

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 13th day of
March, 2007.

In the Matter of a Management Audit of)
Aquila, Inc., d/b/a Aquila Networks-MPS)
and Aquila Networks-L&P)

Case No. EO-2006-0356

**ORDER ACCEPTING STAFF'S MANAGEMENT AUDIT REPORT AND
DIRECTING AQUILA, INC. TO COMPLY WITH STAFF'S
RECOMMENDATIONS**

Issue Date: March 13, 2007

Effective Date: March 23, 2007

On June 13, 2006, the Commission directed its Staff to conduct a management audit of Aquila, Inc. Staff was directed to investigate the impact on Missouri consumers of Aquila's past decisions regarding 1) incentive compensation; 2) executive compensation; 3) employee bonus payments; 4) pension and other post-employee benefits funding controls; 5) the Aries generating facility; 6) the South Harper generating facility; 7) investment in unregulated activities; 8) efforts to protect Aquila's regulated activities from the company's involvement in unregulated activities; and 9) activity that was illegal, inappropriate or improper under state or federal statutes or regulations. In addition, Staff was directed to complete its ongoing investigation of allegations of possible illegal activities at Aquila.

Staff completed its investigation and filed a final report on October 31, 2006. Staff's report incorporated comments from Aquila regarding that report. The Office of the Public Counsel filed its response to Staff's report on November 30.

Staff's report describes Staff's investigation into each of the topics assigned to Staff in the Commission's June 13 order. Staff offers specific recommendations for future actions by Aquila regarding some of those investigative topics. Those recommendations are as follows:

Incentive Compensation

a. Review present incentive compensation programs to determine that they are serving as a cost effective motivation to employees.

Executive Compensation

b. Review and utilize methodologies to fully determine, define and document the total amount of executive compensation.

c. Re-examine the Company's staffing levels, staff responsibilities and attendant executive compensation levels to ensure such compensation is commensurate with executive responsibilities.

d. Adjust executive compensation levels based upon the results of the examination.

The South Harper Generating Facility

e. Give adequate consideration to all available options when planning for future capacity requirements that will ensure the development of cost-effective decisions.

Protection of Regulated Activities from the Company's Involvement in Unregulated Activities

f. Provide advance notice to the Commission prior to investing in future unregulated activities along with documentation of all known and potential impacts

those activities may have on Aquila's Missouri utility customers. Include in the Company's notice to the Commission all plans the Company has to ensure that Aquila's Missouri customers will not be negatively impacted by investing in future unregulated activities.

Staff's report does not ask the Commission to affirmatively order Aquila to comply with those recommendations. However, in its response, Public Counsel asks the Commission to order Aquila to comply. Public Counsel also asks the Commission to order Aquila to file a report within six months describing the results of the reviews and readjustments required by the recommendations related to Incentive Compensation and Executive Compensation. Public Counsel further asks that Aquila be required to comply with the recommendations related to the South Harper Generating Facility and to Protection of Regulated Activities from the Company's Involvement in Unregulated Activities on an ongoing basis.

Public Counsel's request for an order requiring Aquila to comply with Staff's recommendations is reasonable, and is not opposed by any party. The Commission will accept Staff's Report and will require Aquila to comply with the recommendations made in that report.

IT IS ORDERED THAT:

1. The Commission accepts Staff's report describing the results of its management audit of Aquila, Inc.
2. Aquila, Inc. is ordered to comply with the following recommendations offered by Staff in its report:

Incentive Compensation

a. Review present incentive compensation programs to determine that they are serving as a cost effective motivation to employees.

Executive Compensation

b. Review and utilize methodologies to fully determine, define and document the total amount of executive compensation.

c. Re-examine the Company's staffing levels, staff responsibilities and attendant executive compensation levels to ensure such compensation is commensurate with executive responsibilities.

d. Adjust executive compensation levels based upon the results of the examination.

3. Aquila Inc. shall file a report no later than July 30, 2007, describing the results of the reviews and readjustments required by the recommendations related to Incentive Compensation and Executive Compensation.

4. Aquila, Inc. is ordered to comply, on an ongoing basis, with the following recommendations offered by Staff in its report:

The South Harper Generating Facility

e. Give adequate consideration to all available options when planning for future capacity requirements that will ensure the development of cost-effective decisions.

**Protection of Regulated Activities from the Company's Involvement in
Unregulated Activities**

f. Provide advance notice to the Commission prior to investing in future unregulated activities along with documentation of all known and potential impacts those activities may have on Aquila's Missouri utility customers. Include in the Company's notice to the Commission all plans the Company has to ensure that Aquila's Missouri customers will not be negatively impacted by investing in future unregulated activities.

5. This order shall become effective on March 23, 2007.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Murray and Appling, CC., concur
Gaw, C., dissents, dissent to follow
Clayton, C., dissents

Woodruff, Deputy Chief Regulatory Law Judge