STANDARD
&POOR'S

RATINGSDIRECT®

March 20, 2008

Research Update:

Aquila Inc.'s Rating Is Raised To 'BB-'; Still On Watch Positive

Primary Credit Analyst:
Gerrit Jepsen, CFA, New York (1) 212-438-2529;gerrit_jepsen@standardandpoors.com

Table Of Contents

Staff Exhibit No. 137
Case No(s). EM-2007-0374
Date 4-28-08 Rptr KF

Research Update:

Aquila Inc.'s Rating Is Raised To 'BB-'; Still On Watch Positive

Rationale

On March 20, 2008, Standard & Poor's Ratings Services raised its long-term corporate credit rating on integrated electric and natural gas utility Aquila Inc. to 'BB-' from 'B+'. The company remains on CreditWatch with positive implications.

The upgrade reflects Aquila's strengthening credit profile due to improving financial measures from asset sales, deleveraging, and increasing cash flow. As mostly a regulated electric and natural gas utility, cash flow should begin to be stronger and more stable. In addition, the ability of the company's Missouri utility to recover fuel and purchased power costs through a fuel-adjustment clause enhances cash flow stability during times of rising purchased power, coal, and natural gas prices. The Colorado utility also has an adjustment mechanism through which incremental fuel and purchased power costs can be recovered.

Kansas City, Mo.-based Aquila had $1.06 billion in total debt outstanding as of Dec. 31, 2007.

The CreditWatch listing is due to the pending sale of 100% of the common stock of Aquila to Great Plains Energy Inc. Immediately before Great Plains acquires the Aquila stock, Black Hills Corp. will acquire Aquila's non-Missouri utility assets for $940 million. Included in these assets will be the Colorado electric utility and five gas utilities in Colorado, Iowa, Kansas, and Nebraska. If the Great Plains transaction closes, Standard & Poor's will raise its corporate credit rating on Aquila to the corporate credit rating of its new parent, Great Plains.

If the Great Plains transaction fails to close, we will remove the rating from CreditWatch, affirm the 'BB-' corporate credit rating on Aquila and assign an outlook. Improvements to the rating would likely be hindered by:

- A high interest rate (14.9%) on a portion of Aquila's long-term debt that is not fully recovered through rates; and
- Capital spending of $1.2 billion for the 2008-2010 period related to construction of the Iatan II coal-fired unit and other environmental investments. The company does not earn a cash return on construction work in progress and it does not have access to any form of accelerated amortization. This capital spending will therefore pressure cash flows as financing costs are paid and recovery of investment is delayed until after the post-construction period.

Funds from operations (FFO) will likely be adequate for the rating and the highly leveraged financial risk profile. Because of unrecovered interest expenses and rising construction costs, free operating cash flow may be negative, adding to the company's external financing needs and likely resulting in higher debt. The lack of common stock dividend should bolster internal cash flow that can be used to finance some of the capital spending.

As of Dec. 31, 2007, after adjustments, FFO interest coverage was 1.6x, up from 0.6x one year earlier. FFO to total debt rose to 7.3%, an improvement from 2006 when FFO was negative. Debt leverage declined to 51% from 58% as of the end of 2006. Net cash flow to capital expenditures improved year over year to 35% that partly reflects the absence of dividend payments.

Liquidity

The company's near-term liquidity is modest given its working-capital requirements and an active capital program. Aquila depends on unrestricted cash reserves and external financing to fund cash losses at its nonregulated operations, utility-related working-capital requirements, utility-related maintenance, and growth capital-spending requirements. As of Dec. 31, 2007, the company had $34 million in unrestricted cash and availability of 100% under a $110 million unsecured revolving credit facility that expires in September 2009. Under a separate $150 million secured credit facility, availability was 83%. Under two unsecured revolving credit and letter of credit facilities, availability was 18% on the $50 million facility and 19% on the $180 million facility. Currently, debt maturities are $2.4 million (2008), $70.8 million (2009), $1.1 million (2010), $335.5 million (2011), and $501.2 million (2012).

Ratings List

Upgraded

	To	From
Aquila Inc.		
Senior Secured		
Local Currency	BB+/Watch Pos	BB/Watch Pos
Recovery Rating	1	1
Senior Unsecured	BB-/Watch Pos	B+/Watch Pos
Subordinated		
Local Currency	B/Watch Pos	B-/Watch Pos

Upgraded; New Rating

	To	From
Aquila Inc.		
Corporate Credit Rating	BB-/Watch Pos/--	B+/Watch Pos/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings referenced herein can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.