

Harris, Loretta

From: Green, Rick
Sent: Wednesday, November 22, 2006 2:47 PM
To: [REDACTED]; Herman Cain ([REDACTED]); Irvine O. Hockaday Jr.
[REDACTED]; Nicholas Singer (Nick)
[REDACTED]; Patrick Lynch ([REDACTED])
Cc: Empson, Jon; Stamm, Keith; Morton, Leo; Armstrong, Beth; Bellville, Debbie; Debbie Hackett
[REDACTED]; Green, Rick; Harris, Loretta; [REDACTED]
[REDACTED]; Karleen Mahn ([REDACTED]); Reitz,
Christopher; [REDACTED]
Subject: Project 132 Update

Dear Aquila Directors:

This morning we received the Navy bid. The proposal also included a markup of the merger agreement and a 65 page asset purchase agreement. Of course it will take additional time to fully understand the proposal, but based up a preliminary view, the essence of it is below:

Consideration

- \$4.50/share comprised of approximately 40% cash and 60% Navy common stock.
- Fixed exchange ratio to be agreed upon at the execution of the merger agreement.

AG Proc. Exhibit No. 302
Case No(s). EN-2006-0374
Date 12-5-07 Rptr pf

Structure

- The proposal contemplates Navy acquiring 100% of our common stock through a merger of Aquila into a subsidiary of Navy.
- Immediately following the merger, Black Hills (BKH) will acquire from Navy our utility operations in Colorado, Kansas, Iowa and Nebraska.

Closing Conditions

- Aquila and Navy shareholder approvals are required. The cover letter indicates BKH shareholder approval is also required; however, we do not believe that is the case and the draft asset sale agreement does not contemplate BKH shareholder approval.
- BKH must be prepared to close its asset purchase immediately after the closing of the merger.
- There can be no material adverse change (financial or otherwise) to the business of Aquila (measured excluding the assets being purchased by BKH)
- There can be no material adverse change to the assets being purchased by BKH.
- All regulatory approvals needed to close the merger and the asset sale to BKH must be obtained.
- The conditions imposed by the regulators may not be materially adverse to business of Aquila (excluding the assets being purchased by BKH), have a material adverse effect on the assets being sold to BKH or require the divestiture of electrical generation facilities that Navy believes are needed to serve the retail or long-term wholesale customers of Navy or Aquila.

Regulatory Matters

- Before signing a definitive agreement, Navy will seek informal indications from the Missouri Public Service Commission that they will be allowed to retain a "significant" portion of the synergies as well extend their Iatan II regulatory compact to Aquila's Iatan II interest;
- The cover letter indicates that should they ultimately get this treatment from the MPSC, the rating agencies have confirmed Navy will maintain its investment grade credit rating;

Process

- Navy proposes a four week exclusivity period for further negotiations, reverse due diligence and discussions with the MPSC.

The advisors recommend that we do not respond to Navy until after the Thanksgiving holiday. We will use the time internally to more carefully study their offer. We will keep you informed as we learn more. Happy Thanksgiving to each of you.

-- Rick