

ATTACHMENT 1



Form 10-Q

AQUILA INC - ILA

Filed: November 06, 2003 (period: September 30, 2003)

Quarterly report which provides a continuing view of a company's financial position

In April 2003, we closed on a \$200.0 million, 364-day secured loan. The borrower was UtiliCorp Australia Inc., a wholly-owned subsidiary. At closing, we borrowed \$100.0 million of the available \$200.0 million. The interest rate on this financing was initially the London Inter Bank Offering Rate (LIBOR) (with a 3% floor) plus 4.0% for the first 90 days. After the first 90 days, the interest rate increased an additional 2% and would increase an additional 2% every subsequent 90 days with a maximum rate at maturity of LIBOR (with a 3% floor) plus 10%. We paid up-front arrangement fees of \$4.1 million in connection with this borrowing. Proceeds from this borrowing were used to retire debt.

In May 2003, we exercised our option under the 364-day financing to borrow the remaining \$100.0 million available under the facility. The proceeds were used to terminate our Acadia Tolling Agreement as discussed in Note 3. We paid additional arrangement fees of \$4.1 million for this borrowing. We retired \$90.7 million of this borrowing in June 2003 with proceeds from the sale of our interest in AlintaGas. The remaining balance of \$109.3 million was retired in July 2003 with proceeds from the sale of our interests in United Energy and Multinet Gas.

Three-Year Secured Credit Facility

In April 2003, we closed on a \$430.0 million, three-year secured loan. The initial interest rate on the facility was LIBOR (which has a 3% floor) plus 5.75%. In addition, we were required to pay up-front arrangement fees of \$17.8 million. Proceeds from the financing were used to retire debt and support letters of credit.

The three-year facility is secured by (i) \$430.0 million of first mortgage bonds issued under a new indenture that constitutes a lien on our existing and future Michigan, Nebraska and Colorado utility network assets, (ii) a pledge of the equity of two wholly-owned subsidiaries that indirectly hold our Canadian utility business, and (iii) a pledge of the equity of a wholly-owned subsidiary that indirectly holds our interests in independent power plants. In October 2003, the Iowa Utility Board conditionally approved our request to pledge Iowa utility network assets as collateral for the loan. We are in the process of amending the agreement to include these assets as collateral. If we default on this loan, the lenders would be entitled to be fully repaid from the sale proceeds of this collateral before other creditors could assert their claims against the pledged assets.

We have also committed to use reasonable efforts to obtain approvals that would provide these lenders additional domestic utility assets as collateral for their loans. If, as a result of the addition of any such collateral, the value of the domestic regulated utility asset collateral securing the indenture exceeds 167% of the loan secured by the indenture, the pledge of the Canadian and independent power projects equity interest may be released and the interest rate would be reduced to LIBOR (which has a 3% floor) plus 5.00%. In April 2003, we filed applications with the state regulatory bodies in Kansas, Minnesota and Missouri requesting authority to pledge our utility assets located in their respective states. In September 2003, the Staff of the Missouri Public Service Commission

recommended that our request to pledge Missouri utility assets be denied. Hearings were held before the Commission in October 2003 and a ruling is expected by the end of 2003. However, there is no statutory deadline for a decision in Missouri. In October 2003, the Minnesota Public Utility Commission also voted to deny our request to pledge Minnesota utility assets. We are currently evaluating whether we will seek a reconsideration of this decision or re-file the application to address the concerns raised by the Minnesota Commission. We continue to work with the Kansas Corporation Commission to obtain its approval for the additional collateral. A hearing is scheduled for November 2003.

After our Iowa utility assets have been formally pledged, we will request that our interest rate be reduced as described above, and we will have pledged utility assets in Michigan, Nebraska, Iowa and Colorado which would then fully collateralize the loan. Following the pledge of our Iowa utility assets, we will not be required by the credit facility to maintain collateral for the loan beyond the utility assets pledged. However, it is our intention that borrowings under the credit facility that are not needed to support our utility operations be collateralized by non-utility assets.

The \$430.0 million secured debt would become immediately due and payable if we do not complete an exchange offer, tender offer, refinancing or other retirement transaction with regard to 80% of our \$250.0 million, 7% senior note series due July 15, 2004 and our \$150.0 million, 6.875% senior note series due October 1, 2004, at least two weeks prior to their respective maturity dates. Among other restrictions, the three-year secured facility contains the following financial covenants with which we were in compliance as of September 30, 2003:

- 1) We must maintain a ratio of total debt to total capital of not more than .75 to 1.00 as of September 30, 2003 and December 31, 2003, decreasing to .70 to 1.00 for quarters ending after December 31, 2003.
- (2) Beginning July 1, 2003, we must maintain a trailing 12-month ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) from pledged assets to interest expense related to these assets of no less than 1.05 to 1.00, increasing to 2.0 to 1.0 for quarters ending after December 31, 2004.
- (3) Beginning July 1, 2003, we must maintain a trailing 12-month ratio of debt outstanding on our pledged assets to EBITDA from our pledged assets of no more than 10.5 to 1.0, decreasing to 5.5 to 1.0 for quarters ending after June 30, 2004.

The three-year facility also contains covenants that restrict certain activities including, among others, limitations on additional indebtedness, restrictions on acquisitions, sale transactions, and the amount that we can fund our unregulated merchant businesses and our Everest Connections communications business. In addition, we are prohibited from paying dividends and from making certain other payments if our senior unsecured debt is not rated at least Ba2 by Moody's and BB by Standard & Poor's, or if such a payment would cause a default under the facility.

Amounts under the three-year facility cannot be voluntarily prepaid except with payment of a make-whole amount. Amounts that are repaid cannot be re-borrowed. To the extent we default on any of our loan covenants, our interest rate will increase an additional 2% during the default period.

Letter of Credit Facility

In April 2003, we executed a 364-day Letter of Credit Agreement with a commercial bank. Under terms of the Agreement, the bank committed to initially issue letters of credit under the facility subject to a limit of \$200.0 million outstanding at any one time. All letters of credit issued are fully secured by cash deposits with the bank. The committed amount automatically decreased to \$175.0 million at June 30, 2003 and will decrease further to \$150.0 million at December 31, 2003. At September 30, 2003, \$65.3 million of letters of credit were outstanding under this facility.

Aquila, Inc.
Chief Executive Officer
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- I, Richard C. Green, Jr., certify that, to my knowledge: /.
- Aquila, Inc.'s quarterly report on Form 10-Q for the quarterly period ending September 30, 2003 accompanying this Certification, in the form filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- 2.
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of Aquila, Inc.
- Dated: November 5, 2003

/s/ RICHARD C. GREEN, JR.

Richard C. Green, Jr.
Chairman, President and Chief Executive Officer
Aquila, Inc.

Aquila, Inc.
Chief Financial Officer
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Rick J. Dobson, certify that, to my knowledge: /.

Aquila, Inc.'s quarterly report on Form 10-Q for the quarterly period ending September 30, 2003 accompanying this Certification, in the form filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

2.

The information in the Report fairly presents, in all material respects, the financial condition and results of operations of Aquila, Inc.

Dated: November 5, 2003

/s/ RICK J. DOBSON

Rick J. Dobson
Chief Financial Officer
Aquila, Inc.

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