

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Aquila,)
Inc., for Authority to Acquire, Sell and Lease)
Back Three Natural Gas-Fired Combustion)
Turbine Power Generation Units and)
Related Improvements to be Installed and)
Operated in the City of Peculiar, Missouri)

Case No. EO-2005-0156

STIPULATION AND AGREEMENT

As a result of discussions among Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel") and Aquila, Inc., d/b/a Aquila Networks, Aquila Networks – MPS and Aquila Networks – L&P ("Aquila" or "Company"), (collectively, the "Signatory Parties"), the Signatory Parties hereby submit the following Stipulation and Agreement ("Agreement") to the Missouri Public Service Commission ("Commission") in resolution of all issues presented in this case.

I. BACKGROUND

Aquila is an electrical corporation under the jurisdiction of the Commission as provided by law pursuant to § 393.190 RSMo and Commission rules 4 CSR 240-2.060, 4 CSR 240-3.110 and 4 CSR 240-20.015. On December 6, 2004, Aquila filed its Application with the Commission. The Commission docketed the Application as Case No. EO-2005-0156 and, by order dated December 10, 2004, directed that public notice be given of the Company's filing.

Generally, by virtue of its Application, Aquila has requested from the Commission
(i) a determination that its acquisition for its regulated Missouri electric utility operations

Exhibit No. 6
Case No(s). EO-2005-0156
Date 9-21-05 Rptr 48

from an affiliated entity, Aquila Equipment, LLC, of three (3) 105-megawatt natural gas fired combustion turbines for the purpose of constructing an electric generation station in an area near the City of Peculiar in an unincorporated area of Cass County, Missouri does not provide a financial advantage to an unregulated affiliate, (ii) authorization to enter into a sale and leaseback arrangement with Peculiar to facilitate the issuance of tax-advantage Chapter 100 revenue bonds to finance the construction and operation of a electric power generation station near Peculiar (South Harper Station) and (iii) authorization to cause the new electric generation station to be subject to the lien of the indenture as security for the benefit of the holders of the revenue bonds.

On January 13, 2005, Aquila filed the prepared Direct Testimony of Dennis R. Williams in support of the Application.

By Order dated March 8, 2005, the Commission permitted the County of Cass, Missouri and the City of Peculiar, Missouri ("Peculiar") to intervene as parties to the case. Pursuant to a Joint Motion to Establish Procedural Schedule that was filed with the Commission on March 24, 2005, the Commission thereafter, on March 31, 2005, issued its Order Establishing Procedural Schedule (the "Procedural Order"). The Procedural Order provided for the filing of prepared Rebuttal and Surrebuttal testimony to be followed by a subsequent evidentiary hearing on July 13 and 14, 2005.

On June 3, 2005, Aquila amended its Application by filing a First Amended Application. The stated purpose of that amendment was to limit the scope of the relief requested.

In accordance with the terms of the Commission's Procedural Order, prepared Rebuttal testimony was filed by witnesses for Staff and Public Counsel on June 13,

2005.¹ Thereafter, prepared Surrebuttal testimony was filed by witnesses for Aquila, Staff and Public Counsel on June 27, 2005.²

On June 23, 2005, Public Counsel filed a Motion to Suspend Procedural Schedule and Hearing and Request for Expedited Treatment. That motion was taken up by the Commission and on July 7, 2005, the Commission issued its Order Granting Motion to Suspend Procedural Schedule and Hearing. As a consequence, the evidentiary hearing was not held as scheduled.

On July 13, 2005, Aquila filed a Motion for Reconsideration. On August 9, 2005, the Commission issued its Order Granting Motion for Reconsideration. As a result of settlement discussions between them, the Signatory Parties agree as follows:

STIPULATIONS AND TERMS OF AGREEMENT

II. AFFILIATE TRANSACTION

A. Valuation of Combustion Turbines and Auxiliary Equipment

The Signatory Parties agree that the Company be authorized to record on its regulated books of account for its Aquila Networks – MPS division a transfer value of \$66,760,000 for the equipment associated with Aquila work orders 10020638, 10020639 and 10020640 for the South Harper Station (hereinafter, the “CTs”), exclusive of allowance for funds used during construction (“AFUDC”), and generally described as follows:

¹ Cary G. Featherstone, John M. Kiebel, II, Phillip K Williams, Ted Robertson.

² Dennis R. Williams, H. Davis Rooney, Neal D. Suess, Cary G. Featherstone, Ted Robertson.

1. Three (3) Siemens Westinghouse Power Corporation ("SWPC") 501D5A combustion turbines, which were stored at the Ralph Green plant site in Pleasant Hill, Missouri, and transferred from an affiliate effective November 30, 2004;
2. SWPC 501D5A combustion turbine and generator auxiliaries including enclosure, inlet filter housing, skids, piping, coolers, rotors, stator assemblies and other auxiliaries, which were stored at the Richards Gebaur Air Force Base in Kansas City, Missouri, and transferred from an affiliate effective November 30, 2004;
3. Three (3) HICO America, Inc. 13.8 to 161 kv GSU transformers rated at 78/104/130 MVA and three HICO America, Inc. auxiliary transformers rated at 5000 KVA, which were stored at the Ralph Green plant site in Pleasant Hill, Missouri, and transferred from an affiliate November 30, 2004; and
4. Three (3) Alstom T&D Inc. 13.8 KC, 63 A 60 Hz generator breakers, which were stored at the Richards Gebaur Air Force Base in Kansas City, Missouri and transferred from an affiliate effective November 30, 2004.

The Signatory Parties agree that the recorded value of \$66,760,000 is the appropriate value to be assigned to the CTs for ratemaking purposes, if and at such time as the South Harper Station is included in rate base for ratemaking purposes and, further, based on the facts and circumstances specific to this case, that the proposed valuation would not provide a financial advantage to Aquila's affiliate, Aquila Equipment, LLC.. The Signatory Parties further agree to support the agreed-to valuation of the CTs

if challenged by any other party in the Company's pending electric general rate increase case, Case No. ER-2005-0436, or any subsequent rate case.

B. Depreciation Accounting

Aquila agrees that Aquila Networks – MPS will depreciate the CTs using annual rates approved by the Commission in its most recent rate proceeding, Case No. ER-2004-0034. Unless and until the Commission orders different depreciation rates, the combustion turbines and generators will be depreciated at the annual rate of 3.33%, which is the present depreciation rate for Account No. 344 (Other Production Plant – Generators) and the related auxiliary equipment will be depreciated at the annual rate of 2.63%, which is the present depreciation rate for Account No. 345 (Accessory Electric Equipment)..

C. Excluded Equipment

The valuation of the CTs does not include any agreement with respect to the value of any non-turbine related items, such as site preparation and associated infrastructure additions/upgrades. As to those items, all parties are free to make any arguments deemed appropriate as to the ratemaking treatment that should be afforded in any pending or subsequent rate case. As such, nothing in this agreement precludes the signatory parties from challenging the inclusion in rates for costs other than those related to the combustion turbines, transformers and breakers for the South Harper Station.

III. REVENUE BOND FINANCING

Subject to the commitment set out below, the Signatory Parties agree that the Commission should approve Aquila's request to enter into a sale and lease back arrangement and for authority to subject the South Harper Station, including the CTs, to the lien of an Indenture of Trust for the security for the benefit of the holders of up to and including \$140 million of tax-advantaged revenue bonds issued under the authority of Chapter 100 RSMo and, further, that these actions are not detrimental to the public interest.

In this regard, Aquila agrees as follows:

- A.** Aquila will continue to record the land and improvements (CTs) that are the subject of this transaction as a regulatory asset on the books of Aquila Networks – MPS in a manner similar to other utility plant it owns.
- B.** Aquila agrees to record the investment described above in accordance with the Uniform System of Accounts as adopted by the Commission for record-keeping purposes.
- C.** Aquila will file with the Commission for approval before it transfers any of its rights under the lease with Peculiar, including the right to purchase the South Harper Station at the end of the lease, if, at such time, the South Harper Station is necessary or useful in the performance of regulated utility service.
- D.** Aquila will book each payment in lieu of tax ("PILOT") to operating expense during the 30-year period of the loan, as each such payment is made.

IV. GENERAL PROVISIONS

A. Admission of Party Testimony

The Signatory Parties agree that in the event the Commission approves this Agreement without modification or condition, then the pre-filed testimony of all witnesses in this proceeding may be included in the record of this proceeding, without the necessity of such witnesses taking the stand, with the exception if the Commission determines that an on-the-record conference is desirable to take questions from the Commission or other non-signatory parties.

B. Effectiveness of Agreement

This Agreement will be deemed to have become effective as of the effective date of the Order of the Commission approving same.

V. EFFECT OF THE NEGOTIATED SETTLEMENT

A. Except as specifically provided above, none of the Signatory Parties shall be deemed to have approved or acquiesced in any question of Commission authority, accounting authority order principle, cost of capital methodology, capital structure, decommissioning methodology, ratemaking principle, valuation methodology, cost of service methodology or determination, depreciation principle or method, rate design methodology, cost allocation, cost recovery, or prudence that may underlie this Agreement, or for which provision is made in this Agreement.

B. This Agreement is based on the unique circumstances presented by Aquila to the Signatory Parties. Except as specifically provided herein, this Agreement shall not be construed to have precedential impact in any other Commission proceeding.

1. The Company, Staff and Public Counsel each reserve the right to present in a future rate case its position concerning the installation of the CTs at the South Harper Road location.
2. The Company, Staff and Public Counsel each reserve the right to present in Case No. ER-2005-0436 a recommendation as to the in-service date of each of the CTs and the related allowance for funds used for construction of the CTs, transformers and breakers.
3. The Company, Staff and Public Counsel each reserve the right to present its position in Case No. ER-2005-0436 as to including the South Harper Station in rate base.

C. The Signatory Parties enter into this Agreement in reliance upon information provided to them by Aquila. In the event that the Commission finds that Aquila failed to provide the Signatory Parties with material and relevant information in its possession, or which should have been available to Aquila through reasonable investigation, or in the event that the Commission finds that Aquila misrepresented facts relevant to this Agreement, this Agreement shall be terminated.

D. This Agreement represents a negotiated settlement. Except as specified herein, the Signatory Parties to this Agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Agreement: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Agreement in the instant proceeding, or in any way condition its approval of same.

E. The provisions of this Agreement have resulted from negotiations among the Signatory Parties and are interdependent. In the event that the Commission does not approve and adopt the terms of this Agreement in total, it shall be void and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof.

F. When approved and adopted by the Commission, this Agreement shall constitute a binding agreement among the Signatory Parties hereto. The Signatory Parties shall cooperate in defending the validity and enforceability of this Agreement and the operation of this Agreement according to its terms.

G. This Agreement does not constitute a contract with the Commission. Acceptance of this Agreement by the Commission shall not be deemed as constituting an agreement on the part of the Commission to forego the use of any discovery, investigative or other power which the Commission presently has. Thus, nothing in this Agreement is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access information, or any statutory obligation. Nothing in this Agreement is intended to impinge, restrict or limit in any way Public Counsel's discovery powers, including the right to access information and investigate matters related to Aquila.

H. This Agreement contains the entire generally applicable agreements or arrangements of the Signatory Parties. There are no other generally applicable agreements or arrangements that pertain to these matters. Silence in this Agreement on a particular topic or issue indicates that the Signatory Parties reached no agreement on the handling of that topic or issue.

VI. COMMISSION APPROVAL OF THE STIPULATION AND AGREEMENT

A. Aquila or any other Signatory Party may provide testimony and/or schedules in support of this Agreement.

B. The Staff shall file suggestions or a memorandum in support of this Agreement and the other Parties shall have the right to file responsive suggestions or comments.

C. If requested by the Commission, the Staff shall have the right to submit to the Commission an additional memorandum addressing the matter requested by the Commission. Each party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of the Staff's memorandum, a responsive memorandum, which shall also be served on all parties. The contents of any memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other Parties to this Agreement, whether or not the Commission approves and adopts this Agreement.

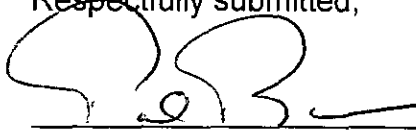
D. The Staff shall also have the right to provide, at any agenda meeting at which this Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

E. If the Commission does not unconditionally approve this Agreement without modification, and notwithstanding its provision that it shall become void thereon, neither this Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any party has to a hearing on the issues presented by the Agreement, for cross-examination, or for a decision in accordance with Section 536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the parties shall retain all procedural and due process rights as fully as though this Agreement had not been presented for approval, and any suggestions, memoranda, testimony or exhibits that have been offered or received in support of this Agreement shall thereupon become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

F. In the event the Commission accepts the specific terms of the Agreement, the Signatory Parties waive their respective rights to cross-examine witnesses; their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 2000; and their respective rights to judicial review pursuant to Section 386.510 RSMo 2000. This waiver applies only to a Commission Order Approving Stipulation and Agreement or other Report And Order approving this Agreement issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Agreement.

WHEREFORE, for the following reasons, the undersigned parties respectfully request the Commission issue an Order in this case approving the First Amended Application of Aquila subject to the specific terms and conditions of this Stipulation and Agreement.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was delivered by electronic mail, first class mail or by hand delivery, on this _____ day of September, 2005 to the following:

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