Questions from Cary Featherstone regarding Aquila Steam Fuel:

How were the purchases of natural gas and hedging made-- by the use of the forecast/budget expected volumes/ amounts by month or on annual basis?

Were the purchases and hedging instruments made on some type of adjusted budget levels, i.e., as the budget levels didn't materialize were the forecasts adjusted to ensure that quantities of natural gas were not over-purchased?

Cary is trying to gain an understanding of the purchasing policies of the natural gas amounts in volumes and how the expected steam loads impacted, if any, the procurement process of the natural gas commodity both in terms of actual procurement and how much to hedge.

REPLY:

Under Aquila's 1/3, 1/3, 1/3 hedge strategy 1/3 of budgeted volumes were fixed by purchasing NYMEX futures contracts, 1/3 of budgeted volumes were protected by purchasing either vanilla or synthetic NYMEX call options. The remaining 1/3 of budgeted volumes were not hedged. The budgets used to develop those volumetric forecasts were typically developed prior to mid-July of the year preceding the first year of the budget horizon.

By the time it was apparent that actual steam load was significantly less than budgeted volumes it was too late to affect Aquila's natural gas hedge program for the steam system. The hedges would have already been purchased.

Physical natural gas for steam production is typically purchased either as a monthly product with daily pro rata deliveries or as a daily product. Typically about one-third (20-40%) of the expected usage based on historical usage patterns is purchased as a monthly or "base load" product. The remaining is purchased as a daily product. The daily purchased volumes are based on day ahead or that day usage estimates.

10/02/2009
Ed Blunk

Exhibit No. 8
Date 11-18-10 Reporter TC
File No. HC-2010-0235

HC