APPENDIX A

AGREEMENT REGARDING FUEL AND PURCHASED POWER EXPENSE - - INTERIM ENERGY CHARGE

1. The Parties agree that resolution of the fuel and purchased power expense issues in Case Nos. ER-2004-0034 and HR-2004-0024 has been achieved as among themselves by an Interim Energy Charge ("IEC") mechanism of setting rates to include a specific annual amount of the Missouri jurisdictional electric cost of fuel and purchased power on a permanent (i.e., not subject to refund) basis and to include another additional amount of variable fuel and purchased power cost on an interim basis, subject to true-up and refund.

a. The specific annual amount to be included in Missouri retail rates on a permanent basis for the Aquila Networks—MPS ("MPS") electric operations is \$87,700,206 (1.6654 ¢/kWh) and the additional amount to be included in Missouri retail rates on an interim basis, subject to refund, for the Aquila Networks—MPS electric operations is \$16,100,000 (0.3057 ¢/kWh) for an overall total of \$103,800,206 (1.9712 ¢/kWh). The actual agreed upon cents per kilowatt hour IEC for each customer class is shown in Appendix B.

b. The specific annual amount to be included in Missouri retail rates on a permanent basis for the Aquila Networks—L&P ("L&P") electric operations is \$22,705,656 (1.2641 ¢/kWh) and the additional amount to be included in Missouri retail rates on an interim basis, subject to refund, for the L&P electric operations is \$2,400,000 (0.1336 ¢/kWh) for an overall total of \$25,105,656 (1.3977 ¢/kWh). The actual agreed upon cents per kilowatt hour IEC for each customer class is shown in Appendix B.

c. The specific annual amount to be included in Missouri retail rates on a permanent basis for the L&P industrial steam operations is $4,374,480 with no additional amount to be included in Missouri retail rates on an interim basis, subject to refund.

d. These amounts are meant to include only the Missouri retail variable costs accumulated in the FERC account numbers 501, 547 and 555 and will be updated in the true-up portion of the case specified hereafter in this Agreement. The fixed costs in FERC account numbers 501, 547 and 555 will be recovered in permanent rates and will not be updated in the true-up portion of the case. The portion subject to true-up and refund, referred to herein as the "IEC Amount," is explained in more detail herein and generally is designed to address the potential volatility in natural gas and wholesale electricity prices. This IEC Amount will be the basis of the IEC to be approved by the Commission. The IEC will be reflected separately on all MPS and L&P electric rate schedules expressed in ¢/kWh. The agreed to IECs are shown in Appendix B. The IEC will be collected on an interim basis and will be subject to true-up and refund under the terms of this Agreement.

2. The actual, hourly variable costs of fuel and purchased power will be determined for each of Aquila's Missouri divisions using a method agreed to by Staff, Public Counsel and Aquila that equitably allocates these costs to each division. Fuel costs will be allocated to Aquila's steam operations based on the allocation method approved by the Commission in Case Nos. EO-94-36 and EO-93-351.

3. The Parties agree that each applicable Aquila rate schedule will indicate that a portion of the charge thereon reflected for service is subject to refund pursuant to the terms of this Agreement and will be calculated and refunded to each customer, based on the amount of each customer's usage during the IEC Period, at a later date and that such rate schedule will expire no

later than 12:01 a.m. on the date that is two years after the original effective date of the tariff sheets in this case, Case No. ER-2004-0034, unless earlier terminated by order of the Commission. The two-year period during which the IEC is in effect is referred to as the "IEC Period."

4. Subsequent to the expiration of the Interim Energy Charge, an IEC Audit will commence in which the Parties will have the opportunity to audit Aquila's actual variable fuel and purchased power costs of serving native load, which will exclude fixed costs and the costs of fuel and purchased power for interchange (off-system) sales. The IEC Audit will be conducted under the same terms and conditions that apply to audits in general rate cases before the Commission. If the IEC Audit determines that all or a portion of the revenue collected by Aquila pursuant to the IEC mechanism exceeds Aquila's actual and prudently incurred variable costs for fuel and purchased power (as recorded in the FERC accounts 501, 547 and 555) for each operation on a Missouri retail basis during the period the IEC was in effect, Aquila will refund any excess up to the IEC Amount.

For the true-up, Aquila's trued-up variable fuel and purchased power costs will be based on actual delivered coal costs, oil costs and natural gas costs, excluding fixed natural gas reservation charges, and actual purchased power costs, excluding demand charges relating to capacity purchases. The true-up will further exclude fixed costs charged to Accounts 501, 547 and 555 relating to fixed fuel components included in the permanent rates and to fuel and purchased power for interchange (off-system) sales.

5. If a dispute arises in the IEC Audit as to the prudence of Aquila's fuel or purchased power costs subject to this Agreement, the Parties agree to present the dispute to the Commission in a timely fashion consistent with the due process rights of the Parties to adequately prepare their

case. Any refundable amount that is undisputed shall be refunded promptly; however, no refund shall be made as to the amount in dispute until there is a final determination of that dispute, but interest shall continue to accrue during the litigation of the dispute and will be payable by Aquila to the extent it is finally determined that Aquila is required to make a refund of all, or a portion of, the amount in dispute.

6. The amounts to be refunded pursuant to the IEC Audit will be determined as follows:

a. The total amount to be refunded by MPS and/or L&P will be determined as follows:

First, determine Aquila's trued-up variable fuel and purchased power expense on a ¢/kWh basis separately for MPS and L&P by dividing trued-up fuel and purchased power expense by sales to native load (retail and wholesale, but not off-system); then

Second, if Aquila's trued-up variable fuel and purchased power expense on a ¢/kWh basis for MPS is greater than or equal to 1.9712 ¢/kWh, there will be no refund to MPS customers; and if Aquila's trued-up variable fuel and purchased power expense on a ¢/kWh basis for L&P is greater than or equal to 1.3977 ¢/kWh, there will be no refund to L&P customers; otherwise, Aquila will refund all or a portion of the revenue collected by the IEC; then

Third, if Aquila's trued-up variable fuel and purchased power expense on a ¢/kWh basis for MPS is less than or equal to 1.6654 ¢/kWh, Aquila will refund to each MPS customer all revenue collected by the IEC, plus interest; and if Aquila's trued-up variable fuel and purchased power expense on a ¢/kWh basis for L&P is less than or equal to 1.2641 ¢/kWh, Aquila will refund to each L&P customer all revenue collected by the IEC, plus interest; otherwise, Aquila will refund only a portion of the revenue collected by the IEC, plus interest; then

b. The amount to be refunded to each customer shall be determined as follows:

First, calculate the Trued-up IEC for each class as follows:

(i) For the residential class (MPS rate codes MO860 and MO870; L&P rate codes MO910 & 911, MO913 & 914, MO915, MO920 & 921, and MO922) the Trued-up IEC for each division is Aquila's trued-up variable fuel and purchased power expenses on a ¢/kWh basis as determined in the first step of 6.a., less the amount included in permanent rates on a ¢/kWh basis for that division (1.6654 ¢/kWh for MPS and 1.2641 ¢/kWh for L&P).

(ii) For the large primary class (MPS rate codes MO735 and MO737; L&P rate code MO944) the Trued-up IEC for each division is calculated by the following formula:

$$((A / B) \times (C \times D)) / E$$

where: A is the IEC Period revenues of the large primary class.

B is the IEC Period revenues of the Aquila Division.

C is the Trued-up IEC of the residential class.

D is the IEC Period sales of the Aquila Division.

E is the IEC Period sales of the large primary class.

(iii) For the remaining classes the Trued-up IEC are calculated by the following formula:

$$((A \times B) - (C \times D) - (E \times F)) / G$$

where: A is the Trued-up IEC of the residential class.

B is the IEC Period sales of the Aquila Division.

C is the Trued-up IEC of the large primary class.

D is the IEC Period sales of the large primary class.

E is the Trued-up IEC of the residential class.

F is the IEC Period sales of the residential class.

G is the IEC Period sales of all remaining classes.

Second, calculate the Refund Factor for each class by subtracting the Trued-up IEC for that class from the IEC paid by that class.

Third, calculate each customer's refund by multiplying the Refund Factor for the class by the customer's kWh usage during the IEC Period, then add the amount of interest.

7. The interest rate to be used for purposes of this Agreement will be the same as the prime rate of interest (as found in the Money Rates section of the Wall Street Journal) in effect on the day the IEC Period expires and will be applied to the amount to be refunded. Interest (if there is a refund) shall be applied for the period from the end of the first twelve months of the IEC Period through the end of the calendar month prior to the billing month in which bill credits for the refund appear on customers' bills. In other words, it is assumed that the total amount of any refund accrues during the first year and interest applies thereafter.

8. All Aquila Missouri retail electric customers taking service at any time during the IEC Period are potentially eligible to receive a refund, including interest and all applicable taxes and fees consistent with the terms and conditions of this Agreement. Generally, any such refund will appear as a one-time credit on the customer's bill, except that a refund in an amount exceeding $1,000.00 may be issued by check when specifically requested by the customer, and in cases where a customer is no longer a customer in the billing month in which bill credits appear on the bills of remaining customers. In that instance, Aquila will mail to the last known address of such former customer a check for the amount of the refund owed that former customer. No such checks will be issued to a customer for a refund amount of less than $3.00. Aquila may set off the amount of any refund owed a particular former customer under this Agreement against any amount owed Aquila by that former customer. After the bill credits have been made and checks issued, any amount of the total refund plus interest that may remain in Aquila's possession six months after the end of the application of the bill credits, for example, due to the inability to

locate a former customer, shall be donated by the Company promptly to a Low-income assistance program to be agreed upon by the parties.

9. During the IEC Period, Aquila shall provide the Parties with the Company's routine monthly revenue and sales reports, which reports shall include the following data: (1) actual kWh sales for each Missouri retail rate code by calendar month, and (2) the revenues from kWh sales, exclusive of taxes, for each Missouri retail rate code by calendar month. The routine reports shall also specifically identify the revenues associated with the IEC Period and the status of the IEC mechanism in terms of the accrued refund obligation. Aquila shall submit this data in electronic format on a quarterly basis within forty-five (45) days after the end of each calendar quarter.

Aquila also agrees, for the purposes of the IEC Period and this Agreement, to, for the duration of this Agreement, submit the following information to the Commission's Auditing Department and to the Public Counsel:

a. Monthly operating reports;

b. Monthly fuel reports;

c. Monthly purchased power and interchange (off-system) sales reports. Purchases and sales to any affiliate excluding the L&P Division will be included in the Interchange Revenue and Cost Accounts. Transactions between MPS and L&P will be accounted for as transfers at cost under a Joint Dispatch assumption;

d. Monthly outage reports, including Jeffrey and Iatan outages;

e. Monthly fuel prices for a) coal and freight, b) natural gas (commodity and transportation separately) and c) oil; and

f. A monthly statement identifying significant changes in fuel/rail contracts, capacity agreements and unusual operating conditions such as significant power plant outages, unusually high purchased power prices and natural gas prices, etc.

10. Commencing with the calendar quarter beginning April 1, 2004, and continuing during the IEC Period, Aquila shall provide quarterly reports to the Parties relating to the Company's analysis and record-keeping for any and all natural gas capacity release and off-system natural gas sales opportunities and transactions. In this report, Aquila shall provide information showing the amount of natural gas capacity that was available for its own use, the amount used, the amount available for capacity release; and for each amount of capacity released, the party to whom the capacity was released, the price of the release, and its duration, together with any other relevant information related to the transaction. This quarterly report shall also provide information showing the total amount of off-system natural gas sales; and for each off-system sale, the party to whom the off-system natural gas sale was made, the price of the sale, and its duration, together with any other relevant information related to the transaction. This report will also include Aquila's analysis of the natural gas market conditions during the time period covered, with explanations as to why the Company did or did not make any natural gas capacity releases or off-system natural gas sales. Any revenues collected by Aquila due to the release of unused natural gas capacity or net revenues from off-system sales of natural gas during the duration of the Agreement will be used to offset the calculation of the cost of the fuel and purchased power supplied to the Company's ratepayers on a dollar-for-dollar basis.

11. In consideration of the implementation of the IEC mechanism in this proceeding, and for its duration, Aquila, with respect to its electric and industrial steam operations, agrees to voluntarily forego any right it may have to request the use of, or to use, any other procedure or

remedy, available under current Missouri statute or subsequently enacted Missouri statute, in the form of a fuel adjustment clause, a natural gas cost recovery mechanism, or other energy related adjustment mechanism to which the Company would otherwise be entitled. This temporary and limited waiver by Aquila shall not be construed to prevent the Company from utilizing a purchased gas adjustment with respect to its natural gas operations.

At its own expense, Aquila shall post a bond, escrow its refund obligation, or otherwise provide adequate assurance to the parties to guarantee that any refund amounts due to its customers upon the expiration of the IEC will remain unencumbered in the event Aquila becomes insolvent or reorganizes its corporate structure.