, 2001 and ending May 31, 2006

Capacity: The following two capacity divisions apply:

- 1) 500 MWs for the period of June, 1 through September, 30 for each year in the Term of the agreement .
- 2) 200 MWs for the periods of January, 1 through May, 31 and October, 1 through December, 31 for each year in the Term of the agreement.

Delivery Point: MPS Pleasant Hill Substation / *MPS INTERCONNECTS*

Capacity Price: \$8.42/kW-mo for 500 MWs supplied in the June, 1 through September, 30 period specified above.

\$4.21/kW-mo for 200 MWs supplied in the January, 1 through May, 31 and October, 1 through December, 31 periods specified above.

The Capacity Prices include the cost of a 16 inch lateral pipeline to serve the generating facility.

Energy Price: For all hours, MPS will have the option to call on the Energy at \$0.75/MWh plus the product of a 10,600 Btu/kWh heat rate and the natural gas fuel cost. *HHV*

Flexibility: MPS has full dispatch rights to purchased Capacity limited only by the scheduling provisions below and the operational constraints of the unit (such as, but not limited to, a 4 hour minimum run time).

Fuel: Natural gas supply and transportation will be managed by Seller. Seller will supply fuel at a mutually acceptable index, adjusted for delivery to the generating facility, along with a fixed charge for six Summer months of Firm Transportation. Seller will not maintain Firm Transportation for natural gas for the generating facility in the November through April period.

Unit Starts: MPS will not be charged for the first 50 starts per contract year. MPS will be charged \$2,500 per start for the second 50 starts per contract year. However, should MPS request more than 100 starts per contract year,

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Scheduling: MPS will notify Seller of total planned output and number of starts by 9:00 AM Central Prevailing Time (CPT) one business day prior to flow so that fuel can be procured and transported.

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Availability: The development plan envisions using proven technology which has historically attained very high availability levels. Availability targets will be set following further development effort. Seller envisions targets of 98% for all hours during the four Summer months. To provide appropriate operational incentives, the capacity payment will be adjusted (up or down) based upon actual performance relative to a specific target during the four Summer months of June through September.

Operations: HIPG will be responsible for managing operations and maintenance in accordance with generally accepted utility practices. MPS and Seller will cooperate to set scheduled maintenance outages. MPS will provide an on-site operations staff to Seller under a separate agreement.

Transmission: MPS will cooperate with Seller to accelerate the planned connection of the Pleasant Hill Substation to the 345 kv system.

Site: Under separate agreement, Seller will acquire approximately 70 acres of land near the Pleasant Hill Substation from MPS for approximately \$3000 per acre.

Resale: In periods where MPS has not scheduled the Energy, Seller will have the right to sell the Energy.

Credit Support: The Seller's contract obligations are backed by a multi-billion dollar corporation with an investment grade rating. MPS's contract obligations are backed by _____.

Note: If MPS provides fuel to the facility under a tolling arrangement, Seller will require access to Incremental Firm Transportation of natural gas for:

- (a) Any Energy sales in excess of the Capacity specified above contracted for by MPS
- (b) Energy sales by Seller when MPS does not call on its Energy
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1/6/98

Rcvd revised proposal from HI in mtg
A UPS offices in RAYTOWN

HI

UPS

FAB

Bob H.

1/12/99 AM

NOTIFIED HI THAT THEIR PROPOSAL WAS
MUCH IMPROVED BUT STILL NOT 100% BIS

1/13/99 3:00

CONF CALL w/ HI to DISCUSS their PROPOSAL
AGREED to GIVE them until 12:00 NOON
on 1/14/99 to REVISE their offer.

1/14/99 11:15

Conf Call w/ Richard Benedict of HI

They ~~are withdrawing~~ are maintaining
their offer at current pricing - are
not able to improve

- will maintain offer for a short
time in event other proposal fall
through.

UTILICORP UNITED

January 15, 1998

Mr. Richard L. Benedict
Director, Wholesale Power Group
Houston Industries Inc.
P.O. Box 286
Houston, TX 77001-0286

Subject: Houston Industries Power Generation Proposal

Dear Richard:

The purpose of this letter is to inform you that the Houston Industries Power Generation (HI) Proposal of December 1, 1998 (including previous proposals from NP Energy and NorAm and revised proposal of January 6, 1999) has not been selected as the preferred supply side resource in Missouri Public Service's (MPS) 1998 Integrated Resource Planning Process.

As you know, MPS is required to select the lowest cost alternative available when it adds power supply resources. Your proposal did not provide MPS with the lowest cost power supply.

UtiliCorp Power Services (UPS) wishes to thank you for your sincere interest and participation in its solicitation process.

Please feel free to contact me at (816) 936-8639 if you have any questions.

Sincerely,



Frank A. DeBacker
V.P. - Fuel & Purchased Power

cc: Robert Holzwarth
John W. McKinney

1/29/99

Phone call w/ Richard BENEDICT of HI

- 1) HI proposal not contingent on financial closing would be contingent on getting permits, zoning, etc.
- 2) HI proposal would include limits on capacity payments in event a FM made plant inoperable for long periods