

**Aquila Inc.  
Report on Affiliate Transactions  
For the Year 2007**

**March 15, 2008**

## **1. Introduction**

Missouri Public Service Commission (“PSC” or “Commission”) Affiliate Transaction regulations applicable to electric and gas corporations ensure that rates charged by regulated utilities are not adversely impacted by the nonregulated activities of those corporations. For example, the preamble to the electric rule states:

**4 CSR 240-20.015 Affiliate Transactions** *PURPOSE: This rule is intended to prevent regulated utilities from subsidizing their nonregulated operations. In order to accomplish this objective, the rule sets forth financial standards, evidentiary standards and record-keeping requirements applicable to any Missouri Public Service Commission (commission) regulated electrical corporation whenever such corporation participates in transactions with any affiliated entity (except with regard to HVAC services as defined in section 386.754, RSMo Supp. 1998, by the General Assembly of Missouri). The rule and its effective enforcement will provide the public the assurance that their rates are not adversely impacted by the utilities’ nonregulated activities.*

Among the various requirements set forth in these rules is a specific requirement to provide certain information to the Commission Staff and the Office of the Public Counsel on, or before, March 15 of each year. While the primary purpose of this document is to fulfill that requirement (Section 3), Aquila Inc. (“Aquila” or “Company”) has chosen to provide additional information relating to Aquila’s efforts to come into full compliance with the regulations. The additional information includes a description of the activities undertaken by Aquila to assure compliance (Section 2).

## **2. Compliance Activities Through December 31, 2007**

Since the regulations became effective on February 29, 2000, Aquila has engaged in several activities designed to strengthen or enhance compliance efforts. Aquila has recognized the importance of this process by identifying a primary person to coordinate activities and ensure compliance with the rules in all jurisdictions. Affiliate rule compliance was added to Aquila’s Code of Business Conduct, an essential guideline for all employee behavior. Senior

management and the Board of Directors approved this addition and the Code of Business Conduct is included at Tab 2.

Aquila recognizes that it was among the first Missouri utilities to attempt to comply with the Affiliate rules. Aquila is willing to implement Staff and OPC suggestions wherever possible. It is Aquila's view that this is a dynamic process, encompassing several years, to reach full compliance. As a result, Aquila fully expects to receive comments and recommendations as well as continue discussions regarding compliance with these regulations.

Since January 1<sup>st</sup> 2001, Aquila's Regulatory Services group has periodically held informational meetings to comply with the education requirement in the rules (4 CSR 240-20.015 (9)). In cooperation with Aquila's Human Resource department the Regulatory Service department has created an on-line Affiliate Rules training module. All employees took the required training in 2005. These processes have exposed all Aquila employees to the Affiliate Rules.

The Aquila Corporate Cost Allocation Manual ("CCAM" or "CAM") was reviewed for compliance with the definition of Fully Distributed Cost ("FDC") at 4 CSR 240-20.015 (1) (F). Aquila believes that the allocation process currently in use meets this definition. When employees transfer labor costs to another unit, the Company's accounting system automatically adds employee benefit loadings. The Missouri rules require, to the extent possible, a transaction-based transfer of identifiable support costs. The Aquila accounting process is as close to a transaction based system as is reasonably possible at this time. The CAM has been included at Tab 3, the 2007 Corporate Allocations Change Control Log at Tab 4, 2007 Summary of Direct Charges at Tab 5 and 2007 Overhead Allocations at Tab 6.

Included, as Tab 8 is the current Aquila Policy and Procedure Manual for Affiliate Rules. Aquila considers this to be a dynamic document reflecting improvements and changes to the affiliate transaction processes as they occur.

### **3. Provision of Required Information**

The Affiliate Transaction rules establish a number of compliance standards and record keeping requirements. However, there is only one specific reporting requirement for electric and gas corporations. The electric requirement is stated here. The gas requirement is essentially the same.

**4 CSR 240-20.015 (4) (B)** Each regulated electrical corporation shall maintain the following information in a mutually agreed-to electronic format (i.e.,

agreement between the staff, Office of the Public Counsel and the regulated electrical corporation) regarding affiliate transactions on a calendar year basis and shall provide such information to the commission staff and the Office of the Public Counsel on, or before, March 15 of the succeeding year:

1. A full and complete list of all affiliated entities as defined by this rule;
2. A full and complete list of all goods and services provided to or received from affiliated entities;
3. A full and complete list of all contracts entered with affiliated entities;
4. A full and complete list of all affiliate transactions undertaken with affiliated entities without a written contract together with a brief explanation of why there was no contract;
5. The amount of all affiliate transactions by affiliated entity and account charged; and
6. The basis used (e.g., fair market price, FDC, etc.) to record each type of affiliate transaction.

Aquila continues to make every effort to comply with the above reporting requirements. The extent to which each requirement has been met is discussed below.

**4 CSR 240-20.015 (4) (B) (1) A full and complete list of all affiliated entities as defined by this rule** Aquila's Business Units and Divisions are identified in the front of the Cost Allocation Manual located at Tab 3 and the list of Aquila subsidiaries are included in the Policy and Procedure Manual for Affiliate Rules located at Tab 8.

**4 CSR 240-20.015 (4) (B) (2) A full and complete list of all goods and services provided to or received from affiliated entities** Under the processes and procedures currently in effect at Aquila, it was not practical to obtain complete information about the goods and services transferring between affiliated entities. However, it was possible to identify affiliate transactions as follows:

- a. Transactions between regulated source business units and regulated charge-to business units were excluded because activities between regulated units are not considered to be affiliate transactions.
- b. Similarly, transactions between non-regulated source business units and non-regulated charge-to business units were also excluded.

- c. All transactions where a corporate Enterprise Support Function ("ESF") is the source or charge-to department were excluded. The rules provide an exemption for corporate support activities. For purposes of the 2007 filing, all corporate level ESF charges to/from affiliates have been treated as exempt.
- d. Approximately 238 transactions involve cost transfers between regulated and non-regulated business units. These transactions are reportable affiliate transactions under the Missouri rule and are included at Tab 7, Aquila Inc. 2007 Affiliate Transactions – Direct Charges. This report shows the Source Business Unit, the Charge-to Business Unit, Department ID, Charge Department, Resource, Amount, Date, Journal and Description. The most frequent types of transfers for the year 2007 were:

<u>Source Bus. Unit</u>	<u>Charge To Bus. Unit</u>	<u>Number of Transactions</u>
AQLCP	AEC	171
AQLCP	MEP	12

- e. In addition to these activities, Aquila has some non-regulated activity within Aquila Networks (the distribution utility business unit) that could be considered affiliate activity under the Missouri rules. In 2007 these activities generated approximately 125,000 reportable affiliate transactions under the Missouri rules. These transactions are related to activity in states other than Missouri and are primarily activity such as Service Guard. While the transaction detail listing for these activities is not included with this report, the file is available upon request.
- f. A third group of affiliate transactions involves affiliates that are not incorporated into Aquila's accounting system. These activities would include all subsidiaries or entities in which Aquila owns or controls more than 10 percent of the voting power of that entity. An example of these entities would include Everest. The current system is not capable of specifically identifying these transactions. Identification of the number or value of these transactions requires time intensive, manual data collection. In 2007 there were no material transactions in this group.

**4 CSR 240-20.015 (4) (B) (3) A full and complete list of all contracts entered with affiliated entities** This information continues to be unavailable.

The transactions between regulated and nonregulated units identified to date have generally been occurring for a long time, years in most cases. These transactions were initiated long before the affiliate rules were contemplated and no written agreements or contracts were created. The Aquila Regulatory Service group has worked with the Procurement Department to find possible solutions for this situation. Identifying new affiliate transactions (ones initiated after February 29, 2000) currently requires a manual review of all transactions. Current policies and procedures require the creation of written agreements or contracts for new transactions.

**4 CSR 240-20.015 (4) (B) (4) A full and complete list of all affiliate transactions undertaken with affiliated entities without a written contract together with a brief explanation of why there was no contract** Such a list would essentially consist of a majority of all transactions for the reasons discussed in (3) above.

**4 CSR 240-20.015 (4) (B) (5) The amount of all affiliate transactions by affiliated entity and account charged** The transaction detail is contained in the transaction listing as Tab 7.

**4 CSR 240-20.015 (4) (B) (6) The basis used (e.g., fair market price, FDC, etc.) to record each type of affiliate transaction** Currently, nearly all transactions are recorded at FDC. Procedures for determining market price have not been developed. One possible solution is the use of benchmarking practices within the cost allocation process. If included in a Commission approved CAM, benchmarking can constitute compliance with market value requirements (4 CSR 240-20.015 (3) (D)).

# **CODE OF BUSINESS CONDUCT**

*for  
Aquila, Inc.*

# **Code of Business Conduct**

Dear Fellow Employee:

Aquila Values identify valued behaviors that should be demonstrated in the workplace. The “integrity” value captures the need for employees to act responsibly and ethically.

While a Code of Business Conduct is clearly established in part to protect Aquila from liability resulting from inappropriate behavior, that is only part of the story. By acting with integrity and ethically we are also creating “reputational capital.” Our reputation benefits all aspects of our business, similar to more tangible assets such as financial capital or plant and equipment.

Maintaining our reputation includes adhering to the Code of Business Conduct. By following the Code, we can help make Aquila a good place for our employees to work, a good provider of products and services for our customers, a good investment for our stockholders and a good citizen in our communities.

This Code of Business Conduct provides essential guidelines to help you understand your responsibilities, including your obligation to comply with the law and to advise management if you’re concerned that any aspect of the code or law has been or may be violated. This Code of Business Conduct is one more tool to help us maintain our core values, our integrity and, ultimately, our reputation.

Rick Green  
Chairman and Chief Executive Officer

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## **How to Obtain Guidance on a Compliance Issue or to Report a Concern**

Each manager and supervisor is responsible for ensuring that their employees know, understand and comply with Company policies, the Code and all applicable laws and regulations. Several of the policies contain procedures for obtaining guidance or reporting a concern. If there is no procedure in the policy, or you do not believe you can follow the procedure outlined in a policy, please proceed as follows:

You should obtain guidance from, or promptly report your concern to, your supervisor. Should you feel uncomfortable discussing it with your supervisor, you should bring the matter to the attention of your Department Head, your Human Resources representative, Corporate Human Resources, Corporate Compliance, or the Office of the General Counsel. Following are numbers to obtain guidance or report a concern, if you believe it is inappropriate to contact your supervisor, Department Head, or your Human Resources representative directly:

Aquila Helpline – (800) 789-9181 (also available online at [www.aquila.com/contact/](http://www.aquila.com/contact/); select “Security/Corporate Compliance”)

Corporate Human Resources – (816) 467-3901

Corporate Compliance – (816) 467-3530

Office of the General Counsel – (816) 467-3036

To the extent practical Aquila will protect the anonymity of any employee who reports suspected misconduct. It is the Company’s policy that every employee who acts in good faith in reporting possible violations will be free from reprisal, retribution or negative consequences in their employment as a result of such reporting. In the event of a resulting internal investigation, you will be informed of its outcome as soon as is practicable under the circumstances.

Violation of Aquila’s Code of Business Conduct may result in disciplinary action, including but not limited to, warning, suspension or termination of employment. Violations may include non-compliance with Aquila policies, lack of supervision or diligence in enforcing Company policies, providing false or misleading information, as well as any retaliatory actions, direct or indirect, against an employee who reports a reasonably suspected violation of this Code of Business Conduct or other misconduct.

## **Introduction to the Aquila Code of Business Conduct**

This Code of Business Conduct does not provide an answer to all questions, or spell out the appropriate reaction for every situation which may arise; it is only a general guide by which we expect employees to conduct business on behalf of Aquila. You may need to refer to other policies or procedures for further guidance on appropriate action. When the proper course of action is unclear, or if you are uncertain about an action's propriety, you should consult with your supervisor. The Aquila Business Conduct Compliance Committee has the responsibility to provide corporate oversight to an overall program implementing this policy.

Employees are required to read, understand and follow the Code of Business Conduct. Aquila will maintain a record that the Code was provided to you. You may be asked periodically to affirm your understanding of Aquila's policies, including updated versions of policies.

A copy of this Code and future revisions will be made available to all current employees and newly hired employees. The policies are subject to continual modification to reflect our changing needs and the changing environment in which we operate.

## Quick Reference of Policies

General	In general, the Code prohibits unlawful, unethical and inappropriate behavior. The Code applies to employees of the Company.
Antitrust, Securities and Other Laws	Employees must comply with all laws and regulations, including all antitrust and securities laws. No employee may retaliate against another for reporting criminal activity.
Insider Trading	Employees must strictly adhere to the prohibitions against insider trading and must not disclose “inside information” to other persons.
Regulation FD Compliance	Employees who communicate regularly on the Company’s behalf with the investment community and senior officials must comply with the SEC’s Regulation FD which requires a public disclosure of any “material” information that has been disclosed to any person in the investment community.
Conflicts of Interest	Employees and their close relatives must avoid taking any action that creates, or appears to create, a conflict between their own interests and the interests of the Company. The Company discourages full-time employees from “moonlighting” and prohibits employees from performing services as independent contractors for any of the Company’s customers, suppliers or competitors.
No Executive Loans	Aquila may not make or arrange loans to its executive officers or directors.
Confidential Information	Employees must refrain from disclosing certain business information, market sensitive data, or any other proprietary information without appropriate management approval.
Equal Employment Opportunity	It is the Company’s policy to affirmatively recruit, retain, and promote employees without regard to age, sex, color, race, creed, national origin, religious persuasion, marital status, sexual orientation, political belief, disability, veteran or draft status. No form of discrimination will be tolerated.

Harassment-Free Work Environment	No form of harassment will be tolerated.
Employee Privacy	It is the Company's policy to respect the privacy of all employees. However, employees shall have no expectation of privacy in their use of business tools or in their work spaces or property on Company premises.
Fraud, Theft, Payments, Kickbacks or Similar Conduct	Employees may not engage in any scheme to defraud any person out of money, property, or honest services, including by theft, fraud or embezzlement. The receipt of fees, loans, or other payments resulting from transactions involving the Company or its subsidiaries and affiliates is strictly prohibited. No employee will provide or accept kickbacks, including those in the form of currency, services, other assets or reductions of personal debts.
Cooperation with Independent Auditors	Employees may not intentionally mislead the Company's independent public accountants in connection with their audit of the Company's financial statements.
Obstruction of Government Investigations	It is illegal to destroy or conceal documents, records, or other information with the intent of impairing the integrity or availability of the information for use in a government investigation.
Foreign Transactions	Employees must comply with the Foreign Corrupt Practices Act. By doing so, they may not pay money or anything of value to foreign government officials, parties or political candidates for the purpose of influencing the acts or decisions of such officials in order to obtain business or obtain any improper advantage. All employees must keep accurate and truthful records reflecting payments and transactions for all foreign and domestic business activities. Employees may not cooperate in any way with boycotts between foreign countries not sanctioned by the United States.
Safeguarding Company Assets	Employees may not use, spend, or dispose of Company property (including funds) for personal use or benefit, or in a manner or for a cause that is unethical or illegal. All financial reports must be truthful, accurate and reliable.

Use of Computer Resources, Including Software Acquisition, Protection and Distribution	The employees of any operating unit or support function that internally develops or purchases software must ensure that appropriate intellectual property rights (e.g., copyrights and patents) are obtained and secured. Such software is property licensed or owned by the Company and must be protected.
Drug-Free Workplace	The Company prohibits the unlawful possession, manufacture, use, or distribution of controlled substances in the workplace or at any place where an employee could be construed to be a representative of the Company or one of its subsidiaries or affiliates.
Responding to Inquiries from the Press and Others	Employees should refer all inquiries from the media to Corporate Communications, (816) 467-3000. Employees should refer inquiries from shareholders and the financial community to Investor Relations.
Environment, Health and Safety	It is the Company's policy to comply with all environmental, health and safety laws and regulations. Employees should be environmentally aware and sensitive and are required to report any non-compliance with environmental laws or regulations. Employees should report all accidents, injuries, occupational illnesses and unsafe conditions or practices.
Political Activity	The Company shall comply with all election and campaign funding laws, requirements and prohibitions. Under no circumstances may any funds or property of the Company be used, directly or indirectly, to support or assist the candidacy of any person seeking elected office, unless approved in advance in accordance with legal requirements.

Regulation of Business Relations among Affiliates	Under Federal Energy Regulatory Commission (FERC) and state commission rules, there are rules and statutes limiting transactions and information sharing between various parts of our business (commonly referred to as affiliate rules). It is expected that all employees understand and comply with affiliate rules. Any questions on the affiliate rule requirements, or conduct necessary to comply with the rules, should be referred to your liaison in the Regulatory Services department, the Office of General Counsel, or the Corporate Compliance Officer.
Discipline and Reporting	Non-compliance with the Code may result in discipline, including warnings, suspensions or termination of employment. Employees are expected to report violations of the Code for investigation and appropriate action.
Business Conduct Compliance Committee	The Business Conduct Compliance Committee will monitor (directly or through a compliance officer) reports of alleged wrongdoing, conduct investigations as appropriate, implement and make appropriate modifications to the Code, and report to the Audit Committee on a regular basis.
No provision of this Code of Business Conduct may be waived for any executive officer or director of Aquila.	

## **Antitrust, Securities and Other Laws**

It is our policy to compete vigorously, aggressively and fairly, in accordance with applicable laws and regulations. You are expected to generally understand the laws and regulations that apply to your job and to act in accordance with them.

Antitrust law can be very complex. In general, we are to compete without any anticompetitive understandings or agreements with our competitors, suppliers, dealers and/or customers. Actions that may violate the antitrust laws include:

- Suggesting a product or commodity must be resold at or within any particular price or range;
- Limiting where, to or by whom something can be sold or marketed;
- Providing different information about a request for quotation/proposal to competing bidders;
- Entering into an exclusive dealing arrangement or understanding;
- Participating in actions by any trade association or other industry group regarding membership restrictions, data collection or sharing of information about prices, pricing policies, marketing expansion, cut-back plans, costs, earnings, credit or billing practices, business practices of competitors, customers or suppliers; or desired governmental actions. If you are present at a meeting or informal gathering when these discussions start, leave and report the incident.

### **Other Considerations:**

- You should avoid discussions or agreements with competitors (even informal ones) regarding prices, terms or conditions of sales, credit or billing practices, costs, profits (or profit margins), market shares, bids, requests for proposals, intent to bid (or not to bid) for a particular customer's business, intent to do business (or not) with particular suppliers or territories, or plans to build or expand existing capacity;
- You should maintain our independence of judgment in the pricing, marketing, purchasing and selling of all products and services. Avoid inaccurate or misleading statements about competitors, suppliers, customers or their offerings. We succeed by offering competitively priced, quality products and services, not by attempting to prevent anyone from entering a market, or by disparaging any competitor, supplier or customer or trying to "put them out of business."
- Our purchasing decisions are based on fair and objective criteria, not on whether a supplier agrees to use our goods and services. Do not suggest to suppliers that purchasing decisions depend on the supplier's use of our goods or services or that failing to do business with a subsidiary or affiliate could jeopardize business with the parent company.
- You should report illegal activity and unethical conduct. Neither Aquila nor any of its employees may retaliate against any person for providing information, reasonably believed to be truthful, to any law enforcement officer relating to the commission or possible commission of a crime.

## **Insider Trading**

In the course of your duties, you may become privy to “inside information” within the meanings of state or federal laws. This means material, non-public information that might have an effect on our stock price if the information were publicly known. You should also be aware that the same prohibition against insider trading applies to trading in the stock of our customers, suppliers or any other company if you have inside information about them. Employees are strictly prohibited from providing inside information to other persons as this information might influence their trading activities or financial transactions.

Examples of such “inside information” may include: expansion plans, major management changes, future dividend rates, current or future earnings projections, new contracts or projects, mergers, acquisitions or divestitures or other such material matters.

You are also prohibited from trading in put options or in short selling or in any other trade which would gain from a decrease in our stock price.

It is your responsibility to understand laws and policies that may apply to you. Further information on blackout periods, pre-clearance and other matters related to insider trading may be obtained through the Office of the General Counsel or Investor Relations.

## **Regulation FD Compliance**

It is federal law and, accordingly, our policy that Aquila, all senior officials and all employees who regularly communicate on the Company’s behalf with the investment community comply with Regulation FD adopted by the U.S. Securities and Exchange Commission. Regulation FD generally provides that when the Company or any person acting on its behalf discloses “material” non-public information to the holders of Aquila securities, broker-dealers, investment advisers, investment managers, investment companies, hedge funds, investors, industry analysts and the affiliates of any of these, the Company is required to make a public disclosure of the same information. In order to ensure compliance with Regulation FD, you should review carefully and adhere to the terms of the Aquila “Disclosure Policy”.



## Conflicts of Interest

You may not engage in any activity, or become involved in any arrangement, directly or indirectly, which will conflict, or may be reasonably viewed as conflicting, with your responsibilities to Aquila. This includes the use of Aquila's name, information or goodwill for your personal gain or that of others. A conflict of interest may arise from your involvement, or another person acting on your behalf, in certain business or personal activities that may currently, or potentially conflict with your duties at Aquila.

A conflict may exist regardless of your intent. If you believe that you are, or may become, involved in a conflict of interest, you should address the issue promptly.

To avoid such situations, employees must:

- Select and deal with suppliers, customers and other persons doing or seeking to do business with Aquila in a completely fair and objective manner without favor or preference based upon personal financial considerations.
- Not engage in any direct financial, managerial or other relationship with any supplier, customer, competitor or regulatory agency that could give rise to an actual or potential conflict of interest or an appearance of a conflict of interest.
- Not engage, directly or indirectly, in any association or activity (whether for profit or not) that might impair or appear to impair the ability to make objective and fair decisions on behalf of Aquila, or that might not otherwise be in the best interest of Aquila. This includes, for example, directly or indirectly engaging in competitive activities, diverting a business opportunity from Aquila, or improperly using or disclosing Confidential Information.
- Not accept from or give to any supplier, customer or competitor any gift or entertainment except as permitted under the section entitled "Gifts and Gratuities."
- Not do business with a close relative or business entity with which the employee or a relative is associated, except where such dealings are on arm's-length terms, have been fully disclosed to the Corporate Secretary, and have been given specific written approval.
- Not directly or indirectly own a substantial financial interest in any firm or corporation which is a competitor of or which does or seeks to do business with Aquila. (Stock ownership of less than 1% in companies traded on a national securities exchange is not considered to be a conflict of interest, nor is any other ownership if it is less than 5% of the employee's total assets or 10% of his or her net worth.)

You must not directly or indirectly deprive Aquila of a business opportunity discovered in the normal course of performing your duties, including diversion of a business opportunity to your own or someone else's account.

Employees who choose to work at another job must not allow that employment to have any negative impact on their performance at Aquila.

Additionally, under no circumstances may you perform the service of an independent contractor or consultant for any competitor, customer or supplier of Aquila.

Furthermore, you must not engage in any supplementary employment or activities that could cause embarrassment to, jeopardize the interest of, use proprietary information of, or interfere with the operations of Aquila.

Disclosure must be made of all investments, including the ownership of stock traded on the national securities exchanges, which may be reasonably construed to create an actual or apparent conflict of interest. A conflict of interest disclosure form must be completed and returned to Human Resources at commencement of employment, annually if you previously disclosed a conflict of interest, or if you have reason to believe your actual or proposed activity may violate this policy.

## **Confidential Information**

You must not disclose trade secrets, customer lists, special methods of operation or any other information that is of value to our business.

Confidential Information is generally business or technical information not generally available to the employee population as a whole or to third parties, and which may have been developed or specifically acquired by Aquila. It includes “market sensitive” material which could affect the decisions of current shareholders or potential investors. Information from employee personnel records or customer records is also confidential and protected by various privacy laws. Such information should only be provided with appropriate management approval.

## **No Loans to Executives**

Federal law prohibits Aquila from making or arranging loans to its executive officers or directors. Because a loan is broadly defined to include any extension to credit, unusual transactions between directors and executive officers should be carefully examined. For example, borrowing under the 401(k) plan or an advance against the equity value of a home in connection with a relocation could be considered loans made by Aquila. If you have a question about whether a transaction might be a prohibited loan, you should consult with the Business Conduct Compliance Committee before arranging the transaction.

## **Equal Employment Opportunity**

We value the diversity found in our employees, customers, suppliers and others. All employees are expected to conduct themselves in a manner that assures that customers, suppliers and fellow employees are treated with respect, fairness and dignity. Aquila will take good faith action to affirmatively recruit, hire, train, evaluate, promote, assign, transfer, layoff, recall or terminate qualified individuals without respect to age, sex, color, race, creed, national origin, religious persuasion, marital status, sexual orientation, political belief, disability, veteran or draft status, or other status protected by applicable

law.

## **Harassment-Free Work Environment**

We are strongly committed to the principle of fair employment, and as such it is our policy to provide employees a work environment that is free from all forms of discrimination, intimidation or harassment. In recognition of each person's individual dignity, racial, ethnic, religious, sexual and other prohibited harassment of our employees will not be tolerated. This includes inappropriate verbal or physical conduct or otherwise creating an intimidating, offensive abusive or hostile work environment. If you have a question, concern or complaint of discrimination, including harassment, based on race, color, sex, religion, age, national origin, handicap or disability, veteran status, or other protected status, you are encouraged to bring the matter to the immediate attention of your supervisor. If you feel uncomfortable discussing an issue with your supervisor, or if you reasonably believe that your supervisor should not be present during the first step of the resolution process, or that you cannot bring the matter to the attention of your supervisor or Department Head directly, contact your Human Resources representative or Corporate Human Resources directly for assistance. Refer to Aquila's Harassment-Free Work Environment Policy for further information.

## **Employee Privacy**

We try to respect each other's privacy. At the same time, we need to ensure an efficient work environment.

Employees have no expectation that communications using Aquila business tools are private in the workplace. We reserve the right to review your business tool usage, including without limitation voice mail, telephone, internet or e-mail, for any reason. Employees should be aware that there might be time when Aquila may search employee work spaces or property on Aquila premises.

## **Fraud, Theft, Payments, Kickbacks or Similar Conduct**

Our employees may not engage in any scheme to defraud anyone out of money, property or honest services. Any act of an employee that directly or indirectly involves theft, fraud, embezzlement, misappropriation or wrongful conversion of any property, including that of Aquila or any of its employees, suppliers or customers, is expressly prohibited. No employee shall make any false written or verbal statement involving any Aquila business or activity.

You may NOT accept personal commissions, fees, loans or any other form of payment arising from any transaction or business activity directly or indirectly involving Aquila. No employee will accept, provide, attempt to provide, or offer to provide a kickback to anyone for any reason.

These "payments" or "kickbacks" may include, but may not be limited to: money; fees; commissions; loans; gratuities; lavish trips, entertainment, recreation, personal services, accommodations; or any other form of value.

## **Cooperation with Independent Auditors**

Aquila's management is responsible for the accuracy and completeness of Aquila's financial statements. Aquila and the investing public rely upon the skill and integrity of Aquila's management and also on the report provided by our independent auditor on these financial statements. Companies that do not provide accurate and complete financial information are often the subject of lawsuits, substantial stock price declines and criminal probes.

The independent auditor's report is dependant upon a thorough understanding of Aquila's financial reporting system and the information generated by it as well as the judgments and assumptions of our management. This understanding is developed in part from discussions with our employees and management. Accordingly, it is critical that our independent auditors receive complete and truthful information and otherwise the full cooperation of our employees. Aquila insists that those employees who provide information to Aquila's independent auditors do so in a way that is accurate and complete. Federal law makes it a crime for individuals to take any action designed to mislead or coerce the Company's independent accountants for the purpose of making the Company's financial statements materially misleading.

## **Obstruction of Government Investigations**

Aquila's record retention policy provides guidance concerning the period of time during which certain information must be maintained before it can be destroyed. Most information obtained or created during the course of normal work can and should be destroyed if it no longer serves a business purpose. Certain other information is required to be maintained for a fixed period of time by regulatory agencies or for other reasons outlined in Aquila's records retention policy. Federal law makes it a crime for individuals to conceal or destroy documents if it is done in with the intent of impeding a federal investigation or in contemplation that there may be a federal investigation. There are similar laws in many states. Accordingly, if a government investigation is initiated or contemplated, all documents relevant to the subject matter of the investigation must be preserved.

## **Foreign Transactions**

We are committed to ethical business practices both at home and abroad. If you conduct business for Aquila outside of the United States, you are expected to comply with all applicable laws and regulations governing such transactions.

The Foreign Corrupt Practices Act makes it a crime to directly or indirectly offer, promise to pay or pay money or anything of value to foreign government officials, parties or political candidates for the purpose of influencing the acts or decisions of such officials in order to obtain business or obtain any improper advantage. All Aquila officers, employees and agents must keep accurate and truthful records reflecting payments and transactions for all foreign and domestic business activities.

Various federal laws govern trade between the United States and foreign countries and prohibit U.S. companies and their foreign subsidiaries from doing business with certain countries, agencies and individuals. Similar export control restrictions limit the export of certain goods,

technology and software to certain countries or individuals. As these laws and regulations vary by country and type of goods, employees engaged in business transactions outside of the U.S. should obtain advice prior to engaging in such activities.

It is illegal and against Company policy for Aquila employees to cooperate in any way with boycotts between foreign countries not sanctioned by the United States. Any written or oral requests for boycott support or boycott-related information should be immediately reported.

## **Gifts and Gratuities**

Gifts and other forms of special benefits to or from customers, suppliers or competitors, of Aquila can raise ethical and legal questions that could potentially embarrass or damage Aquila. Therefore, caution is required when dealing with such matters. It is your responsibility to ensure that your acceptance of meals, refreshments or entertainment is proper and could not reasonably be construed in any way as an attempt to secure favorable treatment from you. No gifts of money should ever be accepted. If you question the appropriateness of a gift, contact your Human Resources representative, Corporate Compliance, or the Office of the General Counsel immediately as to the existence, nature and value of the gift. As a general guideline, employees should consult with such persons before accepting gifts which exceed \$50 in value. Employees are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information or position; (b) using corporate property, information, or position for personal gain; and (c) competing with the company.

## **Safeguarding Company Assets**

Aquila is strictly accountable for any funds and property entrusted to its care. You are not to use, spend or dispose of Company funds, or property for personal use or benefit, or in a manner or for a cause that is unethical or illegal.

You are responsible for maintaining written records and expense reports in sufficient detail to completely, accurately and fairly reflect all transactions and expenditures made on behalf of Aquila. These documents must be prepared on a timely basis. The falsification of any such documents with inaccurate or misleading data is prohibited. Furthermore, you must accurately track and segregate any personal expenses that may be commingled with business expenses. This includes segregating personal phone charges incurred via office or cellular telephones, or Aquila-sponsored credit cards.

## **Use of Computer Resources, Including Software Acquisition, Protection and Distribution**

Software, whether purchased or internally developed, and the intellectual property rights represented by software are valuable Aquila assets and must be protected and managed in compliance with all software licensing requirements, restrictions and laws. Such licensing agreements may prohibit copying or distributing such software for Company or personal use.

Use of the business tools, including without limitation the Internet, intranet or e-mail shall be generally limited to business purposes. Any use should not interfere with work duties or violate Company policies, including policies relating to gambling, pornography, chain letters and solicitation.

## **Drug-Free Workplace**

**Note: For purposes of this policy, “controlled substance” means any drug that is not legally obtainable, or for a drug that is legally obtainable over-the-counter or by prescription, a drug that is not used for the purpose for which it was intended or is being used in excessive dosages. For additional information, refer to Aquila Drug and Alcohol Policies, copies of which may be obtained from Human Resources.**

It is our policy to prohibit the unauthorized use, possession, dispensation, distribution or manufacture of a controlled substance or alcohol in any Aquila facility, including parking lots, vehicles on our premises or in use for our business, or any customer or supplier’s facilities. Performing or attempting to perform any Company business, whether on our premises or not, while under the influence of any controlled substance or alcohol is also prohibited, and may result in disciplinary action, up to and including termination.

## **Responding to Inquiries from the Press and Others**

We have established policies for responding to inquiries from the press and from others legitimately seeking information about us. It is important that employees not attempt to answer such inquiries unless authorized to do so. Overall, our intention is to maintain a spirit of cooperation while always acting in Aquila’s best interest and in accordance with applicable law. Therefore, all inquiries from the media should be directed to Corporate Communications, (816) 467-3000. Additional details are available in the Corporate Communications Policy.

Questions from shareholders and the financial community should be forwarded to Aquila’s Investor Relations group. Any legal inquiries should be directed to the Office of the General Counsel.

## **Environment, Health and Safety**

It is our policy to manage our business in an environmentally responsible manner and to comply with all environmental laws and regulations. You are required to maintain an environmental awareness concerning the activities you perform and to conduct those activities in a manner that fully complies with all environmental rules and regulations. You are further required to

immediately report to your supervisor or the Aquila Environmental Services Department any event you witness which may result in noncompliance of any environmental law or regulation.

It is also our policy to provide a safe and healthy environment for our employees and visitors to its premises. To this end you are expected to conduct operations in a manner that meets applicable health and safety laws and regulations. Weapons of any type are not permitted on Aquila property, or while an employee is engaged in activities on behalf of the Company. All requests for exceptions to this rule must be based on a valid Aquila business need and with the prior written approval of Aquila's Director of Corporate Security. Additionally, you are required to immediately report any and all accidents, injuries, occupational illness, unsafe conditions or practices to your supervisor.

## **Political Activity**

Participation in the American political system is the right of every individual. We encourage our employees, as responsible citizens, to support candidates and ballot measures of their choice at all levels of government. The policies outlined below are not intended to discourage employees from individual political activity during their off-duty hours. Additionally, certain Aquila employees may lawfully participate in legislative, lobbying or similar activities on behalf of Aquila as part of their on-duty responsibilities.

State and federal laws generally prohibit corporations from participating in elections. Under no circumstances may any funds or property of Aquila be used, directly or indirectly, to support or assist the candidacy of any person seeking elective office, unless approved in advance in accordance with legal requirements. To avoid any appearance of Aquila making a direct or indirect corporate contribution to a candidate, an employee may not work on behalf of a federal candidate's campaign during regular business hours, or at any time use Aquila's facilities or property for that purpose. Aquila has organized political action committees that it operates on behalf of itself and its subsidiaries for which Aquila may provide certain administrative support in accordance with legal requirements.

Under limited circumstances some states permit corporations to make contributions to candidates, political parties and ballot issues; however, such contributions are limited and strictly controlled. If made at all by Aquila, such contributions will only be made by authorization of the Aquila CEO.

## **Regulation of Business Relations Among Affiliates**

Under Federal Energy Regulatory Commission (FERC) and state commission rules, there are rules and statutes limiting transactions and information sharing between various parts of our businesses (commonly referred to as affiliate rules). It is expected that all employees understand and comply with affiliate rules. If you have any questions on the affiliate rule requirements, or conduct necessary to comply with the rules, please contact your liaison in the Regulatory Services department, the Office of General Counsel, or the Corporate Compliance Officer.

## **Other Policies and Procedures Information**

In certain cases, your position and responsibilities may require further guidance in certain areas of expected conduct. Accordingly, you may need to consult additional sources containing policies and procedures, such as through the Intranet (WOW), the Office of the General Counsel, Human Resources, or the responsible department or business unit. Examples include:

### **Human Resources Policies**

### **FERC Standards of Conduct**

### **Employee Complaint Procedures for Accounting and Auditing Matters**

### **Employee Guidance, Reporting, Suggestion Procedure**

### **Antitrust Compliance Policy and Guidelines**

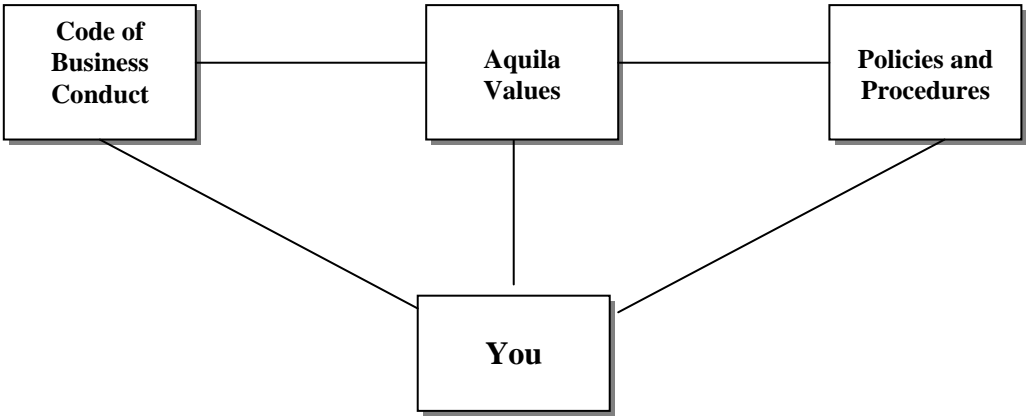
## **Business Conduct Compliance Committee**

The Aquila Board of Directors has approved and directed the establishment of a Business Conduct Compliance Committee reporting to the Audit Committee of the Board. The Business Conduct Compliance Committee consists of employees selected by the CEO and/or the President with the approval of the Audit Committee. The mission of the Committee is to implement and supervise the Code of Business Conduct throughout Aquila. In implementing its mission, the Committee will:

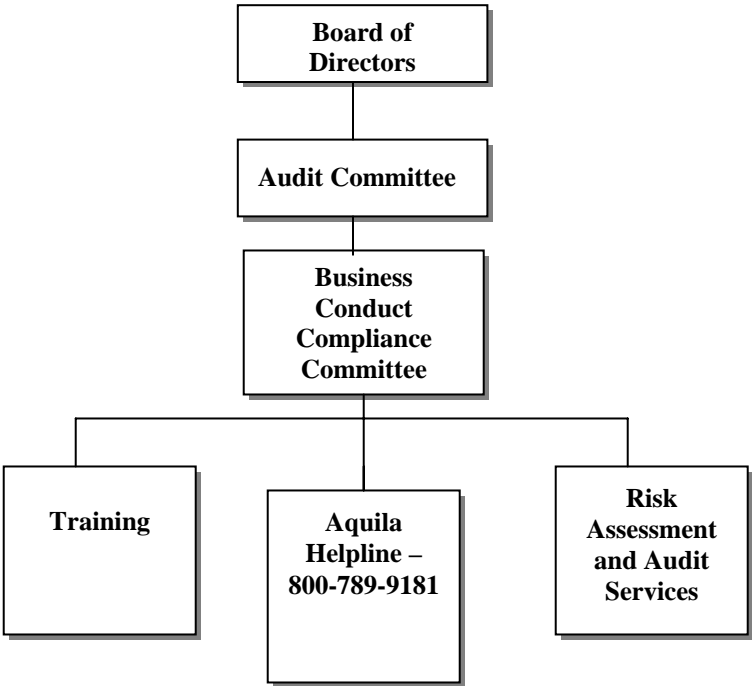
- Report to the Audit Committee of the Board of Directors as necessary or requested;
- Audit compliance with the Code;
- Deal with legal counsel and others in investigating suspected violations of the Code or law;
- Report violations to appropriate governmental authorities;
- Establish and monitor programs to train employees about the Code and other compliance and ethics issues;
- Deal with issues submitted to it; and
- Oversee the updating and supplementing of the Code of Business Conduct.



**Sources of Expected Conduct**



**Aquila Compliance Program Organizational Chart**



**2007**

**MISSOURI**

**COST ALLOCATION**

**MANUAL**

**DECEMBER 31, 2007**

## STATE OF MISSOURI

### **COST ALLOCATION MANUAL OUTLINE OF CONTENTS**

**DATE: 12/31/07  
PAGE 1**

<b>Section- Page</b>	<b>Section Title</b>
A-1	List of Regulated and Non-regulated Divisions
B-1	List of Regulated and Non-regulated Affiliates
C-1 - C-3	Description of Regulated and Non-regulated Services offered in Missouri
D-1 – D-35	Accounts used to provide Common and Non-regulated Services
E-1	Summary of Cost Assignment
F-1 - F-20	Allocation Methodology
Appendix 1	Aquila Networks Structure Diagram
Appendix 2	Acronyms and Definitions

## STATE OF MISSOURI

### COST ALLOCATION MANUAL SUMMARY OF CHANGES

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PAGE 2

#### SUMMARY OF CHANGES

<u>Page</u>	<u>Section Title/Change (if no change, not listed)</u>
A-1	<u>Deleted:</u> Aquila Networks – WPK (f/n/a WestPlains Energy)
B-1 to B-2	Regulated and Non-Regulated Affiliated with Aquila, Inc.
Changes	<u>Added:</u> Aquila Colorado, LLC Aquila Colorado Electric Opco, LP Aquila Colorado Gas Opco, LP LoJamo, LLC Levasy Jagdverein, LLC <u>Changed:</u> None <u>Deleted:</u> Aquila Canada ULC Aquila Energy Capital Corporation Aquila Energy Europe Holdings B.V. Aquila Energy Limited Aquila Energy Resources Corporation Aquila Energy U.K. Holdings Limited Aquila Energy U.K., Inc. Aquila Equipment, LLC Aquila Mississippi Equipment LLC Aquila Mississippi Holdings, LLC Lee Power Partners, LLC MEP Clarksdale Power, LLC Mid-Continent Generation, Inc. MZ Partners PNG Pipeline Company UCS Holdings, LLC UtiliCorp Netherlands B.V.
F-1 – F-20	Updated the department listing and cost driver information for each Business Unit

## STATE OF MISSOURI

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### **COST ALLOCATION MANUAL SUMMARY OF CHANGES**

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**DATE: 12/31/07  
PAGE 3**

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- |            |  |
|------------|--|
| Appendix 1 | Business structure diagram shows the current Aquila organization after divesting all international networks units and all independent power plants |
| Appendix 2 | Updated acronyms used. Combined acronyms and definitions into one appendix section   |

**Regulated and Nonregulated Divisions within Aquila, Inc.:**

Aquila Networks – KGO (f/n/a Kansas Public Service and Peoples Natural Gas)  
Aquila Networks – MPS (f/n/a Missouri Public Service)  
Aquila Networks – PNG (f/n/a Peoples Natural Gas)  
Aquila Networks – L&P (f/n/a St. Joseph Light & Power)  
Aquila Networks – WPC (f/n/a WestPlains Energy)

**Regulated and Nonregulated Affiliated with Aquila, Inc.:**

Aquila Canada Corp.  
Aquila Canada Holdings, Inc.  
Aquila Colorado, LLC  
Aquila Colorado Electric Opco, LP  
Aquila Colorado Gas Opco, LP  
Aquila Energy (Bermuda) Ltd.  
Aquila Energy Re Ltd.  
Aquila Europe, Inc.  
Aquila Gas Pipeline Corporation  
Aquila Merchant Services, Inc.  
Aquila Networks Canada Corp.  
Aquila Piatt County Power L.L.C.  
Aquila Sterling Holdings, LLC  
Energia, Inc  
Everest Global Technologies Group, LLC  
Everest Holdings II, LLC

GB Hydro Partners  
Golden Bear Hydro Inc.  
Kansas Public Service Company  
LoJamo, LLC  
Levasy Jagdverein, LLC  
Mega Renewables (25% interest)  
Missouri Public Service Company, Inc.  
MPS Caring for Kids, Inc.  
MZ Partners Nebraska  
Natural/Peoples Limited Liability Company  
One Page Thinking LLC  
SJLP Inc.  
Trans UCU, Inc.  
UCU Finance Corp.  
UtilCo Group Inc.  
UtiliCorp N. Z. Limited  
WestPlains Energy Inc.

**Regulated Services Offered by Aquila Networks – MPS and L&P:**

**Electric Sales and Transportation** - The interstate transmission of electricity (FERC) and the sale of electricity to both the end-use customer in Missouri (Retail) and to other entities for resale in interstate commerce (FERC).

**Types of Costs:**

Advertising	Membership Fees & Dues
Amortization	Outside Services
Bank & Finance Charges	Parts & Materials
Bonuses, Commissions, & Awards	Payroll
Computer Hardware & Software	Postage
Contributions	Printing
Conversion Costs	Rent & Leases (i.e. data comm., build., equip. rental)
Depreciation	Sales Promotion
Employee Expenses	Security
Extraordinary Deductions	Small Tools
Human Resources Exp (i.e. benefits, emp. recruitment)	Supplies & Expenses
Insurance	Taxes (i.e.. payroll, property)
Interest Expense	Transportation/Vehicle Expense
Janitorial Service	Uncollectible Accts/Outside Collections
Mail Delivery	Uniforms & Safety Equipment
Maintenance (i.e. Office Equipment/Building)	Utility Expenses (i.e. telephone, gas)

**Advertised/Marketed:**

Marketed and advertised through bill inserts, occasional advertising newspaper, radio, or television, event marketing (Home Shows etc.), Internet, and direct customer contact.

**Serviced by:**

Service provided by Aquila Networks - MPS and L&P employee technicians and outside Subcontractors.

**Service Territory:**

All Aquila Networks - MPS and L&P electric service territories.



**Regulated Services Offered by Aquila Networks – MPS and L&P:**

**Customer Financing** - A heating and cooling equipment financing program for residential customers through a group of external authorized heating and cooling contractors.

**Types of Costs:**

Advertising	Payroll
Bank & Finance Charges	Postage
Bonuses, Commissions, & Awards	Printing
Computer Hardware & Software	Rent & Leases (i.e. data comm., build., equip. rental)
Employee Expenses	Security
Human Resources Exp (i.e. benefits, emp. recruitment)	Supplies & Expenses
Insurance	Taxes (i.e.. payroll, property)
Janitorial Service	Uncollectible Accts/Outside Collections
Membership Fees & Dues	Utility Expenses (i.e. telephone, gas)

**Marketed/Advertised:**

Marketed and Advertised through bill inserts and point of sales contact.

**Serviced by:**

Aquila Networks Customer Care Group.

**Service Territory:**

All Aquila Networks - MPS and L&P service territories.

**Non-Regulated Services Offered by Aquila Networks – MPS and L&P:**

**Surge Protection** – Meter-based surge protection for Missouri residential customers designed to eliminate power surges or spikes from entering the customer's home through the electric line.

**Types of Costs:**

Advertising	Payroll
Bank & Finance Charges	Postage
Bonuses, Commissions, & Awards	Printing
Computer Hardware & Software	Rent & Leases (i.e. data comm., build., equip. rental)
Employee Expenses	Security
Human Resources Exp (i.e. benefits, emp. recruitment)	Supplies & Expenses
Insurance	Taxes (i.e.. payroll, property)
Janitorial Service	Telemarketing
Membership Fees & Dues	Uncollectible Accts/Outside Collections
	Utility Expenses (i.e. telephone, gas)

**Marketed/Advertised:**

Marketed and Advertised through bill inserts, occasional advertising newspaper, occasional radio, direct mail, company Internet website, and direct customer contact.

**Serviced by:**

Service provided by Aquila Networks - MPS and L&P employee technicians.

**Service Territory:**

All Aquila Networks - MPS and L&P service territories.

# STATE OF MISSOURI

## COST ALLOCATION MANUAL

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PAGE D-1

### RESOURCE IDENTIFICATION:

The following are the asset, expense, and revenue categories used by Aquila, Inc. in providing non-regulated products and services. Further detail regarding these accounts is included on pages 2-35. FERC accounts are listed on each detail page.

### **ASSETS:**

<u>Page</u>		<u>Page</u>	
2	Accumulated Depreciation	7	Leasehold Improvements
2	Accumulated Provision (Uncollectible Acct	8	Mobile Radios
3	Buildings	8	Non-utility Pre-paid Insur
3	Cash	9	Office Furniture
4	Computer Equipment	9	Other Accounts Receivable
4	Computer Software	10	Other Pre-pays
5	Customer Accounts Receivable	10	Stores Expense Undistributed
5	Deferred Debits	11	Tools
6	Inventory Freight/Freight Clearing	11	Training Equipment
6	Investments	11	Vehicles
7	Land		

### **EXPENSES:**

<u>Page</u>		<u>Page</u>		<u>Page</u>	
12	Advertising	19	Interest Expense	27	Property Taxes
12	Amortization	20	Janitorial Service	27	Sales Allowances
13	Bank & Finance Charges	20	Leases	28	Sales Promotion
13	Benefits	21	Mail Delivery	28	Security
14	Bonuses & Commissions	21	Maintenance	29	Small Tools
14	Building Rent	22	Marketing Premiums	29	Storage
15	Computer (Hardware & Software)	22	Membership Fees & Dues	30	Supplies & Expenses
15	Contributions	23	Misc. Non-Operating	30	Telemarketing
16	Data Communication	23	Other Taxes	31	Telephone
16	Depreciation	24	Outside Services	31	Training
17	Employee Expenses	24	Parts & Materials	32	Transferred employees
17	Employee Recruitment	25	Payroll (Direct & Indirect)	32	Transportation/Vehicle Expense
18	Equipment Rental	25	Payroll Taxes	33	Uncoll. Accts/Outside Collections
18	Federal/State Income Tax	26	Postage	33	Uniforms & Safety Equipment
19	Insurance	26	Printing	34	Utility Expenses

### **REVENUES:**

<u>Page</u>	
35	Merchandise Jobbing and Contract Work
35	Nonutility Operations

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ASSET CATEGORY

Accumulated Depreciation - 122000

A. USE

The Nonutility Accumulated Depreciation account includes the accumulated provision for depreciation and amortization applicable to nonutility property.

B. APPLICABILITY

This account applies only to property designated as nonutility.

C. CHARACTERISTICS

Whenever possible, accumulated depreciation on buildings, etc., is charged direct. In the absence of direct identification, accumulated depreciation on buildings and leasehold improvements is allocated on the basis of revenue. Accumulated Depreciation on vehicles and mobile radios is allocated on the basis of mileage. Accumulated Depreciation on computer equipment is allocated based on revenue. Accumulated Depreciation on all remaining common assets is allocated based on revenue.

Accumulated Provision for Uncollectible Accounts - 144000

A. USE

This account provides for losses on accounts receivable which may become uncollectible.

B. APPLICABILITY

The account is used by utility and nonutility operations so that losses on accounts receivable are provided for.

C. CHARACTERISTICS

The Accumulated Provision for Uncollectible Accounts are distinguished between utility and nonutility by product designation.

---

ASSET CATEGORY

Buildings - 121000

A. USE

Buildings are used to provide utility and nonutility services.

B. APPLICABILITY

Buildings are occupied by employees who assign their time to utility, nonutility, or a combination of both activities. In addition, the building may contain tools, inventory, vehicles, computers, or office furniture used by employees in providing utility, nonutility or both types of service.

C. CHARACTERISTICS

Whenever possible, building costs are charged direct. In the absence of direct identification, building costs are allocated based on revenues.

Cash - 131000

A. USE

Cash is used to finance both utility and nonutility business operations.

B. APPLICABILITY

Cash is used by both utility and nonutility operations to collect/pay appropriate revenue/expenditures charged to utility and nonutility business operations.

C. CHARACTERISTICS

Cash used for utility and nonutility business operations is not segregated.

ASSET CATEGORY

Computer Equipment - 121000

A. USE

Computer equipment such as mainframe computers and personal computers are used in providing billing services, accounts receivable, and financial reporting for utility and nonutility business lines.

B. APPLICABILITY

Computer equipment is used by employees who assign their time to utility, nonutility, or a combination of both activities.

C. CHARACTERISTICS

Whenever possible, computer equipment is charged direct. In the absence of direct identification, computer equipment is allocated based on revenues.

Computer Software - 121000

A. USE

Computer Software for mainframes such as DOS, OS2, UNIX, or software for personal computers such as Excel, Word, or Access are used in providing billing services, accounts receivable, and financial reporting for utility and nonutility.

B. APPLICABILITY

Computer software is used by employees who assign their time to utility, nonutility, or a combination of both activities.

C. CHARACTERISTICS

Whenever possible, computer software is charged direct. In the absence of direct identification, it is allocated based on revenues.

ASSET CATEGORY

Customer Accounts Receivable - 142000

A. USE

The Customer Accounts Receivable Accounts include amounts due from customers for utility and nonutility services.

B. APPLICABILITY

The accounts are used by utility and nonutility operations so that the receivable balances are readily available.

C. CHARACTERISTICS

Customer Accounts Receivable are distinguished between utility and nonutility by product designation.

Other Deferred Debits - 186000

A. USE

The Other Deferred Debit accounts are used for utility and nonutility activities not elsewhere provided. For example, miscellaneous work in progress or unusual or extraordinary expenses not included in other accounts which are in the process of amortization or suspense accounts.

B. APPLICABILITY

The accounts are used to account for utility and nonutility operations.

C. CHARACTERISTICS

Deferred debits are directly assigned based on the utility or nonutility activity involved and are distinguished within the account by a product code. Whenever possible, deferred debits are charged direct. In the absence of direct identification, deferred debits are allocated based on the Massachusetts Formula.

ASSET CATEGORY

Inventory Freight/Freight Clearing - 184000

A. USE

The Inventory Freight/Freight Clearing account includes amounts charged for freight that is assigned to the unit price of that specific inventory item.

B. APPLICABILITY

The Inventory Freight/Freight Clearing account is used to account for utility and nonutility operations.

C. CHARACTERISTICS

The inventory freight/freight clearing account is used to account for inventory freight. Whenever possible, it is charged direct. In the absence of direct identification, it is allocated based on inventory balances.

Investments - 124000

A. USE

The Investment accounts include insurance policies and special funds insurance.

B. APPLICABILITY

The Investment accounts are used to account for utility and nonutility operations.

C. CHARACTERISTICS

Whenever possible, the Investment accounts are charged directly. In the absence of direct identification, investments are allocated based on the Massachusetts Formula.



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ASSET CATEGORY

Land - 121000

A. USE

Land is used in providing utility and nonutility services.

B. APPLICABILITY

The structures on the land are occupied by employees who assign their time to utility, nonutility, or a combination of both activities.

C. CHARACTERISTICS

Whenever possible, land is charged direct. In the absence of direct identification, it is allocated based on revenues.

Leasehold Improvements - 121000

A. USE

Leasehold improvements are improvements made to leased structures. The structures are used in providing utility and nonutility services.

B. APPLICABILITY

The structures to which the leasehold improvements have been made are occupied by employees who assign their time either to utility, nonutility, or a combination of both activities. In addition, the structures may contain tools, inventory, or vehicles used by employees in providing utility, nonutility, or both types of service.

C. CHARACTERISTICS

Whenever possible, leasehold improvements are charged direct. In the absence of direct identification, they are allocated based on revenues.

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ASSET CATEGORY

Mobile Radios - 121000

A. USE

Vehicles used in utility and nonutility operations are routinely equipped with mobile radios. Mobile radios are used for dispatching and to assist in providing customer service.

B. APPLICABILITY

Mobile radios are used by employees who operate vehicles used in providing utility, nonutility, or a combination of both services.

C. CHARACTERISTICS

Whenever possible, mobile radios are charged direct. In the absence of direct identification, they are allocated based on mileage.

Nonutility Pre-paid Insurance - 165000

A. USE

The Nonutility Pre-paid insurance account includes the pre-payments of insurance made prior to the period in which they apply.

B. APPLICABILITY

The account is used for nonutility operations where insurance has been pre-paid.

C. CHARACTERISTICS

Whenever possible, pre-paid insurance is charged direct. In the absence of direct identification, it is allocated based on business unit premiums as a percentage of total premiums.

---

ASSET CATEGORY

Office Furniture - 121000

A. USE

Office furniture is used to perform services of operating the business. It is used by employees providing utility and nonutility services.

B. APPLICABILITY

Office furniture is used by employees who assign their time to utility, nonutility, or a combination of both activities.

C. CHARACTERISTICS

Whenever possible, Office furniture is charged direct. In the absence of direct identification, office furniture is allocated based on revenues.

Other Accounts Receivable - 143000

A. USE

The Other Accounts Receivable Accounts include amounts due from employees, intercompany receivable, and other miscellaneous utility and nonutility accounts.

B. APPLICABILITY

The accounts are used by utility and nonutility operations so that the receivable balances are readily available.

C. CHARACTERISTICS

Whenever possible, Other Accounts Receivable are charged direct. In the absence of direct identification, they are allocated based on the Massachusetts Formula.

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ASSET CATEGORY

Other Pre-pays - 165000

A. USE

The Other Prepaid accounts are used for utility and nonutility activities not elsewhere provided. It is used for miscellaneous prepayment.

B. APPLICABILITY

The account is used to account for miscellaneous prepayments for utility and nonutility operations.

C. CHARACTERISTICS

Whenever possible, Other Prepays are charged direct. In the absence of direct identification, they are allocated based on the Massachusetts Formula.

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Stores Expense Undistributed - 163000

A. USE

The Stores Expense Undistributed account includes costs of supervision, labor, and expenses incurred in the operation of general storerooms, including purchasing, storage, handling, and distribution of materials and supplies.

B. APPLICABILITY

The Stores Expense Undistributed account is used to account for utility and nonutility operations.

C. CHARACTERISTICS

The account is used to account for stores expenses not yet distributed. These expenses will be cleared by adding to the cost of materials and supplies issued a suitable loading charge which will distribute the expense equitably over inventory issued. Any unassigned expense would be allocated based on inventory balances.

ASSET CATEGORY

Tools - 121000

A. USE

Tools are used in providing utility and nonutility services.

B. APPLICABILITY

Tools are used by employees who assign their time to utility, nonutility, or a combination of both activities

C. CHARACTERISTICS

Whenever possible, Tools are charged direct. In the absence of direct identification, tools are allocated based on revenues.

Training Equipment - 121000

A. USE

Training equipment is used in providing utility and nonutility services.

B. APPLICABILITY

Training equipment is used by employees who assign their time to utility, nonutility, or a combination of both activities.

C. CHARACTERISTICS

Whenever possible, training equipment is charged direct. In the absence of direct identification, training equipment is allocated based on revenues.

Vehicles - 121000

A. USE

Vehicles are used to make service calls for both the utility and nonutility services.

B. APPLICABILITY

Vehicles are used by employees who assign their time to utility, nonutility, or a combination of both activities.

C. CHARACTERISTICS

Whenever possible, Vehicles are charged direct. In the absence of direct identification, vehicles are allocated based on mileage.

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EXPENSE CATEGORY

Advertising - 417100

A. FUNCTION

The cost, including payroll, materials, postage, printing, billboards, etc., of conveying information to the public regarding utility or nonutility operations.

B. PROCEDURE

Examples of utility advertising include conservation advertising and informational advertising. Examples of nonutility advertising include promotional advertising, load retention advertising, and institutional advertising.

C. APPLICABILITY

Advertising is a necessary cost of providing utility and nonutility products and services. Some advertising is for utility purposes, some for nonutility purposes.

D. CHARACTERISTICS

Advertising is directly assigned to utility or nonutility by product classification. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Amortization - 417100

A. FUNCTION

To accumulate cost to be amortized.

B. PROCEDURE

To accumulate cost that are to be spread out over a number of years.

C. APPLICABILITY

Amortization is sometimes necessary on special projects such as system installations, etc.

D. CHARACTERISTICS

Amortization is directly charged to utility or non-utility depending on the project. In the absence of direct identification, it is charged based on the cost driver chosen for the applicable departments identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Bank & Finance Charges - 417100

A. FUNCTION

Charges from banks for services performed on behalf of customers.

B. PROCEDURE

Bank & finance charges are fees and service charges from banks for processing transactions. These charges are a common expense incurred for utility and nonutility operations.

C. APPLICABILITY

Bank & finance charges are an integral cost of providing utility and nonutility services and products. These costs are common to both utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, bank & finance charges are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Benefits - 417100

A. FUNCTION

Employees providing services for utility and nonutility are offered various benefit packages.

B. PROCEDURE

The benefits offered to utility and nonutility employees include: Life Insurance, 401K, ESOP, Pensions, Health Care, Retiree Medical Costs (FASB 106), LT Disability, and Outsourcing Fees.

C. APPLICABILITY

Benefits are offered to both utility and nonutility employees.

D. CHARACTERISTICS

Benefits are allocated to utility and nonutility activity based on a payroll loading rate. A benefit loading charge will be applied to direct labor dollars. The balance in the compensated absence accrual and benefit clearing accounts will be analyzed periodically to ensure the reasonableness of the loading rate.

EXPENSE CATEGORY

Bonuses and Commissions - 417100

A. FUNCTION

This account is charged for tip, bonus, and commission amounts on appliance sales or bonuses paid to employees for goals reached.

B. PROCEDURE

An example of a utility bonus payment would be a bonus paid to an employee for convincing a certain number of community members to switch from electricity or propane to natural gas in their homes or businesses. An example of a nonutility commission payment would be a commission paid to an employee based on the sale of ServiceOne to a customer.

C. APPLICABILITY

Bonuses and commissions are paid to employees who provide services to utility or nonutility only, or a combination of both.

D. CHARACTERISTICS

Bonuses and commissions are directly assigned to either utility or nonutility.

Building Rent - 417100

A. FUNCTION

Building rent is the necessary expense of housing utility and nonutility employees, office equipment and machinery.

B. PROCEDURE

Examples of building rent include rent on office buildings, warehouses, and storage facilities.

C. APPLICABILITY

A building is needed for storage and office space and the cost of renting such a building is a cost of doing business for both utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, building rent is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.



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EXPENSE CATEGORY

Computer Hardware and Software - 417100

A. FUNCTION

The cost for miscellaneous computer products under \$300.00.

B. PROCEDURE

Examples include miscellaneous software and hardware products such as software upgrades, computer parts, etc. under \$300.00.

C. APPLICABILITY

Computer hardware and software are a necessary cost of providing utility and nonutility products and services.

D. CHARACTERISTICS

These costs are charged direct to utility or nonutility or in the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Contributions - 426100

A. FUNCTION

The contribution account is charged for payments to educational, recreational, and cultural institutions, foundations, and organizations. It is also charged for payments to charitable and social service organizations.

B. PROCEDURE

Examples would include donations to the Chamber of Commerce, Police Department, Fire Department, Hospitals, etc. These payments provide facilities and services, which contribute to the general health, welfare, and civic growth of the communities where the company's employees and customers reside and serve to attract new customers and employees into areas served by the company.

C. APPLICABILITY

Contributions made benefit both utility and nonutility business lines.

D. CHARACTERISTICS

Whenever possible, contributions are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Data Communication Expense - 417100

A. FUNCTION

Cost of phone lines (leased, interstate, intrastate) used solely for telecommunication of data to and/or from computers. Includes other non-telephone costs, such as those from RCA Cylix, etc.

B. PROCEDURE

Examples of data communication expenses would be monthly hardware and software support charges, maintenance charges, etc.

C. APPLICABILITY

Data communication plays an essential role in the operation of the utility and nonutility business units.

D. CHARACTERISTICS

Whenever possible, data communication expenses are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Depreciation - 417100

A. FUNCTION

Depreciation is a result of the wear and tear and obsolescence of plant used for both utility and nonutility services.

B. PROCEDURE

Examples of utility depreciation would be the depreciation of a relief valve, gas pipe, meters, or regulator. Examples of nonutility depreciation would be depreciation of a nonutility car, computer, or office building.

C. APPLICABILITY

Depreciation is the result of wear and tear and obsolescence of owned buildings, cars, office equipment, computers, etc. These costs are specific to utility or common to both utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, depreciation for assets is charged directly. In the absence of direct identification, it is allocated based on the cost driver chosen for the applicable departments as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Employee Expenses - 417100

A. FUNCTION

Employee expenses are costs incurred by employees engaged in company business that are applicable to both utility and nonutility services.

B. PROCEDURE

Examples of employee expenses include meals, motels, taxis, airfare, etc., incurred by an employee while conducting company business. These costs are applicable to utility, nonutility, or both.

C. APPLICABILITY

Employee expenses allow an employee to incur expenses on behalf of the company for either utility or nonutility purposes and receive reimbursement from the company at a subsequent date. These costs are utility, nonutility, or both.

D. CHARACTERISTICS

Whenever possible, employee expenses are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Employee Recruitment - 417100

A. FUNCTION

Expenses associated with interviewing for permanent and summer positions.

B. PROCEDURE

Employee recruitment includes out-of-company recruitment costs such as recruitment advertising, pre-employment physicals, lodging and meals while interviewing. These costs are common to both utility and nonutility operations.

C. APPLICABILITY

Employee recruitment is a necessary cost of providing utility and nonutility products and services. These costs are common to utility or nonutility business lines or both.

D. CHARACTERISTICS

Whenever possible, employee recruitment costs are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Equipment Rental - 417100

A. FUNCTION

Fees charged for renting office equipment.

B. PROCEDURE

The rental of office equipment, such as copiers, is a common expense incurred for utility and nonutility operations.

C. APPLICABILITY

Equipment rental is an integral cost of providing utility and nonutility products and services. Equipment rental can be for utility or nonutility use or for both.

D. CHARACTERISTICS

Whenever possible, equipment rental is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Federal and State Income Taxes - 409100, 409200

A. FUNCTION

State and federal taxes are assessed against utility and nonutility.

B. PROCEDURE

The income tax is assessed at the state and federal level against taxable income at the appropriate corporate tax rate. Both utility and nonutility are assessed these taxes.

C. APPLICABILITY

Income taxes are a requirement by the state and federal government as a cost of doing business. These taxes are applicable to both utility and nonutility operations.

D. CHARACTERISTICS

Income taxes are directly charged to utility and nonutility using the applicable state composite tax rate against utility taxable income and nonutility taxable income.

EXPENSE CATEGORY

Insurance - 417100

A. FUNCTION

Cost of protecting owned utility and nonutility assets from a loss.

B. PROCEDURE

The cost of insurance premiums covers buildings and their contents, including vehicles. These costs are integral to both utility and nonutility operations.

C. APPLICABILITY

Insurance is an essential cost of protecting both utility and nonutility assets.

D. CHARACTERISTICS

Whenever possible, insurance is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Interest Expense - 427000, 430000, 431000

A. FUNCTION

This account is charged for the use of money in providing both utility and nonutility goods and services.

B. PROCEDURE

Examples of interest expense would include charges to utility and nonutility for money borrowed to finance the utility and nonutility business lines, interest expense on notes payable, and interest expense on customer deposits.

C. APPLICABILITY

The interest expense account is used for both the utility and nonutility business lines.

D. CHARACTERISTICS

Whenever possible, interest expense is charged directly. In the absence of direct identification, interest expense is allocated based on the long and short-term debt balance for each business line.

EXPENSE CATEGORY

Janitorial Service - 417100

A. FUNCTION

Services provided across the corporation in various offices to enhance customer service and satisfaction.

B. PROCEDURE

Examples would include building cleaning services at corporate headquarters as well as in the various field offices.

C. APPLICABILITY

Janitorial services are necessary to the efficient and effective running of the utility and nonutility business.

D. CHARACTERISTICS

Janitorial services are charged direct whenever possible. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Leases (Equipment, Computers, etc.) - 417100

A. FUNCTION

Leases are necessary to the running of the utility/nonutility business.

B. PROCEDURE

Examples of such leases are radio towers, computers, mobile radios, and miscellaneous equipment such as Xerox or fax machines.

C. APPLICABILITY

Leases are used in the daily running of the utility and nonutility business.

D. CHARACTERISTICS

Cost of leases is charged direct when possible. When direct identification is not possible, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Mail Delivery - 417100

A. FUNCTION

Use of mail delivery to deliver necessary documents and information required in providing utility and nonutility services.

B. PROCEDURE

The mail delivery expense is incurred for outside/contracted mail pick-up and delivery. These costs would include delivery of inter-company mail and checks.

C. APPLICABILITY

Mail delivery is a critical function of providing documents, packages and information to enable utility and nonutility business to function efficiently.

D. CHARACTERISTICS

Whenever possible, mail delivery is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Maintenance - 417100

A. FUNCTION

Cost of maintaining office furniture and buildings as they are used to provide utility and nonutility products and services.

B. PROCEDURE

Maintenance of office furniture, buildings, HVAC systems and electrical systems is critical to preserving a safe working environment. These costs are applicable to both utility and nonutility operations.

C. APPLICABILITY

Maintaining office furnishings and buildings is a required function of ensuring that assets remain in good physical condition which is essential in providing excellent utility and nonutility services. Maintenance can be specific to utility or nonutility operations or a common expense for utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, maintenance is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

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EXPENSE CATEGORY

Marketing Premiums - 417100

A. FUNCTION

Marketing premiums are expenses for items purchased to reward employees for exceptional performance.

B. PROCEDURE

An example of a marketing premium would include the purchase of a pen or pencil set to be given to an employee for reaching a particular goal.

C. APPLICABILITY

Marketing premiums are used in utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, marketing premiums are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Membership Fees and Dues - 417100

A. FUNCTION

Fees and dues for belonging to trade organizations, clubs, and other groups which are a cost of providing utility and nonutility services.

B. PROCEDURE

Examples of utility membership fees include Midwest Gas Association (MGA), Blue Flame Association, and American Gas Association (AGA). Examples of nonutility membership fees would be memberships to appliance repair associations.

C. APPLICABILITY

Membership in certain organizations allows employees to stay abreast of developments in the industry and to exchange ideas. These costs are specific to providing utility or nonutility services, or both.

D. CHARACTERISTICS

Whenever possible, membership fees are charged directly. As indicated above, some membership fees are directly related to nonutility services. In other instances, such as Optimist Club dues, there is not a clear separation on the invoice of utility and nonutility costs. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.



EXPENSE CATEGORY

Miscellaneous Non-Operating - 426100 - 426500

A. FUNCTION

The cost of miscellaneous non-operating expenses.

B. PROCEDURE

Examples include donations, life insurance, penalties, and civic and political activities.

C. APPLICABILITY

These costs can be charged directly to utility and nonutility as needed.

D. CHARACTERISTICS

Charges are directly assigned to utility or nonutility by FERC account classifications. In the absence of direct identification, they are assigned based on the cost drivers chosen for the applicable department as identified on Pages F-1 through F-52.

Other Taxes - 408100, 408200

A. FUNCTION

Taxes levied for other than income and other than payroll.

B. PROCEDURE

Sales tax incurred for the purchase of inventories or payment of various expenses.

C. APPLICABILITY

Sales taxes assessed on inventories can be charged directly to utility or nonutility business lines. Sales taxes assessed on various expenses are incurred for the benefit of both utility and nonutility business lines.

D. CHARACTERISTICS

Taxes are charged direct to utility and nonutility when possible. In the absence of direct identification, taxes will be assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Outside Services - 417100

A. FUNCTION

Fees charged by outside consultants and agencies for their services.

B. PROCEDURE

Examples of utility outside services would include consultants hired to work on rate cases, or consultants hired for utility construction projects. Examples of nonutility outside consulting services would include engineers for cathodic service projects or temporary help hired to assist with ServiceOne customer service.

C. APPLICABILITY

Outside services are the means by which companies employ additional required expertise, including outside computer services. These costs are necessary for providing services for both utility and nonutility business lines.

D. CHARACTERISTICS

Whenever possible, outside services are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Parts and Materials - 417100

A. FUNCTION

Parts and materials are used in providing nonutility products and services.

B. PROCEDURE

Examples of when to charge this account include: costs of parts and materials sold over the counter; parts used in chargeable service calls; stock and non-stock parts used in merchandising, such as fittings, valves, pipe, duct tape, range, and dryer connectors, etc.

C. APPLICABILITY

The parts and materials account is used in nonutility operations.

D. CHARACTERISTICS

Parts and materials expenses are directly charged to nonutility business operations based on the usage of the materials.

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EXPENSE CATEGORY

Payroll Expenses - 417100

A. FUNCTION

Costs of employees to perform utility and nonutility services.

B. PROCEDURE

Examples of utility payroll include meter readers, and construction crews. Examples of nonutility payroll include ServiceOne technicians.

C. APPLICABILITY

Employees are necessary to run both the utility and nonutility business lines. Some of these employees perform responsibilities that relate to both utility and nonutility.

D. CHARACTERISTICS

Whenever possible, payroll is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Payroll Taxes - 408200

A. FUNCTION

State and federal taxes assessed against payroll, which are paid by the employer.

B. PROCEDURE

Examples of payroll taxes include state and federal unemployment taxes and FICA taxes. Both utility and nonutility operations are assessed these taxes.

C. APPLICABILITY

Payroll taxes are a requirement of the state and federal government as a cost of employing individuals. These taxes are applicable to both utility and nonutility operations.

D. CHARACTERISTICS

Payroll taxes are calculated based on actual payroll charged to each utility and nonutility activity.

EXPENSE CATEGORY

Postage - 417100

A. FUNCTION

Cost of mailing bills, letters, and parcels to utility and nonutility customers.

B. PROCEDURE

Postage includes the cost of stamps, recharging postage meters and payments to UPS that are common expenses incurred by a utility and nonutility operation. Postage is automatically applied to a mailing by the Automated Mail Center.

C. APPLICABILITY

Postage is an integral cost of mailing bills, letters, and parcels incurred to provide both utility and nonutility services.

D. CHARACTERISTICS

Whenever possible, postage is charged directly. In the absence of direct identification, postage is assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Printing - 417100

A. FUNCTION

The cost of printing forms, bills, letterhead, etc. used for both utility and nonutility activities.

B. PROCEDURE

Printing includes the cost of the paper supplies and printing services for the printed documents used in the utility and nonutility business lines.

C. APPLICABILITY

Printing of bills to send to customers, forms used in day-to-day operations, and letterhead for internal and external communication is necessary to provide both utility and nonutility services.

D. CHARACTERISTICS

Whenever possible, printing expenses are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Property Taxes - 408200

A. FUNCTION

Taxes levied by state agencies in accordance with the value of real property.

B. PROCEDURE

Property taxes include taxes assessed on land and buildings and are a common expense incurred for both utility and nonutility operations.

C. APPLICABILITY

Property taxes assessed on land and buildings are a requirement of both utility and nonutility business lines.

D. CHARACTERISTICS

Whenever possible, property taxes are charged direct. In the absence of direct identification, property taxes are assigned based on the cost driver for the applicable department identified on Pages F-1 through F-52.

Sales Allowances - 417100

A. FUNCTION

The sales allowance account is used when merchandise previously sold is returned. The account is also used for price reductions or discounts.

B. PROCEDURE

Examples of when the sales allowance account is used includes the return of merchandise due to a defect in the product or a change of heart; discounts offered on merchandise when they are damaged in shipping and handling, etc.

C. APPLICABILITY

The sales allowance account is used for nonutility operations.

D. CHARACTERISTICS

The sales allowance account is used for nonutility activity and is therefore directly charged to the nonutility account.

EXPENSE CATEGORY

Sales Promotion - 417100

A. FUNCTION

This account is used for materials and expenses incurred in promotional, demonstrating, and selling activities. The objective is to promote sales.

B. PROCEDURE

Examples include gift certificates or premiums given away to promote the use of On Demand Services or the give away of a humidifier or filter with HVAC sales.

C. APPLICABILITY

Sales promotions are used to promote the selling of both utility and nonutility goods and services.

D. CHARACTERISTICS

Whenever possible, sales promotions are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Security - 417100

A. FUNCTION

Cost of security firms to protect buildings and their contents that house utility and nonutility assets and employees.

B. PROCEDURE

Security costs are costs incurred to ensure that buildings and applicable contents, including employees, are safe. These costs are common to both utility and nonutility operations.

C. APPLICABILITY

Security is a necessary function of maintaining the integrity and safe operation of utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, security is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Small Tools - 417100

A. FUNCTION

Purchases of small tools valued at \$300 or less that are used in both utility and nonutility business operations.

B. PROCEDURE

Examples of small tools used in both utility and nonutility operations include hammers, axes, brushes, buckets, drills, pliers, wrenches, rakes, jacks, etc.

C. APPLICABILITY

The cost of small tools is integral to providing utility and nonutility services.

D. CHARACTERISTICS

Whenever possible, small tools are charged directly. In the absence of direct identification they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Storage - 417100

A. FUNCTION

Fees to store pre-printed forms are necessary to provide utility and nonutility products and services.

B. PROCEDURE

Examples of charges for storing pre-printed forms would be letterhead on bills, memos, letterhead on envelopes and checks.

C. APPLICABILITY

Fees for storing pre-printed forms are integral to providing utility and nonutility services. These costs of storage are applicable to both utility and nonutility.

D. CHARACTERISTICS

Whenever possible, forms storage is charged directly. In the absence of direct identification, common costs are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

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EXPENSE CATEGORY

Supplies and Expenses - 417100

A. FUNCTION

Miscellaneous costs of office supplies and nonpayroll costs that are not provided for elsewhere.

B. PROCEDURE

Examples of supplies and expenses include paper, pencils, envelopes, and erasers. These costs are incurred for both utility and nonutility operations.

C. APPLICABILITY

Employees who assign their time to both utility and nonutility operations use supplies and expenses, which include items such as paper, pencils, envelopes, etc.

D. CHARACTERISTICS

Whenever possible, supplies & expenses are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Telemarketing - 417100

A. FUNCTION

Cost of marketing specific products, such as ServiceOne appliance protection services, over the telephone.

B. PROCEDURE

Telephone marketing services are employed for selling specific products such as ServiceOne appliance protection programs.

C. APPLICABILITY

Telemarketing costs are incurred directly for selling specific products such as ServiceOne protection plans.

D. CHARACTERISTICS

Telemarketing costs are charged directly to the specific product for which the charges were incurred.



EXPENSE CATEGORY

Telephone Expenses - 417100

A. FUNCTION

Use of telephones in providing utility and nonutility services.

B. PROCEDURE

Telephone costs are a necessity in communicating with customers, in dealing with suppliers, in communicating with co-workers. These communication costs are common to both the utility and nonutility business.

C. APPLICABILITY

Telephones are an essential part of communicating in providing services for the utility and nonutility business.

D. CHARACTERISTICS

Whenever possible, telephone expenses are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Training - 417100

A. FUNCTION

Sending employees to classes or seminars to enhance the skills that are necessary in providing utility and nonutility services.

B. PROCEDURE

Examples of utility training include training on installing meter sets, meter reading techniques, and responding to leak calls. Examples of nonutility training would include appliance repair training, and merchandise sales techniques.

C. APPLICABILITY

Training is a necessity of being current on the latest techniques, (i.e. pipe fusion), the most recent software packages, or the latest safety programs.

D. CHARACTERISTICS

Whenever possible, training costs are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Transferred Employees - 417100

A. FUNCTION

These charges are incurred under the company relocation program to pay expenses of moving an employee from one location to another.

B. PROCEDURE

Examples of transferred employees include expenses while interviewing, travel expenses in connection with the transfer, transportation of household goods, and real estate costs.

C. APPLICABILITY

Transferred employee costs are an essential cost of providing utility and nonutility services and products. These costs are applicable to utility, nonutility, or both operations.

D. CHARACTERISTICS

Whenever possible, transferred employee's costs are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

Transportation - 417100

A. FUNCTION

Transportation expenses include gasoline, diesel, oil, filters, lubrication, tires, mileage and rental.

B. PROCEDURE

Examples of utility transportation expenses include driving a vehicle to read meters, leak surveys, or respond to a leak call. Examples of nonutility transportation expense include driving to perform an appliance repair, or driving to a location to perform energy consulting or contract services.

C. APPLICABILITY

Transportation expenses are an integral part of the utility/nonutility business. Employees drive vehicles for utility operations, nonutility operations, or for both.

D. CHARACTERISTICS

Transportation expenses are directly charged to utility or nonutility operations when possible. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

EXPENSE CATEGORY

Uncollectible Accounts/Outside Collections - 417100

A. FUNCTION

This account is charged for losses from uncollectible accounts.

B. PROCEDURE

When accounts are determined to be uncollectible, the account is written off to uncollectible accounts.

C. APPLICABILITY

Uncollectible accounts can include utility only, nonutility only, or a combination of both.

D. CHARACTERISTICS

The characteristics of this account allows for direct charge-offs to the appropriate utility and nonutility accounts.

Uniforms and Safety Equipment - 417100

A. FUNCTION

Costs to purchase uniforms and safety equipment necessary for business.

B. PROCEDURE

Examples of utility uniforms and safety equipment include meter operator uniforms. Examples of nonutility uniforms and safety equipment include service technician uniforms.

C. APPLICABILITY

Uniforms and safety equipment are necessary to perform services of both utility and nonutility and represent the company. These costs are specific to providing utility and nonutility services, or both.

D. CHARACTERISTICS

Whenever possible, uniforms and safety equipment are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

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EXPENSE CATEGORY

Utility Expenses - 417100

A. FUNCTION

Necessary costs for electricity, water, sewer, gas, and other costs incurred as a normal cost of operating structures used in providing utility and nonutility businesses.

B. PROCEDURE

The cost of lighting and heating buildings, the cost of operating equipment, along with water and sewer charges are necessary operating costs for structures used in providing utility and nonutility products and services.

C. APPLICABILITY

The cost of electricity, water, sewer, and gas is integral to providing utility and nonutility products and services. These costs are common to both utility and nonutility operations.

D. CHARACTERISTICS

Whenever possible, utility expenses are charged directly. In the absence of direct identification, they are assigned based on the cost driver chosen for the applicable department as identified on Pages F-1 through F-52.

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REVENUE CATEGORY

Merchandise Revenues - 415000

A. USE

The merchandise jobbing and contract work account records revenue from sale of merchandising, jobbing, and contract work. It also records discounts and allowances made in settlement of bills for merchandise and jobbing work.

B. APPLICABILITY

The merchandise jobbing and contract account is used to account for nonutility operations.

C. CHARACTERISTICS

The merchandise jobbing and contract work is charged direct.

Nonutility Revenues - 417000

A. USE

The nonutility operations account shall include revenues applicable to operations, which are nonutility in character but nevertheless, constitute a distinct operating activity of the enterprise as a whole, such as ServiceOne.

B. APPLICABILITY

The nonutility operations account is used to record revenues applied to non-regulated business lines. Taxes are not recorded here.

C. CHARACTERISTICS

These revenues are all charged direct to the nonutility operations.

**Summary of Cost Assignment**

The Cost Allocation Manual identifies department-specific cost drivers to assign common costs to the appropriate states and/or product lines (Pages F-1 through F-20). A specific cost driver is used in cases where it can be directly linked with the cause of the expenses incurred and the cost driver values are available. If an expense cannot be charged direct or a specific cost driver cannot be assigned, a general allocator is utilized. The General Allocator, the Massachusetts formula, consists of the arithmetic average of gross margin, payroll, and net plant for the applicable departments and/or business units.

Enhancements to the manual will be made as changes occur within the organization and as driver value data becomes available. These, as well as any other necessary changes, will be considered as the manual is updated annually or more frequently should a material change take place within the organization.

It is important to note that costs are first charged directly if possible and that the cost drivers identified in this manual are only used to assign common costs which cannot be directly assigned to specific states and/or product lines.

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**AQUILA NETWORKS DEPARTMENTS**

<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Production	1029	Activities related to preliminary surveys for the generation area.	Net Energy Sales	General Allocator
Resource Mgmt	1039	Oversees on-system wholesale customer accounts, develops long-term off-system marketing opportunities, and provides contract negotiation for purchase power in MO, KS and CO..	Net Energy Sales	General Allocator
Resource Operations	1042	Provides production dispatching and regulated off-system sales in MO, KS and CO.	Net Energy Sales	General Allocator
VP Energy Resources	1043	Executive expenses incurred by the VP of Regulated Power Services who provides oversight for production dispatching, wholesale customers, and regulated off-system sales in MO, KS and CO	Net Energy Sales	General Allocator
Fuel and Purchased Power	1044	Solicits and negotiates long-term power supply contracts and operates and analyzes the fuel model in MO, KS and CO.	Net Energy Sales	General Allocator
Risk Mgt Services Settlements	1056	Commodity risk management services and settlements for the Energy Resources power services groups.	Net Energy Sales	General Allocator
Gas Supply Services - Planning & Operations	2301	Responsible for the development and execution gas supply portfolio plans for all of Aquila Networks (US) gas distribution companies and gas supply needs for power plants. These plans include the optimization and procurement of pipeline capacity and services as well as the purchasing strategies for the commodity.	Gas Customers	General Allocator
Gas Supply Services – General Allocations	2304	Department used to record Ad Valorem tax.	Gas Customers	General Allocator
Gas Supply Services -Administration	2308	Maintain relationship with transportation customers and brokers for all gas states	Gas Customers	General Allocator
Gas Supply Services -Cost Management	2309	Cost Management is responsible for validating and paying all supply and transportation-related invoices for Aquila Gas Supply and is responsible for the proper allocation of these costs to various jurisdictions, including the LDCs owned by Aquila as well as to state jurisdictions in which Aquila operates and the proper recording of these costs to the general ledger.	Gas Customers	General Allocator
GSS-Northern Operations	2318	Responsible for the development and execution of gas supply portfolio plans for the Northern region gas distribution companies. These plans include the optimization and procurement of pipeline capacity and services, as well as the purchasing strategies for the commodity.	Gas Customers	General Allocator

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**AQUILA NETWORKS DEPARTMENTS**

<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
GSS-Southern Operations	2319	Responsible for the development and execution of gas supply portfolio plans for the Southern region distribution companies and gas supply needs for regional power plants. These plans include the optimization and procurement of pipeline capacity and services, as well as the purchasing strategies for the commodity.	Gas Customers	General Allocator
GSS-Eastern Operations	2320	Responsible for the development and execution of gas supply portfolio plans for the Eastern region gas distribution companies. These plans include the optimization and procurement of pipeline capacity and services, as well as the purchasing strategies for the commodity.	Gas Customers	General Allocator
NETCO Benefits Residual	4402	This is the residual for benefits budgeted by the business units and the overhead factor utilized for charging out benefits.	Current year budgeted labor	General Allocator
NETCO Accounting Accrual	4474	Accounting Accrual Department is used for charging accounting-related matters that are items for which an individual department should not be held accountable from an incentive or budgetary standpoint.. Charges are not related to a specific department or may be related to multiple departments and may not be significant enough to expend the effort to allocate to each department. Most items charged to this department reverse the following month.	Current year budgeted labor	General Allocator
Elec Trans Opns-MO/SJ General	5001	Manages approximately 1,750 miles of high voltage transmission lines in Missouri that provide service to USU network operations, wholesale municipalities and third-party wheeling customers.	General Allocator	General Allocator
Electric Transmission Ops - Right of Way - MO/CO/KS	5002	Responsible, with the support of field personnel, for handling right of way purchases, right of way damage claims, right of way inquiries, zoning permits, and crossing permits for both gas and electric, distribution and transmission mainly in Kansas, Colorado and Missouri.	General Allocator	General Allocator
SCADA – MPS	5007	Collect and display field data for the Transmission System Operation Center and the Generation Dispatch for the monitoring and control of the Aquila Networks - MPS Electric System in Missouri. Provide secure data interfaces with all external utilities, power pools and technical support personnel	General Allocator	General Allocator



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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
		as required.Provide technical support for the Transmission System Operation Center.		
Electric Transmission Business Ops - General	5023	Electric business operations, including development of business opportunities, negotiation of transmission agreements, development of transmission plans, and the management of transmission tariffs and rates.	General Allocator	Direct
Transmission Engineering MO - General	5028	Electric transmission capital budget for Missouri, new project evaluation, design, construction, and engineering support to operations. Areas of support include: substation design, system protection/coordination, metering, and drafting.	General Allocator	Direct
System Operations – MPS General	5030	Monitor and control the Missouri electric transmission system through the SCADA system. Direct electric transmission system switching, transmission transaction scheduling, and service restoration.	General Allocator	Direct
Transmission Operations – MO General	5032	Constructs, operations and maintains the Aquila Networks electric transmission grid in Missouri which includes approximately 1,750 miles of transmission lines, 125 substations, 2,500 system protection relays, one SCADA system, and one 24 hour transmission system operation center that provides service network operations, wholesale municipalities, and third-party wheeling customers.	General Allocator	Direct
Transmission Services-VP	5042	Responsible for planning, interconnection agreements, and operation of the company's electric transmission systems in all jurisdictions. Responsibilities also include working with state regulatory commissions, FERC, and Regional Transmission Organizations (RTO's) on transmission tariff administration as well as ensuring the reliability and security of the company's transmission systems.	General Allocator	Direct
General KS/CO Elec Assets	5106	Assets and depreciation/amortization expense associated with serving the electric customers in Kansas and Colorado	General Allocator	General Allocator
General Business Support	5130	Provide supervision of fleet personnel, procurement, materials management, and other support services.	General Allocator	General Allocator
MO Elect Aquila Networks Mgr	5155	Responsible for managing the organization of MO electric Aquila Networks operations.	Regulated Electric Customers	General Allocator
MO Electric Engineering Services	5250	Oversees electrical engineering planning, design and mapping of electrical distribution network.	Regulated Electric customers	General Allocator

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Aquila Networks Electric Standards	5253	Establish and monitor system-wide electrical standards and coordinate drafting activities in Missouri jurisdictions.	Regulated Electric Customers	General Allocator
Network Gas Stds & Safety Trng	5254	Establish and monitor system-wide gas standards, coordinate FAME land base revisions, and provide technical training services for all seven gas states.	Gas customers	General Allocator
Forestry MO/CO/KS	5255	Field operations support, including tree trimming and property maintenance for electric distribution and transmission operations.	Electric customers	General Allocator
<b><u>Network Operations</u></b> Net Ops Work Management	5305	Responsible for researching, building, and implementing a work management suite of solutions for the benefit of Network Operations as a whole. Benefits will be derived in all jurisdictions having gas and/or electric distribution.	General Allocator	General Allocator
General Electric Measurement	5360	Oversees electric measurement activity for customers located in Colorado, Kansas, and Missouri.	Electric Customers.	General Allocator
General Gas Measurement	5490	Manages gas measurement activity for customers located in Colorado, Iowa, Kansas, Minnesota, Michigan, Missouri, and Nebraska.	Gas Customers.	General Allocator
MO Materials Mgmt – MPS	5557	Management of procurement and inventory functions for Aquila Networks Regulated & Non-Regulated business lines within MPS in Missouri.	General Allocator	General Allocator
Manager of Materials Mgmt	5559	Management of procurement and inventory functions for the materials management departments in Aquila Networks. Charges are for salaries, benefits and administrative expenses.	General Allocator	General Allocator
Network Fleet Management	5566	Manage Fleet operations and maintenance, acquisition, and disposal of Aquila Networks vehicles and equipment.	General Allocator	General Allocator
Procurement	5567	Management of procurement and inventory functions for Aquila Networks.	General Allocator	General Allocator
Materials Management – MO SJD	5570	Management of procurement and inventory functions for Aquila Networks Regulated & Non-Regulated business lines within SJLP in Missouri.	Direct	General Allocator
North MPS Matls Mgmt	5573	Management of procurement and inventory functions for Aquila Networks Regulated & Non-Regulated business lines within northern districts of MPS	General Allocator	General Allocator
Missouri Fleet	5574	Manage fleet operations and maintenance, acquisition, and	General Allocator	General Allocator

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Management		disposal of Aquila Networks-MPS vehicles and equipment.		
MO SJ Fleet Management	5575	Manage fleet operations and maintenance, acquisition, and disposal of Aquila Networks-SJLP vehicles and equipment.	General Allocator	General Allocator
Centralized Services-Vice President	5699	Oversees Customer Service Centers, Customer Billing Services, Customer Finance Services, and Central Services Information Technology for Aquila Networks regulated and non-regulated customers.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Business Solutions	5700	Provides technology/process solutions and project management for Customer Service Centers, Customer Billing Services and Customer Finance Services for Aquila Networks regulated and non-regulated customers.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Customer Service Center – Lincoln	5701	Handles customer inquiries from Aquila Networks regulated and non-regulated customers located in all service territories	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Customer Service Center – Raytown	5702	Handles customer inquires from Aquila Networks regulated and non-regulated customers located in all service territories.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Billing – Omaha	5706	Manage and maintain Aquila Networks regulated and non-regulated sales/ billing for NE, IA, KS, CO, MN, and MO.	Regulated Customers	Regulated Customers
Accounts Receivable Management	5708	Management, leadership and planning for Aquila Networks regulated and non-regulated customer finance services; Management of receipt and processing of payments for Aquila Networks regulated and non-regulated services; Manage and maintain credit/accounts receivable for Aquila Networks regulated and non-regulated services for all states. Also includes cash management activities and management of customer financing. Bad debts are also budgeted here.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Remittance Processing	5709	Receive/process payments for Aquila Networks regulated and non-regulated services for all states. This department also handles cash management and customer financing activities.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Credit & Collections	5710	Manage and maintain credit/accounts receivable for Aquila Networks regulated and non-regulated services for all states.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Customer Communication Services – Director	5711	Provides customer and marketing communications support to Aquila's seven-state utility operations. Exists to educate and inform customers about the services Aquila provides, including required customer safety, billing and operational information.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Bill Processing	5712	Prepare, accumulate, assemble, insert, and distribute customer billings/related mailings for distribution for Aquila	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
		Networks regulated and non-regulated services in all states. The primary part of this budget is postage along with bill forms and envelope supplies.		
Field Resource Center – Lincoln	5715	Schedule and dispatch Aquila Networks regulated and non-regulated premise service activities for Aquila Networks regulated and non-regulated customers located in CO, IA, KS, MN, and NE.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Field Resource Center – Raytown	5716	Schedule and dispatch Aquila Networks regulated and non-regulated premise service activities for Aquila Networks regulated and non-regulated customers located in KS, MI, and MO.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Service Guard Mat Mgmt	5718	Manage and maintain requirements for Aquila Networks non-regulated appliance service activities.	Non-regulated Customers	Non-regulated Customers
Field Resource Center - Director	5722	Oversees Field Resource Centers, which schedule and dispatch Aquila Networks regulated and non-regulated premise service activities for Aquila Networks regulated and non-regulated customers.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Customer Account Correspondence	5726	Provides back office support services related to revenue management functions such as meter reading, billing adjustments, monitoring of accounts for tax-exempt status and medical extensions for both regulated and non-regulated customers.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
Billing Adjustments	5763	Provides back office support services for Customer Service Centers. Includes customer requests for Aquila Networks regulated and non-regulated electric and gas customers that require research, copies of billings, etc.	Regulated & Non-Regulated Customers	Regulated & Non-Regulated Customers
<b>Market Services</b>				
Service Guard Central Marketing	6005	Provides product development and management for <u>non-regulated business (Service Guard)</u> .	Non-Regulated Customers	Non-Regulated Customers
Customer Services Training	6016	Oversees training in Customer Service Centers, Billing groups, and updates to Atlas (Reference for Billing System) information.	Regulated and Non-Regulated Gas Customers	Regulated and Non-Regulated Gas Customers
Revenue Assurance	6028	An independent review function to assure adequate central service policies, procedures, tools, equipment, materials, controls, training and measurements are in place and /or implemented to ensure effective Central Service delivery in support of both regulated and non-regulated activities. Key	Regulated and Non-Regulated Gas Customers	Regulated and Non-Regulated Gas Customers

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
		areas of focus are on business rule and regulatory compliance for central service activities. Also includes training, development and delivery for central service teams		
<b><u>Distributing Services</u></b> Community Relations MO MPS	6108	Responsible for planning and implementing community relations programs and franchise renewals in Missouri	General Allocator	General Allocator
Economic Development – General	6111	Administers Location One Information System (LOIS) program.	Regulated Customers	Regulated Customers
Community Relations MO SJ	6123	Responsible for planning and implementing community relations programs and franchise renewals in Missouri for Aquila Networks – L&P.	General Allocator	General Allocator
Community Relations – MO	6124	Responsible for planning and implementing community relations programs and franchise renewals in Missouri for Aquila Networks – MPS.	Regulated Customers	Regulated Customers
Misc Networks Allocation	6130	Networks department used to receive Corporate Support Services in order to allocate to only the Networks states.	General Allocator	General Allocator
Process Improvement	6134	This department spearheads efforts to help Aquila accomplish its Critical Success Factors, fix problems and continually improve processes.	General Allocator	General Allocator
MO General – MPD	6140	Miscellaneous expenses for Aquila Networks - MPS	General Allocator	General Allocator
MO General - SJLP	6152	Miscellaneous expenses for Aquila Networks – L&P	General Allocator	General Allocator
MO Electric SR VP	6160	Manages electric generation, transmission and distribution operations for the state of Missouri.	General Allocator	General Allocator
PS Procurement	6161	Provides Power Supply Procurement services for electric operations in the state of Missouri. Kansas, and Colorado.	General Allocator	General Allocator
PS Engr/Generations Svcs	6162	Provides power supply electric engineering/generation services in the states of Missouri, Kansas, and Colorado	Net Energy Sales	General Allocator
West IA/NrthMO Ops Mgr	6167	Manage construction and operations of the gas network for western IA/northern MO. Charges are for salaries, benefits and administrative expenses for the western Iowa and northern Missouri gas network operations manager and their support staff.	General Allocator	General Allocator
Headquarters - KS/CO Gas	6183	Manages gas transmission and distribution operations for the states of Kansas and Colorado.	General Allocator	General Allocator

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Customer Relations – Gen KS/CO	6184	Works directly with the KS/CO customer in the areas of builder relations, economic development, and customer relations.	Customers	General Allocator
KS/CO Gas Business Ops	6198	Manages gas transmission and distribution business operations including gas control, business development, contract administration, rates and tariffs for the states of Kansas and Colorado	General Allocator	General Allocator
PNG Gas Plant Assets	6201	Depreciation expense for PNG general plant gas assets.	Gas Customers	Direct
Financial Management – AQN State Support	6311	Provide financial support to Gas/Electric Transmission and Distribution, on system non-regulated products, which includes competitive energy, as well as on and off-system appliance repair programs.	General Allocator	General Allocator
Financial Mgmt- AQN Central Support	6312	Develop/manage/maintain monthly reports, provide financial analysis, training on financial systems, and business counsel, oversee financial/accounting processes, and direct the preparation of budgets and forecasts for Aquila Networks.	General Allocator	General Allocator
NE Linc Ops Fac & CSC	6313	Manage corporate services for one facility (utilities, copiers, lease expense, asset capital charge, etc.) at the Lincoln, NE Call Center.	Customer Weighted Square Footage (Common area square footage pro rated by customer per jurisdiction)	General Allocator
Corporate Services - Council Bluffs Meter Shop	6319	Manage corporate services for Council Bluffs, Iowa gas meter shop (utilities, copiers, lease expense, asset capital charge, etc.)	General Allocator	Regulated Gas Customers
Aquila Networks HR	6327	Provide human resources functions to the Aquila Networks business group, including compensation and benefits administration, sourcing, employee relations, data gathering and reporting..	Employee Headcount	General Allocator
Aquila Networks Central Safety	6328	Provide central safety functions to the Aquila Networks business group, including central safety coordination, data gathering and reporting..	Employee Headcount	General Allocator
Appliance Technical Training	6331	Development and presentation of light commercial and domestic technical skill training in the areas of domestic household appliances, heating , venting, air conditioning, refrigeration , hydronics, and electricity to ensure the technical expertise of appliance service technicians.	Non-regulated Customers	Direct - Non-Regulated

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Safety & Technical Training - Electric Training	6332	Design and implementation of USU safety programs & incentives, incident investigation, hazard identification & problem solving, electrical technical skill training, safety policies, programs, and training to ensure compliance with state and federal DOT & OSHA regulations.	Employee Headcount	General Allocator
IT Utility Delivery Apps	6352	Ongoing support for the FAME Geographic Information System including day-to-day operational database maintenance, and small projects.	Gas and Electric Customers	General Allocator
IT - Customer Service Applications	6360	Maintaining volume forecasting, marketing, and billing production applications for Aquila Networks regulated and non-regulated products. Support from Raytown, Dodge City, and Omaha includes operations management, systems maintenance, and systems support.	Regulated and Non-regulated Customers	General Allocator
Regulatory Administration	6370	Manage and support regulatory, legislative and environmental services for the corporation.	General Allocator	General Allocator
Regulatory Services Electric	6371	Manage and support all electric regulatory filings, rate case regulatory issues as well as non-regulatory issues. Additionally, handles all FERC regulation issues and Aquila's electric matters involving regulatory commissions.	General Allocator	General Allocator
Regulatory Services Gas	6372	Manage and support all gas regulatory filings, rate case regulatory issues and non-regulatory issues. Handle all FERC gas regulation issues and Aquila gas matters involving regulatory commissions.	General Allocator	General Allocator
Regulatory Legislative Services - Missouri	6376	Monitor and communicate legislative activity in the state of Missouri affecting the corporation and any of Aquila's utility businesses.	General Allocator	General Allocator
Regulatory Legislative Services - Kansas/Colorado	6377	Monitor and communicate legislative activity in the states of Colorado and Kansas affecting the corporation and any of Aquila's utility businesses	General Allocator	General Allocator
Regulatory Acctg Svcs-Electric	6382	Perform and manage regulatory filings, rate cases, and commission requests for Aquila Networks domestic electric entities. Prepare and coordinate information for annual regulatory filings (FERC, states, etc.).	General Allocator	General Allocator

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Regulatory Acctg Svcs-Gas	6384	Perform and manage regulatory filings, rate cases, and commission requests for Aquila Networks natural gas entities. Prepare and coordinate information for annual regulatory filings. Manage non-regulated review and reporting to meet Aquila Networks and state requirements; file Cost Allocation Manuals as required by state, monitor, analyze and report Lost and Unaccounted for Gas according to state and regulatory requirements and propose process changes as required.	General Allocator	General Allocator
Aquila Networks Load Research	6385	Responsible for Load Research, Large Customer Billing Support, Class Cost of Service, Rate Design, Tariff Administration, and Customer Analysis.	General Allocator	General Allocator
IT Call Center/Networks Telecom	6397	Support Aquila Networks call centers serving regulated and non-regulated customers in all states. Charges include labor, employee expenses and 800 services.	Regulated and Non-regulated Customers	General Allocator



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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Corporate Services – 20W9th	4010	Responsible for property management, real estate transactions and security at major facilities. Aquila Merchant and UCS personnel are not located at the 20 W. 9th facility; however, personnel in Dept 4010 perform real estate and security services for these business units. Additionally Aquila general management, who support Aquila Merchant and UCS operations, are located at 20 W. 9th building.	General Allocator/Weighted Square Footage	General Allocator
Corporate Services - Raytown	4014	Manage corporate services for two facilities (utilities, copiers, lease expense, etc.) at the following locations: 700 Building, Raytown, MO and 750 Building, Raytown, MO.	General Allocator	General Allocator
Corporate Services - 1815 Capitol	4015	Manage corporate services for facility located at 1815 Capitol, Omaha, NE (utilities, copiers, lease expense, etc.)	General Allocator	General Allocator
Security Services	4023	Captures general security costs (billings for site related security guards, maintenance on security equipment, etc.). No headcount or payroll	General Allocator/Weighted Square Footage	General Allocator
Security Services 20 W Ninth	4024	Captures 20 W 9 security costs (billings for site related security guards, maintenance on security equipment, etc.). No headcount or payroll	General Allocator/Weighted Square Footage	General Allocator
Security Services Raytown	4025	Captures Raytown security costs (billings for site related security guards, maintenance on security equipment, etc.). No headcount or payroll	General Allocator	General Allocator
Security Services 1815 Capitol	4026	Captures Omaha security costs (billings for site related security guards, maintenance on security equipment, etc) . No headcount or payroll	General Allocator	General Allocator
Chief Operating Officer	4030	Management costs, including chief operating officer's salary, incurred for day-to-day supervision of the entire company operations, including international operations. Also includes dues for Edison Electric Institute and American Gas Association.	AGA dues charged direct. Remaining costs - General Allocator	General Allocator
General Counsel & Corporate Secretary	4031	Overall responsibility for all matters of a legal nature including mergers, acquisitions, joint ventures and divestitures.	General Allocator	General Allocator
Energy Resources	4033	Executive expenses incurred by the VP of Energy Resources who provides oversight for Gas Supply, Power Supply and Merchant commodity energy resources.	General Allocator	General Allocator
Chief Financial Officer	4035	Overall responsibility for all matters of a financial nature. This department benefits all domestic Aquila Inc. entities.	General Allocator	General Allocator
Chairman & Chief Exec Officer	4040	Makes Executive decisions for the corporation. Performs services for all divisions.	General Allocator	General Allocator

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Supplier Diversity Group	4041	Expands Aquila Inc.'s relationship with minority and women-owned businesses and integrates supplier diversity into everyday work processes.	General Allocator	General Allocator
Board of Directors Management	4043	Oversees the coordination of issues surrounding the board of directors.	General Allocator	General Allocator
Public Affairs	4060	Solely charitable contributions are charged to this responsibility center. Not identified specific to any one business line. Corporate giving (ex. Boy Scouts).	General Allocator	General Allocator
Environmental	4090	Assure the corporation is in compliance with environmental standards and rules.	General Allocator	General Allocator
Corporate Communications	4120	Department performs communication work for and reviews the communication's work of all operations of the company. Responsibilities include media relations, corporate advertising, publications, graphics, corporate identity, presentations, annual meeting, and internal communications.	General Allocator	General Allocator
Treasury	4130	Responsible for permanent financing of the corporation (stock issues, debt issues). Manage cash and all borrowings. Handle the administration of the defined benefit plan and 401K plan. Maintains a relationship with consultants and managers who analyze the progress of the plans. Maintain relationship with debt rating agencies.	General Allocator	General Allocator
Records Management	4131	Three main areas: 1) Responsible for Board meeting and committee minutes and arrangements for Board members. All board member transportation costs including lodging and expenses are booked to this RC. 2) Responsible for corporate records of the company. Record keeper for 120 subsidiaries - makes sure all subsidiaries are in good standing in all states. 3) Corporate record retention. Coordinate all legal activities through Blackwell Sanders.	General Allocator	General Allocator
Investor/Shareholders Relations	4132	Communication relationship with analysts on the street that follow Aquila Inc. Watch who buys and sells Aquila Inc. stock. Record keeping for stockholders. Responsible for all dealings with the annual meeting. Deal with the individual smaller shareholders and respond to any issues they may have.	General Allocator	General Allocator
Risk Management	4140	Handles all insurance premiums, claims, and administration for all U.S. business units, underwriter selection, certification, broker & TPA licenses, & reserves.	Premium Distribution %	General Allocator

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<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
Credit Risk Management	4151	Manage Credit Risk for all Aquila Inc. and subsidiaries.	Weighted Net Assets	General Allocator
Risk Analysis	4153	Provides risk pricing and structuring services, market fundamental analysis, risk monitoring and reporting, and systems support services for Aquila Inc.	Weighted Net Assets	General Allocator
Corporate Compliance	4155	Perform corporate compliance support services for Aquila.	General Allocator	General Allocator
Accounting Services	4164	This department provides accounting services for the Capacity Services group.	General Allocator	General Allocator
Disbursements	4175	Perform and manage accurate & timely processing of accounts payable voucher requests for ESF and business units. Process and issue checks for EFT's. Reconcile A/P sub ledgers. Perform and manage payroll processing and all related tax, benefits, deductions, and reconcilements for domestic Aquila Inc. Process business expense reports.	General Allocator	General Allocator
Corporate Accounting	4177	Perform and manage General Ledger entries related to the company's operating, administrative, and maintenance expense for ESF & business units. Ensure accuracy of payroll, Accounts Payable and cash management interfaces to General Ledger. Reconcile corporate cash accounts including AP disbursements and main cash concentration accounts. Ensure consistent allocation methodologies are applied across Aquila Inc. Monitor and analyze the loadings process to ensure correct loading rates and reasonable clearing account balances. Perform and manage systems administration of the PeopleSoft accounting systems	General Allocator	General Allocator
Corporate Financial Reporting	4183	Perform external reporting for consolidated Aquila Inc. Also includes external audit fees.	General Allocator	General Allocator
Risk Assessment & Audit Services	4186	Perform internal and support external audit services for Aquila Inc. Responsible for monitoring documentation and compliance of Sarbanes-Oxley throughout the organization.	General Allocator	General Allocator
Central Financial Management	4188	Ensure timely, accurate monthly and quarterly financial reporting with variance analysis of Aquila Networks financial results used for Corporate reporting and decision-making. Provide financial analysis and business counsel to Aquila Networks central service departments (Customer Services, IT, Procurement, Chief Accounting Officer, Regulatory, Treasury, Tax, Aquila Networks HR). Maintain budget tool and oversee	General Allocator	General Allocator

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		<b>budget preparation/completion for Aquila Networks.</b>		
Tax - Property Team	4192	Prepares property tax returns for all domestic operations.	General Allocator	General Allocator
Tax – Income Team	4194	Provides coordination and review of all tax functions (excluding payroll taxes) for consolidated Aquila Inc Responsible for all income tax compliance including the preparation of tax returns, tax accounting, and audit administration. Prepares sales/use tax returns for all US Networks utility divisions, Service Today as well as city franchise taxes for the utility divisions. Provide tax research, audit management, special projects, and tax planning for all entities	General Allocator	General Allocator
HR Benefits & People Center	4219	Responsible for design, development & management of all benefits programs to Aquila Inc. employees. This includes all domestic employees regardless of division.	Employee Headcount.	General Allocator
Compensation Administration	4220	Responsible for design, development & management of all compensation programs to Aquila Inc. employees. This includes all domestic employees regardless of division.	Employee Headcount.	General Allocator
HR Executive	4223	Responsible for general oversight of the corporation's HR department. Also responsible for administration of employee awards programs.	Employee Headcount	General Allocator
IT Assets - Raytown CC/CAD	4246	Assets and depreciation/amortization expense associated with IT assets serving the customers serviced through the Raytown Call Center.	Regulated and Non-regulated Customers	General Allocator
IT Assets-Lincoln CC/CAD	4247	Assets and depreciation/amortization expense associated with IT assets serving the customers serviced through the Lincoln Call Center.	Regulated and Non-regulated Customers	General Allocator
IT Assets - PeopleSoft	4250	Assets and depreciation/amortization expense associated with IT assets serving those Aquila Inc. business units utilizing the new applications for PeopleSoft, Human Resources Information System, and the new Fixed Asset System.	Journal Line Weighted	General Allocator
IT Assets - FAME	4251	Assets and depreciation/amortization expense associated with the FAME application serving Aquila Networks business units.	Regulated and Non-regulated Customers	General Allocator
IT Assets – NETCO	4253	Assets and depreciation/amortization expense associated with IT assets serving Aquila Networks, such as Customer Information Systems.	Regulated and Non-regulated customers	General Allocator
IT Assets - HRMS	4255	Assets and depreciation/amortization expense associated with IT assets serving those US Networks business units utilizing the HRMS application.	Employee Headcount	General Allocator

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**AQUILA CORPORATE SUPPORT FUNCTIONS**

<b>Department Name</b>	<b>Dept. #</b>	<b>Description of Work Process</b>	<b>Jurisdictional Cost Driver</b>	<b>Product Cost Driver</b>
IT Assets - PowerPlant	4256	Assets and depreciation/amortization expense associated with IT assets serving those Aquila Inc. business units utilizing the PowerPlant application.	Regulated and Non-regulated customers	General Allocator
IT Assets - Work Management	4257	Assets and depreciation/amortization expense associated with the Work Management application serving US Networks business units.	Regulated and Non-regulated customers	General Allocator
IT Assets-SCADA/NETCO-UPS	4258	Assets and depreciation/amortization expense associated with SCADA assets serving US Networks and UPS business units.	Net energy sales	General Allocator
IT Assets - CAD	4262	Assets and depreciation/amortization expense associated with the CAD application serving US Networks business units.	Regulated and Non-regulated Customers	General Allocator
IT Communication Services	4273	Charges include labor, outside services, travel, and equipment, maintenance supplies for maintaining connections from workstations to file servers on ESF corporate networks.	Machines Supported	General Allocator
IT Assets – ESF	4289	Assets and depreciation/amortization expenses associated with common IT assets across all domestic units of Aquila Inc.	General Allocator	General Allocator
IT Fin/HR Applications	4290	Manage Enterprise Support applications including General Ledger, Accounts Payable, Purchasing, Inventory, Project Costing, Budgeting, Fixed Asset, HR/Payroll. Two of the ten applications supported do not serve Service Today. Charges include labor, outside Services, travel expenses and training.	Journal Line weighted	General Allocator
IT Assets - Generation	4308	Assets and depreciation/amortization expense associated with IT assets serving UPS.	Electric customers	General Allocator
AQLCP Benefits	4404	This is the residual for benefits budgeted by the business units and the overhead factor utilized for charging out benefits.	Current year budgeted labor	General Allocator
AQLCP Accounting Accruals	4473	Accounting Accrual Department set up to facilitate the accrual of items to Aquila Inc. in general. Charges are not related to a specific department or may be related to multiple departments and may not be significant enough to expend the effort to allocate to each department. Most items charged to this department reverse the following month.	Current year budgeted labor	General Allocator
Strategic Sourcing – VP	5568	Creates superior supply chain value by driving optimum service, quality and innovation for material, services and fleet management in order to achieve operational excellence and lower total delivered cost.	General Allocator	General Allocator
IT Business Services	6348	General administration for Aquila Networks -IT associated with the development of Information Technology solutions	General Allocator	General Allocator

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## AQUILA CORPORATE SUPPORT FUNCTIONS

Department Name	Dept. #	Description of Work Process	Jurisdictional Cost Driver	Product Cost Driver
		supporting all of Aquila Networks.		
IT DBA/Infra Applications	6356	Responsible for design, implementation and maintenance of the Enterprise Architecture environment. Work includes installing software, planning and implementing the technical environment for the application software, working with developers on the technical design and responding to architectural issues. Support also includes maintaining the environment for the Internet and intranet referred to as the WEB architecture.	General Allocator	General Allocator
IT Field Support	6357	Responsible for responding to and assisting users with information technology software and hardware needs at their work site. Personnel are assigned work by the enterprise Help Desk when the user's need cannot be resolved remotely. Work includes solving computer technology problems as well as installing new and /or updated software and hardware. Activities also include setting up the desktop environment for new employees.	General Allocator	General Allocator
IT Ops / Service Support	6358	Responsible for receiving and responding to calls for information technology assistance. Work structure /operations is referred to as the "Help Desk". Personnel on the "help desk" are the first point of contact for users with a technical problem or need. If the 'help desk" cannot resolve the need it is passed on to the next level of support based on the technical need. Each call is recorded and escalated in problem management system and closed when resolution/ implementation takes place.	Machines Supported	General Allocator
IT Server/Storage Desktop Infrastructure	6364	Responsible for operations of HP-UX, Linux and Windows server hardware, enterprise storage solutions and infrastructure software for all of Aquila's enterprise and departmental applications. Provides the framework necessary for applications to run business processes.	General Allocator	General Allocator
IT Database Services	6365	Responsible for implementation and maintenance of databases used by the Aquila Networks and corporate applications. Work includes defining, building and installing the databases and the	General Allocator	General Allocator

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## AQUILA CORPORATE SUPPORT FUNCTIONS

Department Name	Dept. #	Description of Work Process	Jurisdictional Cost Driver	Product Cost Driver
		associated DBA software and tools. Support activities include managing all technical aspects: monitoring for optimization, access, backup/ recovery and growth. Data Base Personnel serve as consultants to the application support personnel on data base technology		
IT Prod Control/Operations	6366	Responsible for operations of mainframe hardware and software used to process the company's major /critical applications: the Customer Information Systems (used for Aquila Networks billing and customer service) and the Financial and Human Resource Systems (used by both Aquila Networks and Merchant to maintain and report financial and human resource data). Work includes performing the tasks necessary for the applications to process and monitoring job completion. Support activities also require performing back up and recovery procedures, after hours help desk and site monitoring at the Information Center and remote locations.	General Allocator	General Allocator

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### Assignment Basis Formulas:

Budgeted Labor %	Jurisdiction current year budgeted labor as a % of total applicable budgeted labor $(\text{Jurisdiction budgeted labor} / \text{total budgeted labor}) = \text{Budgeted Labor \%}$
Customer Weighted Square Footage	Common area square footage pro rated by Customers per Jurisdiction. $(\text{Common area square footage} * (\text{customers per jurisdiction} / \text{total customers})) = \text{Customer Weighted Square Footage}$
Direct	Charged direct to the state and/or product line.
Employee Headcount	Jurisdiction employee headcount as a % of total applicable employee headcount. $(\text{Jurisdiction employee headcount} / \text{total employee headcount}) = \text{Employee Headcount}$
Gross Margin	Gross Margin as a % of total applicable Gross Margin. $(\text{Gross Margin per jurisdiction} / \text{total Gross Margin}) = \text{Gross Margin}$
Journal Line Weighted	The average number of journal lines generated by business unit weighted by PeopleSoft system costs. $(\text{Base PeopleSoft System costs} * (\text{journal line count per jurisdiction} / \text{total journal line count}) + (\text{Complex PeopleSoft Application Cost} * (\text{journal line count per regulated jurisdiction} / \text{total journal line count for regulated jurisdictions}))) = \text{Journal Line Weighted}$
Loaded Payroll Charged to Expense	Jurisdiction Loaded Payroll Charged to Expense as a % of total applicable Loaded Payroll Charged to Expense. $(\text{Loaded Payroll Charged to Expense per jurisdiction} / \text{total Loaded Payroll Charged to Expense}) = \text{Loaded Payroll Charged to Expense}$
Machines Supported	Jurisdiction # of Machines Supported as a % of total applicable Machines Supported. $(\text{Jurisdiction \# of Machines Supported} / \text{total machines supported}) = \text{Machines Supported}$
General Allocator (Massachusetts Formula)	Arithmetic average of a combination of the weighted average of gross margin, loaded payroll charged to expense, and net plant of the applicable Jurisdictions or business units. $(\text{Jurisdiction gross margin} / \text{total gross margin} + \text{Jurisdiction payroll} / \text{total payroll} + \text{Jurisdiction net plant} / \text{total net plant}) / 3 = \text{General Allocator}$



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### Assignment Basis Formulas:

General Allocator Weighted Square Footage	Arithmetic average of a combination of the weighted average of gross margin, payroll charged to expense, and net plant of the applicable Jurisdictions or business units weighted by the IBU/ESF square footage ratio. $((\text{Jurisdiction gross margin}/\text{total gross margin} + \text{Jurisdiction payroll}/\text{total payroll} + \text{Jurisdiction net plant}/\text{total net plant})/3) * \text{UED square footage percent} + ((\text{Jurisdiction gross margin}/\text{total gross margin} + \text{Jurisdiction payroll}/\text{total payroll} + \text{Jurisdiction net plant}/\text{total net plant})/3) * \text{ESF square footage percent} = \text{General Allocator Weighted Square Footage}$
Net Energy Sales (MWH)	Jurisdiction Net Energy Sales as a % of total applicable Net Energy Sales. $(\text{Jurisdiction Net Energy Sales} / \text{Total Net Energy Sales}) = \text{Net Energy Sales}$
Non-Regulated Customers	Jurisdiction non-regulated customers as a % of total applicable non-regulated customers. $(\text{Jurisdiction non-regulated customers}/\text{total non-regulated customers}) = \text{Non-Regulated Customers}$
Premiums Allocation %	Jurisdiction Premiums Paid as a % of total applicable Premiums Paid plus allocation of Broker Premium based on the premiums paid ratio. $(\text{Jurisdiction Premiums Paid} + \text{Jurisdiction Premiums Paid}/\text{Total Premiums Paid} * \text{Total Broker Premium})/(\text{Total Premiums Paid} + \text{Total Broker Premium}) = \text{Premiums Allocation \%}$
Regulated and Non-Regulated Customers	Jurisdiction regulated and non-regulated customers as a % of total applicable regulated and non-regulated customers. $(\text{Jurisdiction regulated and non-regulated customers}/\text{total regulated and non-regulated customers}) = \text{Regulated and Non-Regulated Customers}$
Regulated Electric Customers	Jurisdiction regulated electric customers as a % of total applicable regulated Electric customers. $(\text{Jurisdiction regulated electric customers}/\text{total regulated electric customers}) = \text{Regulated Electric Customers}$
Weighted Net Assets	Jurisdiction net assets as a % of total applicable Net assets weighted by department staff time division between Networks and Merchant. $(\text{Jurisdiction Net assets}/\text{Total Net assets} * \text{Staff time division}) = \text{Weighted Net Assets}$

Note: All allocation factors are updated annually at mid-year unless there

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Assignment Basis Formulas:

is a material change within the organization that would require them to be updated more frequently

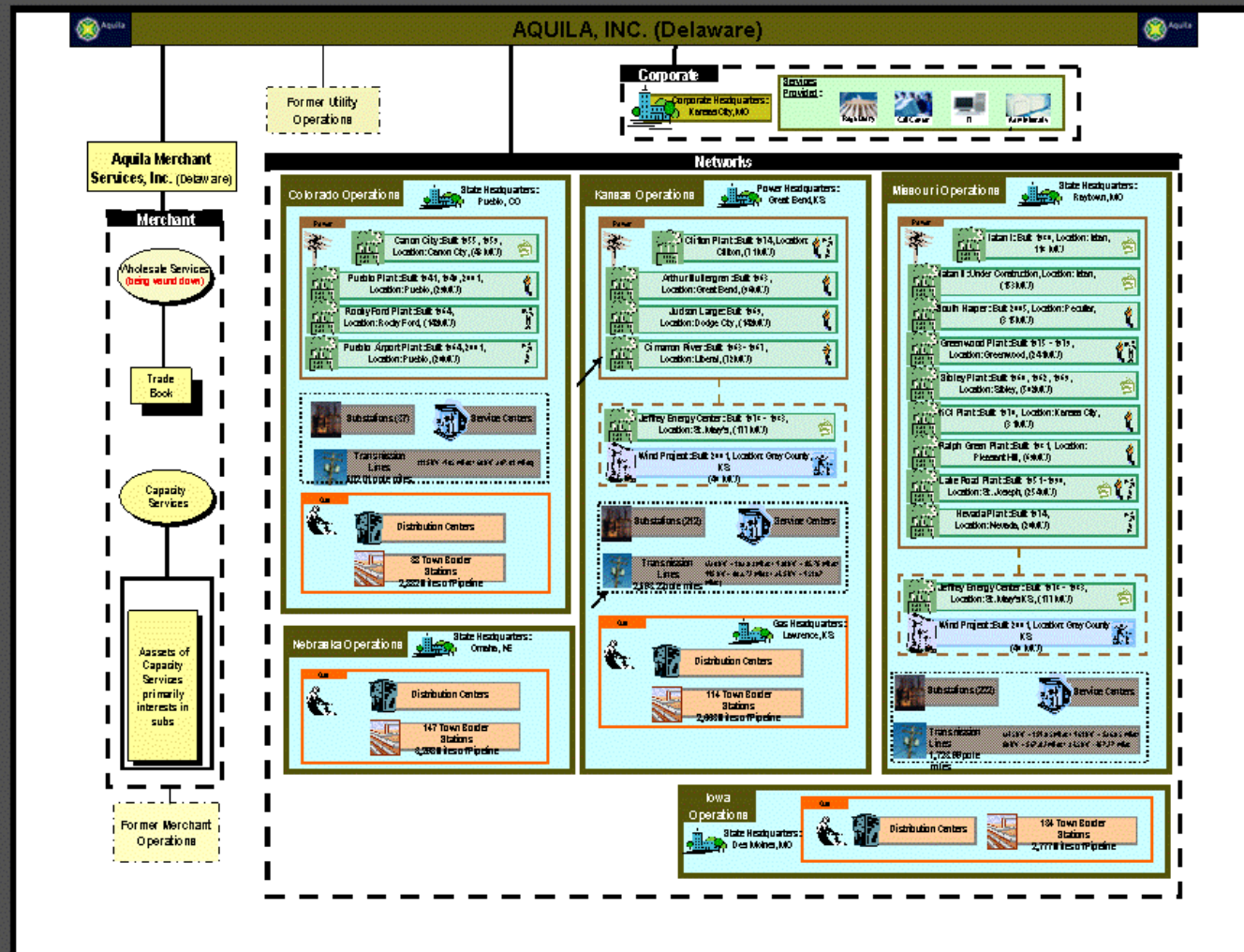
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## APPENDIX 1

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Office of the General Counsel

### STRUCTURE DIAGRAM



February 2007, Aquila, Inc.

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### Acronyms and Definitions:

A/P	Accounts Payable	Amounts owed by the utility.
AFUDC	Allowance for Funds Used During Construction	Concurrent credits for allowance for other funds used during construction.
CAD	Computer Aided Dispatch	Computerized system, which allows for the centralization and automation of dispatching of fieldwork, creating efficiencies and improving customer satisfaction.
CC	Customer Care	A segment of Aquila Networks that encompasses Aquila Networks' Customer Service Centers, customer finance activities including cash and accounts receivable management, billing services, and customer communications.
CS	Customer Service	Customer Service Centers.
DOT	Department of Transportation	The Department of Transportation's Research and Special Programs Administration (RSPA), acting through the Office of Pipeline Safety (OPS), administers the Department's national regulatory program to assure the safe transportation of natural gas, petroleum, and other hazardous materials by pipeline. OPS develops regulations and other approaches to risk management to assure safety in design, construction, testing, operation, maintenance, and emergency response of pipeline facilities. When referencing DOT regarding highway transportation issues such as vehicle licensing (i.e. CLD) requirements, vehicular transport of hazardous materials requirements, etc., DOT refers to The Office of Motor Carriers, which is part of the Federal Highway Administration (FHWA), Department of Transportation, and administers the Department's federal motor carrier safety regulation.
EEOC	Equal Employment Opportunity Council	Group of people set up to ensure compliance with equal employment opportunity rules and regulations.
EFT	Electronic Funds Transfer	Transfer of money through electronic media.
ESF	Enterprise Support Function	Central corporate departments within the business unit Aquila Corporate (AQLCP).

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### **COST ALLOCATION MANUAL APPENDIX 2**

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#### **Acronyms and Definitions:**

FAME	Facilities Management & Mapping Enabler	Set of computerized maps of Aquila Networks' thousands of miles of wires, pipes, and connecting elements. This tool will be used to help manage Aquila Networks' distribution system.
FAS	Financial Accounting Standards	Accounting Standards established by the Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission	Federal agency, which regulates the accounting and reporting requirements for natural gas companies.
GSS	Gas Supply Services	Department of Aquila Networks which manages the natural gas supply portfolio for Aquila Networks by purchasing gas supply, storage, and transportation on 14 mid-continent pipelines.
HR	Human Resources	Department that handles issues related to compensation and benefits, employee relations, organizational effectiveness, and performance management.
HRMS	Human Resources Management System	Software applications utilized to gather various employee and human resource related information.
HVAC	Heating, Ventilation & Air Conditioning	Non-Regulated product line that provides heating, ventilation & air conditioning services to customers.
IBU	Intra Business Unit	Departments within the business unit Aquila Networks (NETCO).
IT	Information Technology	Department that handles all issues and maintains the systems involving personal computers, the networks and miscellaneous computer related projects.
MPS	Missouri Public Service	Division of Aquila known as Aquila Networks - MPS.
NETCO	Networks Companies	Central support departments for Aquila Networks operating companies. (See IBU)
O&M	Operating & Maintenance	Costs incurred to run and uphold the utility business.
PC	Personal Computer	Individual employee computers.
PGA	Purchased Gas Adjustment	An adjustment to an effective rate to reflect the fluctuating cost of purchased gas. The PGA permits natural gas pipeline companies to reflect changes in their cost of purchased gas.
PNG	Peoples Natural Gas	Division of Aquila known as Aquila Networks - PNG.

**Acronyms and Definitions:**

SCADA	System Control and Data	Computer system.
SJLP	St. Joseph Light & Power	Division of Aquila known as Aquila Networks – L&P.
TOTI	Taxes Other Than Income	Amounts of ad valorem, gross revenue or gross receipts, taxes, state unemployment insurance, franchise taxes, federal excise taxes, social security taxes, and all other taxes assessed by federal, state, county, municipal, or other local governmental authorities, except income taxes.
TPA	Third Party Administrator	External party who handles the administration of a portion of the company's insurance policy.
VP	Vice President	Level of management status.
WPC	West Plains – Colorado	Generation and Distribution business of Aquila Networks – WPC
WPE	West Plains Energy	Division of Aquila, Inc.

**Aquila, Inc.**  
**Corporate Allocations**  
**Tab 4 - 2007 Change Control Log**

<u>Log No.</u>	<u>Date</u>	<u>Description of Change</u>	<u>Effective Date</u>	<u>Reason for Change</u>
<u>ESF</u>				
2007-1E	1/1/07	Add dept 4188 to ESF step 28	1/1/07	Per phone call from Jim Heyward
2007-2E	7/1/07	Mid-year update of cost driver statistics	7/1/07	

**Aquila, Inc.**  
**Corporate Allocations**  
**Tab 4 - 2007 Change Control Log**

<u>Log No.</u>	<u>Date</u>	<u>Description of Change</u>	<u>Effective Date</u>	<u>Reason for Change</u>
<u>IBU</u>				
2007-1I	1/1/07	Add dept 6198 to IBU step 24A	1/1/07	Per e-mail from Terry Thomas
2007-2I	1/1/07	Remove depts 5491 & 5492 from IBU step 27A	1/1/07	Per e-mail from Joe Bahr
2007-3I	1/1/07	Remove depts 6165 & 6166 from IBU step 126	1/1/07	Per e-mail from Joe Bahr
2007-4I	2/1/07	Delete IBU steps 56 & 91. No need to allocate MN costs.	2/1/07	Per e-mail from Ruth Saale
2007-5I	7/1/07	Mid-year update of cost driver statistics	7/1/07	

**END**



**Aquila, Inc d/b/a Aquila Networks - MPS**  
**SUMMARY OF DIRECT/ALLOCATED CHARGES**  
For the 12 Months Ended December 31, 2007

Summary of Charges	Total
Aquila Energy Corporation	5,848
Crossroads Energy Center -Aquila	-3
Total -	5,845

**Aquila, Inc d/b/a Aquila Networks - L&P**  
**SUMMARY OF DIRECT/ALLOCATED CHARGES**  
For the 12 Months Ended December 31, 2007

Summary of Charges	Total
Aquila Energy Corporation	5,986
Crossroads Energy Center -Aquila	-1
Total -	5,985

**Aquila, Inc**  
**ESF Overhead Allocations**  
**Year Ended December 31, 2007**

Dept	Dept Descrp	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas NE	PNG Pipeline NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
1003	Sibley General		59	1,319	103	268	236	383		386	358	3,111
1004	Greenwood - General	1		12	1	3	2	3		3	3	29
1009	Arthur Mullergren-Great Bend		2	34	3	7	6	10		10	9	80
1042	Resource_Operations	(1)	(0)	(26)	(2)	(5)	(5)	(7)		(7)	(7)	(61)
1043	VP_Energy_RES	4		71	5	14	13	20		20	18	166
1060	Lake Road Common	6	5	206	16	42	37	59		59	54	485
1214	Crossroads Energy Center	(0)		(3)	(0)	(1)	(1)	(1)		(1)	(1)	(8)
1999	Merchant Winddown		0	2	0	0	0	0		1	0	4
2301	GSS Administration	7		120	9	24	22	34		34	31	281
2309	GSS Cost Management	17	1	301	23	61	55	85		86	77	706
2318	GSS Planning and Forecasting	3		52	4	11	10	15		15	13	122
2319	GSS Operations	2	2	68	5	14	12	19		20	18	160
4010	Corporate Services - 20W Ninth	122,358	193,164	2,327,848	176,871	463,155	412,561	654,702		663,342	607,542	5,621,543
4014	Corporate Services - Raytown			906,803	69,979	181,503	161,404	258,426		260,504	239,745	2,078,364
4015	Corporate Services-Omaha			817,285	62,699	163,488	145,652	231,949		233,818	214,422	1,869,314
4023	Security Services-General	23,438	29,261	396,446	30,131	78,923	70,320	111,382		112,795	103,195	955,893
4024	Security Services-20W Ninth	5,881	7,348	99,511	7,563	19,810	17,651	27,958		28,313	25,903	239,939
4025	Security Services-Raytown			93,903	7,192	18,781	16,741	26,620		26,834	24,584	214,654
4026	Security Services-Omaha			41,274	3,158	8,254	7,360	11,692		11,787	10,792	94,318
4030	Chief Operating Officer	48	3,873	87,242	6,790	17,696	15,640	25,301		25,507	23,649	205,745
4031	Gen Counsel & Corp Secretary	8,802	5,398	270,796	20,994	55,064	49,054	77,194		77,830	71,048	636,180
4032	Strategic Initiatives	(6)		(99)	(8)	(20)	(18)	(28)		(28)	(25)	(231)
4035	Chief Accounting Officer	8,634	5,243	264,482	20,503	53,780	47,912	75,388		76,010	69,381	621,334
4038	CEO Costs Retained	312		5,337	412	1,087	975	1,500		1,512	1,362	12,499
4040	Chairman & CEO	14,775	11,268	503,831	39,075	102,424	91,174	143,871		145,055	132,625	1,184,099
4041	Suppl Diver-Stakehldr Outreach		(0)		-		-	-		0	0	0
4043	Board of Directors Management	8,576	7,472	313,215	24,298	63,664	56,644	89,534		90,271	82,615	736,288
4060	Charitable & Civic Giving	1,179	1,770	59,636	4,630	12,114	10,758	17,117		17,258	15,853	140,316
4090	Environmental			177,817	13,641	35,570	31,690	50,465		50,871	46,652	406,706
4120	Communications-StkhldrOutreach	10,074	11,841	436,298	33,863	88,652	78,794	125,008		126,034	115,590	1,026,155
4130	Treasury	8,081	7,350	302,052	23,432	61,392	54,614	86,373		87,083	79,722	710,099
4131	Records Management	12,143	8,479	396,627	30,756	80,638	71,804	113,179		114,111	104,266	932,005
4132	Investor/Shareholder Relations	6,973	17,310	505,384	39,269	102,616	90,996	145,530		146,720	135,173	1,189,972
4140	Insurable Risk Management		5,241	413,765	29,651	68,453	66,268	88,940		105,504	94,169	871,991
4151	Credit Risk Management	36,801	61,479	70,995	3,439	6,103	6,764	10,096		14,537	10,317	220,532
4153	Commodity Risk Management	115,831	190,186	222,026	10,755	19,089	21,152	31,577		45,467	32,264	688,346
4164	Commodity Accounting	57,008	65,007	280,485	21,759	56,026	49,925	79,360		80,123	73,309	763,002
4175	Disbursements	9,048	8,765	350,141	27,167	71,161	63,290	100,173		100,996	92,502	823,244
4177	Corp Accounting & System Admin	8,550	6,967	301,510	23,387	61,289	54,544	86,143		86,852	79,447	708,689
4183	Corp Reporting/Plan & Analysis	33,446	26,819	1,169,744	90,728	237,783	211,627	334,158		336,908	308,150	2,749,363
4186	Risk Assessment & Audit Svcs	12,834	9,495	431,085	33,432	87,638	78,021	123,069		124,082	113,424	1,013,079
4188	Central Fin Management	8,070	5,522	261,063	20,243	53,078	47,265	74,483		75,097	68,608	613,429
4192	Property Tax Department			282	22	56	50	81		81	75	648
4194	Tax Department	14,428	12,250	519,818	40,320	105,661	94,019	148,563		149,785	137,056	1,221,900
4210	Corporate-General		(0)	(2)	(0)	(0)	(0)	(1)		(1)	(1)	(5)
4219	HR Benefits & People Center	382	4,494	263,929	35,623	114,945	84,961	149,659		107,076	119,468	880,537

**Aquila, Inc**  
**ESF Overhead Allocations**  
**Year Ended December 31, 2007**

Dept	Dept Descrp	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas NE	PNG Pipeline NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
4220	HR Compensation	387	4,158	254,466	34,368	110,988	81,940	144,342		103,089	115,310	849,048
4223	HR Executive	255	2,418	156,953	21,216	68,594	50,562	89,071		63,461	71,227	523,758
4246	IT Assets - Raytown CC/CAD			203,993	61,912	147,066	100,541	182,383		56,502	78,519	830,918
4247	IT Assets - Lincoln CC/CAD			77,777	23,722	55,955	38,312	69,456		21,531	29,877	316,632
4250	IT Assets - PeopleSoft	4,789	14,984	1,279,593	319,587	633,823	451,513	316,508	14,984	479,155	439,704	3,954,640
4251	IT Assets-Fame			590,183	179,111	425,496	290,882	527,670		163,471	227,172	2,403,987
4253	IT Assets - NETCO			1,875,609	569,139	1,352,310	924,441	1,676,996		519,521	721,995	7,640,010
4255	IT Assets - HRMS	284	2,301	161,761	21,891	70,875	52,139	91,855		65,244	73,547	539,896
4256	IT Assets - PowerPlant			33,783	10,252	24,357	16,651	30,205		9,357	13,004	137,608
4257	IT Assets - Work Management			77,904	23,645	56,163	38,396	69,650		21,578	29,985	317,320
4258	IT Assets-SCADAOther NETCO-UPS			260,390						86,188	82,518	429,096
4262	IT Assets-CAD			331,355	100,249	239,208	163,371	296,477		91,812	127,705	1,350,177
4273	IT Communication Services			724,383	188,374	292,399	235,927	221,356		222,090	376,143	2,260,672
4289	IT Assets-ESF	63,720	48,473	2,170,060	168,301	441,152	392,700	619,658		624,758	571,211	5,100,033
4290	IT Fin/HR Applications	5,410	3,370	499,203	157,659	279,453	228,055	221,956	3,370	177,947	179,473	1,755,893
4308	IT Assets-Generation			105,289						29,063	40,237	174,590
4404	AQLCP Benefits	263,399	536,461	3,910,205	393,252	941,190	785,196	1,194,019		1,222,604	1,148,556	10,394,884
4473	AQLCP Accounting Accruals	21,702	122,870	560,856	55,734	134,882	112,029	173,047		178,735	162,634	1,522,488
5001	Elec Trans Ops-MO/SJ Gen	6		95	7	19	17	27		27	24	222
5005	Sys Protection Const&Maint-MPS	4	(0)	61	5	12	11	17		17	16	143
5019	Transmission Eng MPS-General	6		105	8	21	19	29		30	27	245
5030	Systems Operations-MPS General	1		12	1	3	2	3		3	3	29
5041	MPS Telecom		3	69	5	14	12	20		20	19	163
5042	Transmission Services VP	17		295	23	60	54	83		83	75	690
5130	General Business Support	(2)	(4)	(132)	(10)	(27)	(24)	(38)		(38)	(35)	(311)
5131	MPS Electric General	4	4	156	12	32	28	45		45	41	367
5227	NE Business Operations	3		51	4	10	9	14		15	13	120
5253	MO Electric Standards	10		174	13	35	32	49		49	44	407
5254	Network Gas Stds & Safety Trng	1		17	1	3	3	5		5	4	40
5255	Forestry MO/CO/KS	2	2	76	6	15	14	22		22	20	179
5259	MO Electric Planning & Design	1		12	1	3	2	3		3	3	29
5302	General CO Elec Network Ops		2	34	3	7	6	10		10	9	80
5303	Pueblo Network Ops	0			0		(0)					0
5305	Net Ops Work Management	(99)	(70)	(3,267)	(253)	(664)	(592)	(932)		(940)	(859)	(7,678)
5306	Canon City Elec Network Ops	5	13	379	29	77	68	109		110	101	893
5332	West MO Elec District Manager	1		12	1	3	2	3		3	3	29
5335	Blue Springs 1 Elec Netwrk Ops	1		12	1	3	2	3		3	3	29
5337	Belton 1 Elect Field Ops	1		12	1	3	2	3		3	3	29
5338	East MO Elec District Manager	1		25	2	5	4	7		7	6	57
5340	Liberty Elec Network Ops	4		70	5	14	13	20		20	18	163
5342	Trenton Elec Network Ops	1		12	1	3	2	3		3	3	29
5343	South MO Elec District Manager	1		12	1	3	2	3		3	3	29
5344	Warrensburg Elec Network Ops	1		12	1	3	2	3		3	3	29
5346	Clinton Elec Network Ops	1	3	82	6	17	15	24		24	22	192
5347	Sedalia Elec Network Ops	1	1	29	2	6	5	8		8	8	69
5356	Maryville/Mound City EI NetOps	1	0	16	1	3	3	5		5	4	38

**Aquila, Inc**  
ESF Overhead Allocations  
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Dept	Dept Descrip	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas NE	PNG Pipeline NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
5373	MPS Substation Maintenance	(0)	(0)	(2)	(0)	(0)	(0)	(1)		(1)	(0)	(4)
5383	Lawrence Gas Field Svcs		2	37	3	8	7	11		11	10	88
5384	Wichita Gas Field Svcs	1		17	1	3	3	5		5	4	40
5398	General CO Gas Network Ops	1	8	182	14	37	33	53		53	49	430
5400	Monument Network Ops	1		12	1	3	2	3		3	3	29
5402	Castle Rock Gas Field Svcs		17	388	30	79	70	113		113	105	915
5458	Iowa Central Region Mgr	2		42	3	8	8	12		12	11	98
5460	Iowa Dubuque Net Ops	1		12	1	3	2	3		3	3	29
5462	General NE State Headquarters	10		171	13	35	31	48		49	44	401
5490	Metershop General	2		29	2	6	5	8		8	8	69
5557	Materials Mgmt-MO MPS	(0)	(0)	(8)	(1)	(2)	(1)	(2)		(2)	(2)	(19)
5559	Procurement - T & D	18		301	23	61	55	84		85	77	704
5560	Materials Mgmt-NE	7		122	9	25	22	34		35	31	285
5567	Procurement - Services	146	1	2,520	195	513	460	708		714	644	5,901
5568	Strategic Sourcing-VP	7,573	5,555	253,293	19,643	51,494	45,844	72,307		72,902	66,636	595,246
5574	Missouri Fleet Management	8		139	11	28	25	39		40	36	327
5699	Centralized Services VP	4		64	5	13	12	18		18	16	150
5700	Business Solutions	(208)	2	(3,520)	(272)	(717)	(643)	(989)		(997)	(898)	(8,243)
5701	Cust Service Center-Lincoln	5	3	155	12	32	28	44		45	41	365
5702	Customer Srv Ctr-Raytown	6	19	508	40	103	91	146		148	136	1,196
5706	Billing-Omaha	1		17	1	3	3	5		5	4	40
5708	Accounts Receivable Mgmt	1		25	2	5	4	7		7	6	57
5709	Remittance Processing	1	1	34	3	7	6	10		10	9	80
5710	Credit and Collections	1	3	75	6	15	13	22		22	20	176
5711	Cust Commun-Stakeholder Outreach	783	313	20,682	1,670	4,368	3,849	6,064		5,922	5,430	49,081
5712	Bill Processing	23		396	31	81	72	111		112	101	926
5716	Field Resources Center-Raytown	8	2	173	13	35	31	49		49	45	405
5722	Field Resource Center Director	512	(12)	8,483	655	1,729	1,550	2,382		2,401	2,161	19,862
5726	Customer Account Correspondenc	9	2	208	16	42	38	59		59	54	487
5732	Iowa Spencer		17	380	30	77	68	110		111	103	897
5733	Iowa Dubuque Cust Serv		5	108	8	22	19	31		32	29	256
5734	Iowa Newton	11	1	207	16	42	38	58		59	53	486
5735	Iowa Webster City	1		12	1	3	2	3		3	3	29
5763	Billing Adjustments	4		70	5	14	13	20		20	18	163
5770	NE Customer Relations	6	2	137	11	28	25	39		39	35	321
5771	NE Lincoln Region	9		149	12	30	27	42		42	38	349
5772	NE South Region	1		12	1	3	2	3		3	3	29
5775	NE North Region	12		206	16	42	38	58		58	53	482
5869	Customer Support		2	51	4	10	9	15		15	14	120
5897	Nevada CS	4	1	81	6	17	15	23		23	21	191
5900	Clinton CS	1		12	1	3	2	3		3	3	29
5901	Sedalia CS	3	1	69	5	14	13	20		20	18	162
5906	Blue Springs CS		5	120	9	24	22	35		35	33	284
5907	Lees Summit CS	2		35	3	7	6	10		10	9	82
6016	Customer Services Training	40	5	799	62	163	146	226		227	206	1,873
6028	Cust Svcs Process Mgmt	5	2	121	9	25	22	34		35	32	285

**Aquila, Inc**  
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Dept	Dept Descrip	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas NE	PNG Pipeline NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
6035	Iowa Western Region Manager	2		34	3	7	6	10		10	9	80
6095	WPE CO Community Services	6		102	8	21	19	29		29	26	239
6107	Iowa Community Relations		6	127	10	26	23	37		37	34	299
6124	Community Relations MO		2	52	4	11	9	15		15	14	123
6130	Misc Networks Allocation	7	(10)	(105)	(8)	(21)	(18)	(31)		(32)	(30)	(249)
6134	Process Improvement	4	1	88	7	18	16	25		25	23	206
6161	Procurement-Generation	112		1,913	148	390	350	538		542	488	4,481
6166	Iowa Gas Bus Ops	10	1	184	14	38	34	52		52	47	432
6168	Iowa Eastern Regional Manager	3	1	64	5	13	12	18		18	17	150
6180	CO Elec Communications Svc Mgr	2	2	68	5	14	12	19		20	18	160
6198	KS/CO Gas Business Ops	4	0	71	5	14	13	20		20	18	166
6311	Financial Mgmt-AQN State Supp	3	2	85	7	17	16	24		25	22	201
6327	HR Networks	1,216	226	25,803	1,997	5,253	4,696	7,297		7,358	6,667	60,513
6332	Safety & Tech Trng-Elect Trng		1	17	1	3	3	5		5	5	40
6348	IT Business Services	13,539	10,996	476,624	36,969	96,886	86,225	136,170		137,290	125,583	1,120,282
6352	IT Utility Delivery Apps	(52)	(138)	(3,963)	(308)	(805)	(713)	(1,141)		(1,151)	(1,061)	(9,331)
6356	IT Enterprise Applic Svcs	8,779	6,562	296,391	22,986	60,255	53,640	84,622		85,319	77,996	696,550
6357	IT Field Support			237,078	61,764	95,657	78,031	72,880		74,200	123,824	743,433
6358	IT Support Center			134,772	35,067	54,394	44,034	41,258		41,580	70,105	421,211
6360	IT Cust Serv Applications	(788)	(387)	(22,080)	(1,711)	(4,491)	(4,004)	(6,283)		(6,335)	(5,774)	(51,853)
6364	IT Server/Storage Desktop Infr	30,919	31,985	1,241,859	96,365	252,370	224,406	355,469		358,389	328,398	2,920,160
6365	IT Database Services	5,167	5,369	208,062	16,145	42,282	37,596	59,558		60,047	55,024	489,251
6366	IT Prod Control/Operations			168,881	44,032	68,127	55,840	52,051		53,330	88,430	530,692
6370	Regulatory Administration	13		219	17	45	40	62		62	56	513
6371	Regulatory Services Electric		315	7,026	547	1,425	1,259	2,038		2,055	1,906	16,570
6372	Regulatory Services-Gas	(3)	(1)	(76)	(6)	(15)	(14)	(22)		(22)	(20)	(178)
6377	Reg Legislative Svcs-KS/CO	7	6	248	19	50	45	71		72	66	584
6384	Regulatory Acctg Svcs-Gas	5	1	101	8	21	18	29		29	26	237
6385	Aquila Networks Load Research		2	35	3	7	6	10		10	10	83
6397	IT Call Cntr/Networks Telecom	4	1,648	36,844	2,868	7,473	6,604	10,688		10,775	9,992	86,896
<b>Grand Total</b>		<b>955,593</b>	<b>1,503,599</b>	<b>28,662,536</b>	<b>3,619,534</b>	<b>8,501,930</b>	<b>6,812,667</b>	<b>10,321,885</b>	<b>18,354</b>	<b>8,564,751</b>	<b>8,679,232</b>	<b>77,640,081</b>

**Aquila, Inc**  
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Dept	Dept Descrip	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	NMU Minnesota Gas	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas MN	Peoples Natural Gas NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
	None (Inc Tax)			(20,236)		(1,514)	(4,038)	(3,625)		(5,644)	(5,690)	(5,139)	(45,887)
1003	Sibley General			1,064		1	3	3		5	28	26	1,132
1004	Greenwood - General			8,683		1	3	3		5	2,261	2,069	13,025
1039	Resource_Mgmt			210,024							67,874	64,599	342,497
1042	Resource_Operations			1,204,297		2,354	5,466	3,951		7,173	389,984	371,360	1,984,585
1043	VP_Energy_RES			335,879		1	3	3		5	107,634	102,222	545,747
1044	Resource_Planning			463,279		1,749	4,344	3,532		5,965	148,496	141,038	768,403
1060	Lake Road Common			6,620		13	36	32		50	1,930	1,766	10,447
2301	GSS Administration			786		38,594	90,120	65,136		118,368	222	201	313,428
2308	GSS Transport&Contract Admin					33,279	76,589	55,409		100,710			265,986
2309	GSS Cost Management			464		30,746	71,619	51,769		94,086	133	122	248,939
2318	GSS Planning and Forecasting			405		47,160	109,739	79,322		144,171	115	105	381,018
2319	GSS Operations			209		26,759	62,104	44,901		81,609	61	56	215,699
2320	GSS Measurement					(2)	(4)	(3)		(6)			(15)
4010	Corporate Services - 20W Ninth			230		1	4	3		5	67	62	372
4014	Corporate Services - Raytown			89		7	18	16		25	26	24	203
4015	Corporate Services-Omaha			17		1	3	3		5	5	5	40
4023	Security Services-General			83,542		6,374	16,702	14,906		23,618	23,809	21,761	190,712
4031	Gen Counsel & Corp Secretary			30,997		2,410	6,229	5,530		8,883	8,924	8,228	71,202
4035	Chief Accounting Officer			16		1	3	3		5	5	4	37
4060	Charitable & Civic Giving			2,906		217	580	521		811	817	738	6,590
4090	Environmental			2,337							1,893		4,230
4120	Communications-StkhldrOutreach			5,180		307	995	862		1,389	1,502	1,390	11,625
4130	Treasury			378,545		29,043	75,724	67,461		107,439	108,305	99,325	865,842
4131	Records Management			88		7	18	16		25	26	24	203
4132	Investor/Shareholder Relations			34		3	7	6		10	10	9	78
4140	Insurable Risk Management			424		115	397	368		447	184	176	2,111
4151	Credit Risk Management			16		1	3	3		5	5	4	37
4164	Commodity Accounting					13	31	22		40			106
4175	Disbursements			92		7	18	16		26	27	25	211
4177	Corp Accounting & System Admin			36		3	7	6		10	10	9	81
4186	Risk Assessment & Audit Srvs			18		1	4	3		5	5	5	41
4188	Central Fin Management			42,617		3,294	8,531	7,583		12,159	12,257	11,291	97,731
4194	Tax Department			10,453							3,176	2,911	16,540
4219	HR Benefits & People Center			85		6	17	15		24	24	22	193
4220	HR Compensation			714		30	78	69		111	112	103	1,216
4273	IT Communication Services			10,141		986	2,468	2,027		3,385	2,933	2,684	24,624
4402	NETCO Benefits	8,094	28,167	4,676,018		828,365	1,859,374	1,450,708		2,238,569	1,429,182	1,313,395	13,831,871
4474	NETCO Accounting Accrual	1,189	8,969	1,005,817		177,015	403,522	311,730		477,322	310,838	285,180	2,981,582
5001	Elec Trans Ops-MO/SJ Gen			215,140							61,113		276,253
5002	Elec Trans Ops-ROW-MO/CO/KS			4,329							1,131		5,460
5007	SCADA MPS			66,591		17	43	38		62	18,929	58	85,738
5011	System Operations-CO			208		16	42	37		60	60	56	478
5023	Elec Trans Business Ops-Genl			49,135		17	43	38		61	13,605	12,975	75,873
5030	Systems Operations-MPS General			498,467		3	7	6		10	141,827	10	640,330
5036	Sys Protect Const&Maint-SJLP			56									56
5042	Transmission_Services_VP			125,169		29	74	66		107	33,511	32,733	191,690
5106	General KS/CO Elec Assets											(862)	(862)
5130	General Business Support			6,299		934	2,384	2,126		3,438	1,947	2,742	19,870

**Aquila, Inc**  
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Dept	Dept Descrip	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	NMU Minnesota Gas	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas MN	Peoples Natural Gas NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
5131	MPS Electric General			37,619		147	376	333		540	10,746	9,850	59,609
5133	Lee's Summit 1 Electric Assets			(47)		(4)	(9)	(8)		(13)	(13)	(12)	(106)
5155	MO Business Operations Directr			185,539							51,261		236,800
5227	NE Business Operations			88		7	18	16		25	25	23	200
5250	MO Elec Engineering Service			149,436		1	3	3		5	41,300	5	190,754
5253	MO Electric Standards			149,824		8	20	18		29	41,407	26	191,332
5254	Network Gas Stds & Safety Trng			88		90,563	211,109	152,545		277,678	25	23	732,031
5255	Forestry MO/CO/KS			59,769							16,511	22,855	99,135
5259	MO Electric Planning & Design			78							23	21	122
5265	SJ Electric Planning & Design			56									56
5266	SJ Mapping and Drafting			35		3	7	6		10	10	10	82
5302	General CO Elec Network Ops			1,758		132	351	315		490	494	447	3,987
5303	Pueblo Network Ops			221		17	44	40		62	62	56	502
5305	Net Ops Work Management			92,941		9,690	25,211	22,547		35,860	27,178	30,374	243,801
5306	Canon City Elec Network Ops			11		1	2	2		3	3	3	24
5332	West MO Elec District Manager			17		1	3	3		5	5	5	40
5333	Lee's Summit 1 Elec Netwrk Ops			422									422
5334	Lee's Summit 2 Elec Netwrk Ops			35		3	7	6		10	10	10	82
5337	Belton 1 Elect Field Ops			78							23	21	122
5338	East MO Elec District Manager			35		3	7	6		10	10	10	82
5340	Liberty Elec Network Ops			52							16	14	82
5341	Henri/Lex/Rich Elec Ntwrk Ops			35		3	7	6		10	10	10	82
5342	Trenton Elec Network Ops			35		3	7	6		10	10	10	82
5343	South MO Elec District Manager			35		3	7	6		10	10	10	82
5344	Warrensburg Elec Network Ops			485		36	97	87		135	136	123	1,099
5346	Clinton Elec Network Ops			95		1	3	3		5	28	26	162
5347	Sedalia Elec Network Ops			35		3	7	6		10	10	10	82
5358	North MO Elect Dist Mgmt			200		12	33	29		45	46	41	407
5360	General Elec Measurement			59,010		1	4	3		5	16,300	22,562	97,884
5372	CO Substation Maintenance			3		0	1	1		1	1	1	7
5375	SW KS Gen Gas Field Svcs					11	26	19		34			89
5383	Lawrence Gas Field Svcs					1,507	3,415	2,474		4,496			11,893
5384	Wichita Gas Field Svcs			35		654	1,481	1,075		1,951	10	9	5,216
5385	Dodge City Gas Field Svcs					408	923	669		1,216			3,217
5386	Garden City Gas Field Svcs					531	1,234	892		1,619			4,277
5387	Liberal Gas Field Svcs					792	1,841	1,331		2,416			6,381
5388	Goodland Gas Field Svcs (KS)					43	99	72		130			344
5398	General CO Gas Network Ops					65	147	107		194			514
5399	Fountain Gas Field Svcs					524	1,186	859		1,561			4,131
5400	Monument Network Ops					156	355	257		468			1,237
5401	Woodland Park Gas Network Ops			18		104	235	171		310	5	4	846
5402	Castle Rock Gas Field Svcs					2,059	4,673	3,385		6,151			16,268
5403	Burlington Network Ops					188	427	309		562			1,486
5404	Limon Gas Network Ops					159	360	261		474			1,255
5452	Iowa Council Bluffs Net Ops					154	349	253		459			1,215
5458	Iowa Central Region Mgr			21		126	286	207		377	6	6	1,029
5460	Iowa Dubuque Net Ops					980	2,227	1,613		2,931			7,751
5490	Metershop General					63,390	148,134	107,012		194,234			512,771
5553	Materials Mgmt-KS PNG					46	108	78		142			375

**Aquila, Inc**  
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5557	Materials Mgmt-MO MPS			406		5	14	13		20	58	53	570
5559	Procurement - T & D			(44)		(3)	(9)	(8)		(13)	(13)	(12)	(102)
5560	Materials Mgmt-NE					5	10	7		13			35
5561	Iowa Material Mgmt					2,272	5,279	3,815		6,927			18,293
5566	Network Fleet Management			343		95	257	174		314	96	132	1,411
5567	Procurement - Services			256,837		19,717	51,367	45,749		72,920	73,531	67,472	587,592
5568	Strategic Sourcing-VP			1,136		83	213	189		306	330	305	2,563
5570	Materials Mgmt-MO SJLP			17		1	3	3		5	5,771	5	5,806
5573	North MPS Matls Mgmt			(273)									(273)
5574	Missouri Fleet Management			1,280		1	4	3		5	5	5	1,304
5575	MO SJ Fleet Management										922		922
5699	Centralized Services VP			63,717		19,690	45,828	31,237		56,986	17,692	24,925	260,075
5700	Business Solutions			171,283		52,410	123,775	84,294		153,615	47,614	66,683	699,676
5701	Cust Service Center-Lincoln			563,453		180,949	428,740	292,801		533,309	156,695	218,970	2,374,917
5702	Customer Srv Ctr-Raytown			1,071,242		344,530	818,018	558,677		1,017,410	297,970	415,997	4,523,845
5706	Billing-Omaha			248		22,485	52,848	38,166		69,493	71	64	183,375
5708	Accounts Receivable Mgmt			91,146		27,748	66,008	44,934		81,844	25,352	35,400	372,432
5709	Remittance Processing			127,697		39,386	93,141	63,460		115,631	35,502	49,692	524,508
5710	Credit and Collections			526,295		160,626	380,734	259,236		472,297	146,345	204,647	2,150,180
5711	Cust Commun-Stakehldr Outreach			21,169		6,375	15,403	10,476		19,060	5,895	8,180	86,557
5712	Bill Processing			1,055,702		321,759	764,167	520,249		947,699	293,602	410,241	4,313,418
5715	Field Resources Center-Lincoln					400	279,950	190,907		346,659			817,915
5716	Field Resources Center-Raytown			520,955		158,358	93	67		122	143,601	202,541	1,025,737
5718	Service Guard Mat Mgmt			36		60,260	166,699	68,702		125,793	10	4,975	426,476
5722	Field Resource Center Director			93,946		28,633	68,003	46,297		84,335	26,127	36,507	383,847
5726	Customer Account Correspondenc			79,714		24,296	57,700	39,282		71,558	22,168	30,977	325,695
5727	Iowa Denison					126	285	206		375			992
5729	Iowa Decorah Cust Serv			12		3,362	7,607	5,513		10,018	3	3	26,518
5731	Iowa Council Bluffs			389		5,997	13,694	9,928		18,022	113	105	48,247
5732	Iowa Spencer					1,617	3,659	2,652		4,819			12,747
5733	Iowa Dubuque Cust Serv			18		2,459	5,621	4,070		7,392	5	4	19,568
5734	Iowa Newton					1,099	2,533	1,832		3,327			8,791
5735	Iowa Webster City					1,326	3,016	2,185		3,969			10,496
5763	Billing Adjustments			166,068		52,711	125,231	85,466		155,650	46,145	64,441	695,712
5770	NE Customer Relations					48	108	78		142			376
5771	NE Lincoln Region			353		2,478	5,645	4,101		7,435	100	90	20,202
5772	NE South Region					2,097	4,801	3,475		6,312			16,685
5774	NE Omaha Region			18		2,453	5,592	4,050		7,357	5	4	19,479
5775	NE North Region			51		2,090	4,748	3,439		6,249	15	14	16,606
5820	MN Business Operations				179				44				224
5893	Liberty/Platte City CS			35		3	7	6		10	10	10	82
5894	Henrietta/Rich/Lex CS			35		3	7	6		10	10	10	82
5896	Belton CS			123		6	14	13		20	36	33	245
5897	Nevada CS			35		12	30	23		40	10	10	162
5899	Warrensburg CS			17		1	3	3		5	5	5	40
5900	Clinton CS			164		5	12	11		17	49	45	302
5901	Sedalia CS					1	2	2		3			9
5906	Blue Springs CS			122		10	26	21		36	36	33	285
5907	Lees Summit CS			35		3	7	6		10	10	10	82



**Aquila, Inc**  
**IBU Overhead Allocations**  
**Year Ended December 31, 2007**

Dept	Dept Descrip	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	NMU Minnesota Gas	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas MN	Peoples Natural Gas NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
5911	St Joseph CS			240		8	21	19		31	47	43	408
5912	Maryville/Mound City CS			234		18	47	42		66	66	61	533
5915	Belton 2 Elect Field Ops			4,646									4,646
5927	Minnesota Customer Relations				(160)				(40)				(200)
6005	Service Guard Central Marketin			264		40,463	111,792	46,169		84,360	75	3,610	286,734
6016	Customer Services Training			122,778		37,360	89,030	60,603		110,369	34,155	47,658	501,953
6028	Cust Svcs Process Mgmt			163,663		50,130	118,217	80,516		146,745	45,490	63,747	668,508
6035	Iowa Western Region Manager			108		118	276	203		364	30	27	1,126
6107	Iowa Community Relations			72		51	121	90		160	20	18	533
6108	Community Relations MO MPS			653,365		3	7	6		10	41	37	653,469
6109	Community Relations USU - KS					72	164	119		215			570
6111	Economic Development-General			17,088		4,543	11,028	7,498		13,638	4,216	5,840	63,850
6124	Community Relations MO			610,935		3	7	6		10	168,859	341	780,161
6130	Misc Networks Allocation			78,856		6,060	15,777	14,048		22,408	22,588	20,737	180,473
6134	Process Improvement			263,681		20,256	52,753	46,979		74,905	75,508	69,301	603,384
6140	MO General- MPS			1,462									1,462
6160	MO Electric SR VP			487,786							137,602		625,388
6161	Procurement-Generation			3,390		1	4	3		5	1,005	920	5,328
6162	PS Engr/Generations Svcs			185,890							59,117	56,036	301,044
6165	Iowa Gas VP HQ					12,513	29,127	21,049		38,232			100,920
6166	Iowa Gas Bus Ops			159		17,971	41,437	29,978		54,450	45	41	144,081
6167	Iowa/Mo Gas Net Ops Mgr						3,705						3,705
6168	Iowa Eastern Regional Manager					529	1,198	868		1,577			4,173
6173	MN Gas VP HQ				191				47				239
6175	CO Electric Headquarters			64		5	13	11		18	18	16	145
6183	Headquarters - KS/CO Gas			(327)		105,509	(65)	241,559		(91)	(92)	(83)	346,411
6184	Cust Relations - Gen KS/CO Gas					37,316		62,910					100,226
6198	KS/CO Gas Business Ops					82,063		187,882					269,945
6201	PNG Gas Plant Assets					182,035	432,657	294,702		534,505			1,443,899
6311	Financial Mgmt-AQN State Supp			172,252		6,495	16,725	14,695		23,713	50,683	46,538	331,101
6312	Financial Mgmt-AQN Central Sup			245		21	50	43		75	75	73	581
6313	NE Linc Ops Fac & CSC			21,118		9,858	23,265	15,516		508,554	5,946	10,339	594,596
6319	Corp Svcs-Council Bluffs MS					6,584	16,080	15,049		22,998			60,711
6327	HR Networks			452,978		39,656	125,449	93,157		162,942	219,225	131,048	1,224,457
6328	HR Central Safety			101,976		14,128	44,807	33,179		58,013	41,422	46,667	340,191
6331	Appliance Technical Training					29,893	82,154	34,131		61,878		3,256	211,312
6332	Safety & Tech Trng-Elect Trng			147,608							59,247		206,855
6348	IT Business Services			6,610		510	1,323	1,177		1,883	1,898	1,746	15,145
6352	IT Utility Delivery Apps			149,284		45,213	108,348	73,725		134,213	41,547	57,840	610,169
6356	IT Enterprise Applic Svcs			1,085		83	217	193		308	310	285	2,482
6357	IT Field Support			4,935		371	985	883		1,381	1,392	1,260	11,208
6358	IT Support Center			3,119		249	627	551		911	918	862	7,237
6360	IT Cust Serv Applications			501,147		152,889	362,605	246,883		449,774	139,359	194,832	2,047,488
6364	IT Server/Storage Desktop Infr			7,911		606	1,582	1,410		2,243	2,261	2,071	18,084
6365	IT Database Services			289		22	58	51		83	83	77	663
6366	IT Prod Control/Operations			1,428		110	286	254		407	410	377	3,271
6370	Regulatory Administration			201,948		40,071	97,206	77,077		131,892	57,754	52,945	658,893
6371	Regulatory Services Electric			276,703		2,399	6,397	5,743		8,942	82,159	75,131	457,474
6372	Regulatory Services-Gas			4,427		34,231	84,020	78,760		119,449	1,259	1,149	323,296

**Aquila, Inc**  
 IBU Overhead Allocations  
 Year Ended December 31, 2007

Dept	Dept Descrip	Crossroads Energy CenterAquila	Merch Energy Ptnrs Invest LLC	Missouri Public Svc Electric	NMU Minnesota Gas	Peoples Natural Gas CO	Peoples Natural Gas IA	Peoples Natural Gas KS	Peoples Natural Gas MN	Peoples Natural Gas NE	St. Joe Light & Power Elec	WestPlains Energy CO Elec	Grand Total
6376	Reg Legislative Svcs-MO			129,201							39,428		168,630
6377	Reg Legislative Svcs-KS/CO					15,378		34,926				51,551	101,856
6379	Reg Legislative Svcs-NE			87		7	17	15		25	25	23	200
6382	Regulatory Acctg Svcs-Electric			310,119		1,302	3,471	3,116		4,851	92,383	84,544	499,785
6384	Regulatory Acctg Svcs-Gas			1,802		62,165	151,783	141,997		217,210	521	483	575,961
6385	Aquila Networks Load Research			326,022		335	893	802		1,248	97,140	88,934	515,374
6397	IT Call Cntr/Networks Telecom			242,672		74,969	176,977	120,596		219,769	67,457	94,493	996,933
7002	AEC General			35		3	7	6		10	10	10	81
Grand Total		9,283	37,136	20,638,481	211	4,083,459	9,011,676	6,976,663	52	11,581,492	5,992,582	5,617,517	63,948,552

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NETCO	CECAQ	417101	1042	901250	1001	150.000	PAY0437451
NETCO	CECAQ	417101	1042	901250	1001	37.500	PAY0438168
NETCO	CECAQ	417101	6311	901250	1001	357.480	PAY0436068
NETCO	CECAQ	417101	6311	901250	1001	178.740	PAY0437136
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6/30/2007	06/07 True-up Worker's C. Res
9/30/2007	09/07 True-up Worker's C. Res
12/31/2007	12/07 True-up Worker's C. Res
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8/24/2007	REG - Reg Earns
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6/30/2007 June 07 Bank Fee Accrl  
7/31/2007 July 07 Bank Fee Accrl  
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10/31/2007 Bank Fee Accrl Q3 Adj  
10/31/2007 Oct 07 Bank Fee Accrl  
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5/31/2007 PROPERTY - ALL RISK Corr  
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1/31/2007 CRIME  
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7/31/2007 July 07 Bank Fee Accrl  
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Aquila, Inc.  
Policy and Procedure  
Manual  
For  
Affiliate Rules

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# I Introduction

This Policy and Procedure manual for Affiliate Rules was designed to be used for reference and training of Aquila employees. It is available to all employees on the Intranet via the Regulatory Services website, <http://dept.ucu.com/regulatory/>.

Public utility commissions regulating Aquila will be provided a copy as required.

Updates will be made when necessary and responsibility to maintain this document lies with the Regulatory Services department headed by Dennis Williams. If you have questions contact Gary Clemens at (816) 467-3807.

## II Standard of Conduct

### A Aquila's Code of Business Conduct

Aquila's standards and practices with respect to affiliate transactions are rooted in the company's Code of Business Conduct (the "Code"). The Code was adopted by resolution of Aquila's Board of Directors and is the defining document that governs how Aquila's employees are required to act. The Code is the source for essential guidelines to help employees understand their responsibilities to comply with law and company policy, and to advise management of concerns that the Code or a law has been or may be violated.

Through the Board's Audit Committee, the Board established the Business Conduct Compliance Committee (the "BCCC") and charged it with implementing and supervising the administration of the Code. Employees are required to read, understand, and abide by the policies and directives of the Code. To ensure these requirements are met, Aquila's Human Resources department maintains records confirming that each employee has received a copy of the Code, affirmed his or her understanding of the policies outlined in the Code, and successfully completed a computer assisted, on-line training program regarding the Code's provisions. The Board's authority, through the BCCC, over employee behavior is directly expressed by reference to the Code's discipline provision:

Violation of Aquila's Code of Business Conduct may result in disciplinary action, including but not limited to, warning, suspension or termination of employment. Violations may include non-compliance with Aquila's policies, lack of supervision or diligence in enforcing company policies, providing false or misleading information, as well as any retaliatory actions, direct or indirect, against an employee who reports a reasonably suspected violation of this Code of Business Conduct or other misconduct.



## **B     Affiliate Rules under the Code**

In accordance with the general principles of the Code, Aquila's standards and practices for affiliate transactions are grounded in each employee's individual obligation to follow the Code. Regarding business relations among affiliates, the Code specifically states:

Under Federal Energy Regulatory Commission (the "FERC") and state commission rules, there are rules and statutes limiting transactions between regulated and non-regulated parts of our business (commonly referred to as "affiliate rules"). It is expected that all employees understand and comply with affiliate rules. If you have any questions on the affiliate rule requirements, or conduct necessary to comply with the rules, please contact your liaison<sup>1</sup>.

As more fully explained in the sections that follow, three key concepts captured by this provision of the Code express Aquila's standards and practices in managing compliance with all affiliate rules: (1) management's active role in Aquila's compliance with affiliate rules; (2) the duty of Aquila's employees to understand and comply with the affiliate rules; and (3) the role of Aquila's Regulatory Services department as a resource to other employees and in assessing company-wide compliance.

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<sup>1</sup> Liaison is Gary Clemens (816) 467-3807 in the Regulatory Services department  
Dec 2007

## **1 Management's Role in Affiliate Rule Compliance**

***Through the Code, Aquila's management acknowledges that there are authoritative rules promulgated by the FERC and various state commissions that govern affiliate transactions in Aquila's regulated operations. Management also recognizes and accepts an obligation to approve, support, and enforce policies, procedures, and practices that enable compliance with affiliate rules.***

Aquila's utility operations are located in federal and multiple state jurisdictions. Consequently, the company is exposed to a variety of affiliate rule regimes. While each set of affiliate rules varies somewhat from the others, each attempt to achieve the same basic results, as expressed by the following excerpt from the opening of Aquila's on-line training module:

Affiliate rules govern transactions between regulated utilities and their non-regulated operations or affiliate entities. The rules are designed to prevent unfair discrimination against non-affiliates and preferences for affiliates. The rules also promote accurate record keeping and reporting. The affiliate rules protect customers by preventing a practice called cross-subsidization.

As a regulated energy company (with myriad compliance obligations) that also has unregulated operations, Aquila simply must, as a practical matter, have policies and procedures in place in order to achieve the general principle of non-cross-subsidization and satisfy the specific requirements of each regulatory agency.

First and foremost among Aquila's policies is the requirement that transactions must be charged directly at fully distributed cost whenever possible. (See Section IV-5 for a discussion of when fair market value is used in place of fully distributed cost.) For transactions where this is not possible, a detailed cost allocation process set forth in the

company's Cost Allocation Manual ("CAM") is followed, and access to non-financial information is restricted. Aquila's key procedures with respect to allocating costs include tracking affiliate transactions within the company's accounting system, determining and charging fully distributed costs, developing and maintaining the CAM, auditing these processes, and testing for compliance on an ongoing basis (See Section III).

The above paragraph does not apply to transactions that are pursuant to tariff rates, rules and regulations. All transactions relating to an approved tariff rate will be charged the appropriate amount per the tariff.

## **2 Employee Duty to Understand and Comply with Affiliate Rules**

***The Code applies to all Aquila employees, from line workers climbing poles in the field to senior managers at corporate headquarters. Each employee must be aware that these affiliate rules exist, and the Code expressly charges each employee with an obligation to comply with all affiliate rules.***

By adopting the Code, Aquila's Board of Directors established a clear policy that all employees are required to comply with the affiliate rules. The biggest managerial challenge, a balancing act of efficiency, is to sufficiently educate employees to achieve compliance without overburdening them with information unrelated to their particular jobs. Aquila's approach to date has been essentially fourfold.

First, Aquila requires that all employees receive training to enable them to recognize affiliate relationships and know whom to contact to report a new affiliate transaction or, if needed, obtain additional information. This is accomplished through the on-line, affiliate rules training module conducted on Aquila's intranet. The purpose of the training module is to provide basic definitions of relevant terms, explain how employees

might be affected, and illustrate contexts in which employees might encounter situations covered by the affiliate rules. Examples of real, on-the-job situations are used, and test sections called “Life Lessons” throughout the module ensure that basic concepts are being grasped. Because the training module is on-line, Aquila preserves a record of which employees have successfully completed the module.

Second, a series of group meetings was conducted with the relevant managers and supervisors within the Aquila’s operational units to further educate them about issues specifically related to affiliate transactions. Those meetings continue on an ad hoc basis.

Third, specific individuals within the business units that are responsible for a significant number of affiliate transactions received direct training to ensure their understanding of the relevant rules and gain their support for compliance efforts.

Fourth, Aquila has retained regulatory legal counsel in several jurisdictions to provide interpretations of state and federal law or Commission regulations, as required by inside counsel, relevant managers, and other employees.

### **3 The Regulatory Services Department**

***Under the Code the employees of Aquila’s Regulatory Services department are Aquila’s resource for information relating to Aquila’s compliance with affiliate rules. The Regulatory Services department has an express duty to understand affiliate rules in sufficient depth to enable those employees to answer questions from other employees and assess company-wide compliance.***

Because rules governing affiliate transactions are the product of utility regulation, it is natural to locate Aquila’s overall, ongoing responsibility for compliance with affiliate rules within its Regulatory Services department. Specifically, the Vice President of Regulatory Services

has been given responsibility for managing affiliate transaction policies and procedures for all domestic U.S. jurisdictions in which Aquila operates. Management also has assigned Director of Regulatory Services to be dedicated to filing affiliate rules and related matters. Together they handle compliance inquiries, prepare compliance filings, develop and obtain legal advice from internal or external legal counsel related to affiliate transactions, and develop process improvements. From time to time, the Director and analyst engage Audit Services staff to review their work, monitor compliance progress, and assist in developing process improvements.

### III Cost Allocation

#### A Fully Distributed Costs

In Aquila's experience, the underlying purpose of all affiliate rules appears to be to prevent, through the direct assignment or equitable allocation of costs, the cross-subsidization of unregulated businesses by regulated businesses.<sup>2</sup> Prevention of cross-subsidization in turn promotes fair competition and a level playing field among affiliates and non-affiliates of the regulated utility. To meet the general intent of affiliate rules across Aquila's operations, Aquila maintains a policy which requires transactions to be charged directly to the business entity receiving benefit whenever possible. Aquila has created a number of business unit, division, and product definitions within its accounting system to allow for the direct charging of costs from one entity to another. A significant side benefit of this system is having the ability to record affiliate transactions for analysis and reporting purposes.

Aquila's system allows an employee performing work outside of his normal job to charge time and any related expenses directly to the affiliated entity receiving the benefit of that employee's efforts. Aquila's accounting system automatically "loads" the direct labor expense with labor related costs such as benefits, insurance, and payroll

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<sup>2</sup> By way of comparison, Missouri's rule states at the beginning: "PURPOSE: This rule is intended to prevent regulated utilities from subsidizing their nonregulated operations."

taxes.

In 2000, Aquila recognized the need to create a more robust, fully distributed costing process. Aquila engaged an outside accounting and consulting firm (“Consultant”) to assist in improving Aquila’s system by reviewing the current process, evaluating alternatives, and making process enhancement recommendations. A primary objective of the Consultant’s study was to prevent cross-subsidization of non-regulated business units by further strengthening the existing process. As a result, additional costs that enable an employee to perform his job were identified and added to the loading process. Specifically, information technology, telecommunication, physical facility, and other support function costs are now being added to direct labor charges between business entities.

## **B Cost Allocation Manual**

Notwithstanding Aquila’s improved systems for fully distributing costs, not all transaction costs can be directly charged to the beneficiary business entity. When costs benefit more than one business entity (i.e., “common costs”), a fair and equitable process for allocating such costs must be employed.

Aquila has developed a fair cost allocation process, which is defined, described, and documented in Aquila’s Cost Allocation Manual (“CAM”). The CAM was designed to satisfy three primary purposes: (1) provide a consistent method of assigning costs to business units, divisions, and product lines; (2) promote operational efficiencies; and (3) aid management as a tool for cost control. The CAM accomplishes these goals by using cost drivers to assign costs. The term “cost driver” refers to the unit of measure most relevant for allocating a particular cost. For example, Aquila allocates payroll costs incurred by its Accounting department by calculating each business unit’s proportionate share of the total number of paychecks produced. The number of paychecks distributed is the cost driver.

Aquila uses a “specific” cost driver when the driver can be directly linked with the cause of the expenses incurred. In all other cases, a “general” cost driver reflecting the business entities involved is applied. These cost drivers are identified in the CAM.

The cost allocation process and the CAM are updated annually or more frequently, if a material change takes place within the organization. It is important to note that the CAM gets presented in each state jurisdiction under varying procedures and is subject to different approval processes.

## **C Protected Information**

Generally, “protected information” refers to information obtained by utilities from customers that is not recorded in the accounting system (i.e., information other than that related to revenue and receivables which post to the general ledger).<sup>3</sup> Aquila records protected information in a sub-system of the general ledger called the Customer Information System (“CIS”). It is Aquila’s policy to restrict access to this information by its affiliates. If the protected information is generally available to non-affiliates from other sources, Aquila will make that information available to affiliates and non-affiliates alike at a fair market price.

## **D Other Process Enhancements and Activities**

Aquila’s Legal department and Office of the Corporate Secretary manage the creation and maintenance of the structure of all of Aquila’s corporate entities. By working closely with those departments, the Regulatory Services department has developed a procedure for timely notification of new affiliate relationships as they occur and is able to ensure that complete and accurate knowledge of Aquila’s affiliates is kept up to date.

Aquila has also established a procedure through its Accounting department by which the company is able to produce a monthly report

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<sup>3</sup> One state refers to protected information as data obtained by a regulated utility that is not obtainable by non-affiliated entities or can only be obtained at a competitively prohibitive cost in either time or resources.

of all affiliate transactions. For this accounting report, “affiliate transaction” is defined to refer to any transaction recorded on the books where one side of the entry is to a regulated business entity and the other side is to a non-regulated business entity.

Finally, Aquila’s Human Resource Information System generates a monthly report that tracks the transfer of human capital between business entities.



## IV Definitions

- 1 Affiliate. Any entity that controls a utility or is controlled by a utility.
  - As further defined in Missouri regulations: “any person, including an individual, corporation, service company, corporate subsidiary, firm, partnership, incorporated or unincorporated association, political subdivision including a public utility district, city, town, county or a combination of political subdivisions which, directly or indirectly, through one (1) or more intermediaries, controls, is controlled by or is under the common control with the regulated (gas, electric or steam) corporation.”
- 2 Affiliate transaction. The transfer of assets, services or information between the regulated utility and a non-regulated affiliate, including transactions between the regulated utility and its non-regulated utility operations, *not* transactions between two regulated units or two non-regulated units.
  - As further defined in Missouri regulations: “any transaction for the provision, purchase or sale of any information, asset, product or service, or portion of any product or service between the regulated... (utility) and an affiliated entity, and shall include all transactions carried out between any unregulated business operation of a regulated ... (utility) and the regulated operations of an... (utility).”

- 3 Control. An entity can be defined as an affiliate if it is controlled by the utility or controls the utility. Ownership of more than 10 percent of an entity's voting securities is deemed to be presumptive control.
- As further defined in Missouri regulations: "... possession, directly or indirectly, of the power to direct, or cause the direction of the management or policies of an entity, whether such power is exercised through one or more intermediary entities, or alone, or in conjunction with, or pursuant to an agreement with, one or more entities, whether such power is exercised through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, affiliated entities, contract or other direct or indirect means. The commission shall presume that the beneficial ownership of ten percent (10%) or more of voting securities or partnership interest of an entity constitutes control for purposes of rebutting the presumption that its ownership interest in and entity confers control."
- 4 Corporate support. Affiliate rules generally provide an exemption from reporting for activities that constitute corporate governance or support unless those are provided by a separate legal entity other than Aquila, Inc.
- As further defined in Missouri regulations: "... means joint corporate oversight, governance, support systems and personnel, involving payroll, shareholder services financial reporting, human resources, employee records, pension management, legal services, and research and development activities."

- 5 Fully Distributed Cost. Affiliate rules in each state generally require that transfers of assets or services to affiliates be at the higher of cost or fair market value (FMV). Transfers from an affiliate to the regulated operation must be at the lower of cost or FMV. Currently, when Aquila employees direct charge time to an affiliate for services, only labor and benefit loadings are automatically transferred. Corporate overheads are allocated monthly using drivers that are updated annually.
- As further defined in Missouri regulations: “a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced, FDC requires recognition of all costs incurred, directly or indirectly used, to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g. general and administrative) must also be included in the FDC calculation through a general allocation.”

## V Policies and Procedures

Policy	Procedure(s)
Employees are required to read, understand, and abide by the policies and directives of the Code of Business Conduct	1. Human Resources department maintains records confirming that each employee has received a copy of the Code of Business Conduct, and successfully completed a computer assisted on-line training program
Each employee must comply with the FERC and state commission rules regarding affiliate transactions	<ol style="list-style-type: none"> <li>1. All employees must complete an online training process relating to Affiliate rules</li> <li>2. Key employees receive additional periodic training sessions by the Regulatory Services department</li> <li>3. Employees not sure of the rules are instructed to contact the Regulatory Services department</li> <li>4. When non-compliant transactions are discovered or new transactions are contemplated, employees are required to notify Regulatory Services promptly</li> </ol>
All transactions must be charged directly at fully distributed cost whenever possible ( <b>See Section IV-5 for a discussion of when fair market value is used in place of fully distributed cost.</b> )	<ol style="list-style-type: none"> <li>1. Determine and charge fully distributed costs when appropriate</li> <li>2. Track affiliate transactions for compliance with a monthly report of all affiliate transactions</li> </ol>
When direct charging is not possible the Cost Allocation Manual (CAM) must be followed	<ol style="list-style-type: none"> <li>1. Develop and maintain the Cost Allocation Manual (CAM)</li> <li>2. Independent audits may be performed to ensure compliance</li> </ol>
Aquila will obtain a contractual agreement with all affiliated entities	1. The Regulatory Services department will maintain a file of all contractual agreements

<b>Policy</b>	<b>Procedure(s)</b>
All transactions are to be charged directly to the business entity receiving benefit whenever possible	<ol style="list-style-type: none"> <li>1. The Aquila accounting system maintains separate business units, divisions and product definitions to facilitate compliance</li> <li>2. Each transaction is identified by a separate journal ID</li> <li>3. Monthly report of all affiliate transactions reviewed for compliance</li> </ol>
Aquila maintains a fair cost allocation process	<ol style="list-style-type: none"> <li>1. The cost allocation procedure is described and documented in the cost allocation manual (CAM)</li> <li>2. Asymmetric pricing principles are applied</li> </ol>
Aquila restricts access to protected information	<ol style="list-style-type: none"> <li>1. Access to protected information is controlled through system access limitations, employee education and definition of job responsibilities</li> </ol>
Aquila will identify and report the transfer of assets and human capital between business entities	<ol style="list-style-type: none"> <li>1. Property Accounting provides information regarding asset transfers</li> <li>2. Human Resource generates a monthly report to track employee transfers</li> </ol>
Affiliates are not given an advantage over non-affiliates competitors	<ol style="list-style-type: none"> <li>1. Information given to affiliates is made available at the same time to non-affiliates</li> <li>2. Marketing materials, bills and other information that share a logo trademark with the utility must include a disclaimer that the affiliate is not regulated</li> <li>3. Aquila must not give the appearance that it speaks on behalf of the affiliate</li> <li>4. Accounting books and records of affiliates are maintained separately from the utility</li> <li>5. Independent audits are performed to ensure compliance</li> </ol>

## VI Online Affiliate Rule Training Outline

1. Affiliate Rules
2. Aquila Compliance
3. FERC Standards
4. Questions

### 1. Affiliate Rules

#### What are affiliate rules?

Affiliate rules govern transactions between regulated utilities and their non-regulated operations or affiliate entities. The rules are designed to prevent unfair discrimination of non-affiliates and preferences for affiliates. The rules also promote accurate record keeping and reporting.

The Affiliate Rules protect consumers by preventing a practice called cross-subsidization. A cross-subsidy occurs when the prices (rates) charged to one group of customers are set at a level designed to recover the costs of providing goods or services to a different group of customers.

Different states have different rules for these transactions. Aquila bases its procedures on the Missouri Affiliate Rules (other states, such as CA also have very comprehensive affiliate rules) because all transactions in all states must be filed with Missouri regulators to ensure an appropriate portion of common costs are assigned to Missouri customers. By following the Missouri standard, all Aquila entities can enact consistent procedures that enable compliance with the reporting procedures required by Missouri.

## What is an affiliate?

An affiliate is any entity that controls a utility or is controlled by a regulated utility. An entity can be:

- A person
- A corporation, company, or corporate subsidiary
- An incorporated or unincorporated association
- A political subdivision such as a public utility district

Affiliates include entities in which the utility owns a controlling interest or possesses the power to direct management. For purposes of applying Affiliate Rules in Missouri, a non-regulated business or division within the regulated utility is also considered an affiliate.

To see a list of subsidiaries for Aquila, Inc., see appendix B.

## Regulated vs. non-regulated operations

Most states regulate gas and electric utilities in order to ensure adequate and reliable supply at fair prices. A regulated utility company generally distributes the energy to the consumer, meters its usage and passes on the supply costs of the energy to the consumer.

Non-regulated operations include such activities as:

- Appliance repair programs (Service Guard)
- Construction services on customer premises (Tech Services)
- All of the activities of subsidiaries such as Everest

## What is an affiliate transaction?

An affiliate transaction is the transfer of assets, products, services, or information between a regulated utility and its non-regulated operations or an affiliate. Examples include contracts for services, shared services, non-financial transactions and exempt transactions.

Aquila processes thousands of affiliate transactions each year in the normal course of business. It's essential that we document these transactions in compliance with regulatory guidelines.

## Areas covered by affiliate rules

Affiliate Rules prohibit unfair preferences for affiliates and unfair discrimination against non-affiliates. The rules protect the regulated aspect of our business by preventing Aquila's regulated businesses from subsidizing Aquila's non-regulated businesses.

Aquila has established controls and procedures in order to comply with the Affiliate Rules.

**Pricing controls** – these govern the price recorded for transfers between a regulated company and an affiliate. Asymmetric pricing principles apply. If the utility provides goods or services to the affiliate, the affiliate must pay the greater of fully distributed cost or fair market value. If the affiliate provides goods or services to the utility, the utility must pay the lesser of fully distributed cost or fair market value.

**Record Keeping** – each affiliate transaction should have a journal ID identifying it and assurance that the transaction with all related backup information can be found in the future.



**Reporting** – Aquila must prepare an annual report which includes a list of affiliates and complete information about all transactions with affiliates.

- **Cost Allocation Manual** – this manual defines the cost allocation methods used to allocate common corporate costs that cannot be assigned directly to various business units. This assures that all costs are allocated uniformly and can be accurately tracked and reported.
- **Information to affiliates** – information given to affiliates must be made available at the same time to non-affiliates. For an exchange of information to be subject to Affiliate Rules it must be customer specific or beneficial to a competitive market (i.e. only obtainable at a competitively prohibitive cost in either time or resources). Any customer specific information given must also have prior customer consent.
- **Separation of operations** – books and records of affiliates must be maintained separate from the utility.

## What are the consequences of non-compliance?

There are serious consequences for companies and individuals that do not comply with Affiliate Rules:

- Civil penalties of up to \$2,000 per day can be imposed.
- Criminal penalties including fines up to \$1,000 and up to one year in prison.
- The temporary shut down of company operations resulting in lost revenue to the company and lost pay to employees.

Costs incurred in transactions that do not comply may not be recoverable through the approved regulated rates used to charge retail customers.

## Examples of Affiliate Transactions

### Contracts for services with affiliates

Transactions that involve written contracts with affiliates are the easiest to track. A written contract provides documentation of the terms of the arrangement.

The various states' Affiliate Rules are challenging because they envision record keeping and reporting as if all transactions were written contracts. However, we also need to identify other types of transactions and collect enough information to meet the rule requirements.

### Shared services, costs directly charged

For example, if an Aquila employee performs a non-regulated appliance repair, he/she charges time and materials to the appropriate non-regulated account.

### Shared services, costs allocated

For example, Aquila shares its information technology assets among several affiliates or subsidiaries. We must document the terms of the sharing and the rules for allocating costs among the businesses. Aquila carries the burden of establishing fair market value, distributing the costs according to the cost allocation manual and explaining the transactions.

### Non-financial transactions (no assigned costs) with affiliates

An example is the transfer of regulated employees to non-regulated affiliates. This is allowed in all states, but is still reportable.

### *Exempt transactions (services)*

Corporate support functions such as accounting, human resources, finance, corporate development and legal provide services to Aquila's non-regulated operations. Costs can be charged directly or allocated using approved cost allocation manuals, but is exempt from reporting. If the corporate support functions are provided by a separate legal entity other than Aquila, Inc. they would not be exempt transactions.

## 2. Aquila Compliance

This section explains how Aquila procedures ensure our compliance with Affiliate Rules.

### Unfair Practices

- Affiliate Rules prohibit unfair preferences for affiliates and unfair discrimination against non-affiliates. Each employee with responsibilities in these areas must ensure that their actions comply with Aquila procedures and the Affiliate Rules.
- Do not disclose any information to affiliates that is not made available contemporaneously (at the same time) to non-affiliate competitors.
- Agreements between regulated entities and their affiliates should not be “tied.” In other words, delivery of a product or service cannot be made contingent on purchase of another product or service.
- Do not make sales to affiliates unless we also offer to sell the same product or service to non-affiliates
- Do not give the appearance that we speak on behalf of the affiliate.
- If we are asked for the name of an affiliate, we can disclose the names of Aquila affiliates. However, we must also provide the names of *known* competitors working on our system.

### Use of Resources

Affiliate Rules do not allow use of Aquila’s regulated businesses to subsidize Aquila’s non-regulated businesses. Each employee with responsibilities in these areas must ensure that their actions comply with Aquila’s procedures and the Affiliate Rules.

- Separate books and records are required for affiliates.
- Marketing materials, bills and other information that share a logo or trademark with a utility must include a disclaimer that the affiliate is not regulated.
- Transactions related to providing corporate governance or support may be exempt from the Affiliate Rules. This includes support provided by departments such as payroll, financial reporting, human resources, or legal services.

## Controls

Controls are required in order to comply with the Affiliate Rules. Each employee with responsibilities in these areas must ensure that their actions comply with Aquila's procedures and the Affiliate Rules. Aquila's procedures include:

- When non-compliant transactions are discovered or new transactions are contemplated, Regulatory Services must be notified promptly.
- Pricing standards are required for all transactions between Affiliates. Cost Allocation Manuals must be used and updated regularly.
- Monitoring – Regulatory Services works with business units and the Accounting department to provide ongoing counsel about these issues. They will maintain a database describing each affiliate transaction, responsible parties, the pricing standard and other required information, and will prepare compliance filings.
- Independent audits will be performed to ensure compliance.
- All employees with responsibilities affected by Affiliate Rules must be trained and remain aware of the importance of compliance.

### 3. FERC Standards

#### *FERC and Affiliate Transactions*

The Federal Energy Regulatory Commission (FERC), created by Congress in 1977, regulates the interstate transmission of natural gas, oil, and electricity. FERC also regulates natural gas and hydropower projects. As part of that responsibility, FERC

- Regulates the transmission and sale of natural gas for resale in interstate commerce;
- Regulates the transmission of oil by pipeline in interstate commerce;
- Regulates the transmission and wholesale sales of electricity in interstate commerce;
- Licenses and inspects private, municipal, and state hydroelectric projects;
- Approves the siting of and abandonment of interstate natural gas facilities, including pipelines, storage and liquefied natural gas;
- Oversees environmental matters related to natural gas and hydroelectricity projects and major electricity policy initiatives; and
- Administers accounting and financial reporting regulations and conduct of regulated companies

The President of the United States appoints the 5 commissioners who are confirmed by the Senate.

FERC issued Orders 2004, 2004a and 2004b in the year 2004 adopting new standards of conduct for transmission owning utilities. These Orders require a transmission owning utility, like Aquila, to separate its transmission function from its marketing functions and from the operations of its affiliates engaged in energy related activities. Also, every transmission owning utility must treat all of

its transmission customers, whether affiliated or unaffiliated, on a non-discriminatory basis.

These requirements exist to ensure that transmission providers do not use their access to information about transmission to unfairly benefit their own or their affiliates sales to the detriment of competitive markets.

Also, FERC has a Code of Conduct that applies to the trading of power. The Code of Conduct was developed to support FERC. Order 888 (issued in 1996) began the task of creating open access to the nation's transmission grid.

As an organization engaged in the trading of power, gas, coal, and financial products, the FERC code applies to Aquila operations.

Each employee of Aquila is expected to know, understand the importance of, and obey the FERC Code of Conduct even if they are not directly involved in the trading area.

Aquila employees are trained on the FERC Code of Conduct in orientation and records of attendance are maintained.

The FERC Code of Conduct outlines seven standards for trading organizations.

## 1 Independent Operations

As applied to our business, this means that employees of Aquila Merchant will operate separately from the employees of Aquila, Inc. to the maximum extent possible.

## 2 Confidential Marketing Information

All marketing information shared between Aquila Merchant and Aquila, Inc. will be disclosed simultaneously to the public.

This simultaneous disclosure is on the OASIS (Open Access/Same Time Information System).

The information covered includes incidental market information, including but not limited to any communication concerning power or transmission businesses, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision but they may not serve as an “improper conduit” of information to non-support personnel.

### 3 No pricing favoritism to Aquila, Inc.

Sales of any non-power goods or services by Aquila, Inc. including sales made through its affiliates, Exempt Wholesale Generators (EWGs) or Qualified Facilities (QFs) to Aquila will be at the higher of cost or market price.

### 4 No pricing favoritism to Aquila, Inc.

Sales of any non-power goods or services by Aquila Merchant to Aquila, Inc. will not be at a price above market.

Items 3 and 4 address and eliminate any cross subsidy relationship between Aquila Merchant and Aquila, Inc.

### 5 Brokering of Power

Aquila Merchant will offer Aquila, Inc. power first.

This indicates that Aquila Merchant is NOT prevented from brokering Aquila, Inc. power into the marketplace. It may offer this power first, second, or last to a willing buyer.



## 6 Non-exclusive Relationship

The arrangement between Aquila Merchant and Aquila, Inc. is non-exclusive. This means that Aquila, Inc. is free to use another power broker, including a competitor, to broker power.

Aquila, Inc. could just as easily use a competitor in the power trading business to broker power owned by Aquila, Inc.

## 7 Brokering Without Fees

Aquila Merchant will not accept any fees in conjunction with any brokering services it performs for Aquila, Inc.

## **FERC Standards – Key Points**

The FERC Orders issued in 2004 ensure that transmission providers do not use their assets and market power to prevent a fair competitive market.

The FERC Code of Conduct creates important proactive barriers between non-regulated affiliates and regulated utilities.

The FERC has this to say about communications between affiliates and utilities: “If there is any communication concerning power or transmission business – broker related or not, present or future, positive or negative, concrete or potential, significant or slight - it must be simultaneously communicated to all non-affiliates.”

This separation is broad. It is wide. The words “any” and “all” indicate that FERC is not willing to entertain “exceptions.”

Every employee of Aquila **MUST** follow the rules in every transaction, in every conversation, every day.

Aquila continues to promote an open, non-discriminatory marketplace for all players. We expect other utilities and affiliates to follow the same rules we do.

Failure to follow the FERC Orders can result in discipline up to and including termination of employment.

## 4. Questions

These are the type of the questions that all employees should know and will be required to answer when taking the online Affiliate Rules Training:

An employee of Aquila (regulated utility) provides services for Everest. What is the appropriate way to charge for the time worked?

- A There is no correct way, as this work is prohibited by affiliate rules.
- B Charge time directly to Everest.
- C No reporting is required, as this is not an affiliate transaction.
- D Charge time directly to Aquila.

An Aquila call center is used to support ServiceGuard. Which items concerning this transaction are true?

- A The costs can be charged or allocated as Aquila sees fit, as this is not an affiliate transaction.
- B Time is allocated by the call center in accordance with the Cost Allocation Manual.
- C Neither A or B are true.
- D Both A and B are true.

Aquila's Corporate Accounting, Human Resources, Finance, Corporate Development and Legal departments provide services to Aquila. (regulated utility) How should costs be treated and reported?

- A The costs can be charged or allocated as Aquila sees fit, as this is not an affiliate transaction.
- B Costs are directly charged to Aquila and reported in our annual report of affiliate transactions.
- C Costs are allocated to Aquila based on the Cost Allocation Manual and reported in our annual report of affiliate transactions.
- D Costs are allocated to Aquila based on the Cost Allocation Manual but are exempt from reporting.

Network Operations employees perform HVAC work under the ServiceGuard name. How should an employee's time and expenses be charged and reported?

- A It doesn't matter; this is not an affiliate transaction.
- B Time and expenses are allocated to ServiceGuard based on the Cost Allocation Manual.
- C These employees should not be working for ServiceGuard.
- D Time and expenses are charged directly to ServiceGuard accounts based on the work performed.

An employee at Aquila Merchant received a call from an Aquila, (regulated) generation plant manager. The manager asked what the forward price curve might look like. Should the Aquila Merchant employee provide the information?

- A Yes. The Aquila, (regulated) manager is obviously at a level that is authorized to receive this type of information.
- B The Aquila Merchant employee may release the information only if he or she is also a manager.
- C The information may be released as long as the generation plant is not in Missouri.
- D The question cannot be answered under any circumstances.

## VII Appendix

### A List of Subsidiaries as of December 31, 2007

<u>Entity Name</u>	<u>Jurisdiction Where Formed</u>
Aquila Energy (Bermuda) Ltd.	Bermuda
Aquila Canada Corp.	New Brunswick
Aquila Canada Holdings, Inc.	Delaware
Aquila Colorado Electric Opco, LP	Delaware
Aquila Colorado Gas Opco, LP	Delaware
Aquila Colorado, LLC	Delaware
Aquila Europe, Inc. (f/k/a UtiliCorp Europe, Inc.)	Delaware
Aquila Gas Pipeline Corporation	Delaware
Aquila Merchant Services, Inc. (f/k/a Aquila, Inc.)	Delaware
Aquila Networks Canada Corp. (f/k/a UtiliCorp Canada Corp.)	Nova Scotia
Aquila Piatt County Power LLC	Delaware
Aquila Energy Re Ltd.	Bermuda
Aquila Sterling Holdings, LLC	Delaware
Aquila, Inc. (f/k/a UtiliCorp United Inc.)	Delaware
Energia, Inc.	Delaware
Everest Global Technologies Group, LLC	Delaware
Everest Holdings II, LLC	Delaware
G.B. Hydro Partners L.P. (99.5%)	Minnesota
Golden Bear Hydro Inc.	Delaware
Kansas Public Service Co., Inc.	Kansas
Levasy Jagdverein LLC	Missouri
LoJamo, LLC	Missouri
Mega Renewables (25%)	California
Missouri Public Service Company	Missouri
MPS Caring for Kids, Inc.	Missouri
MZ Partners (50%)	Missouri
Natural/Peoples Limited Liability Company	Wyoming
SJLP, Inc.	Missouri
Trans UCU, Inc.	Delaware
UCU Finance Corp.	Delaware
UtilCo Group Inc.	Delaware
UtiliCorp N.Z. Limited (redomesticated in Delaware 1/27/2003)	Delaware
WestPlains Energy, Inc.	Kansas