

Exhibit No.:

Issues: Overview; Recommendations and
Conclusions; Working Capital

Witness: Joan C. Wandel

Sponsoring Party: MoPSC Staff

Type of Exhibit: Revised Rebuttal Testimony

Case No.: EF-2003-0465

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

FILED

REVISED REBUTTAL TESTIMONY DEC 05 2003

OF

Missouri Public
Service Commission

JOAN C. WANDEL

AQUILA, INC.

CASE NO. EF-2003-0465

Jefferson City, Missouri
September 2003

**** Denotes Highly Confidential Information ****

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Exhibit No. 12
Case No(s). EF-2003-0465
Date 10-20-03 Rptr JCC

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

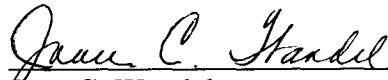
In the Matter of the Application of Aquila, Inc.)
For Authority to assign, Transfer, Mortgage or)
Encumber Its Franchise, Works or System)

Case No. EF-2003-0465

AFFIDAVIT OF JOAN C. WANDEL

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Joan C. Wandel, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing Revised Rebuttal Testimony in question and answer form, consisting of 50 pages to be presented in the above case; that the answers in the foregoing Revised Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Joan C. Wandel

Subscribed and sworn to before me this 18th day of September 2003.




Toni M. Charlton
Notary Public, State of Missouri
County of Cole
My Commission Expires December 28, 2004

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1 **REVISED REBUTTAL TESTIMONY**

2 **OF**

3 **JOAN C. WANDEL**

4 **AQUILA, INC.**

5 **CASE NO. EF-2003-0465**

6 Q. Please state your name and business address.

7 A. Joan C. Wandel, P.O. Box 360, Jefferson City, MO 65102.

8 Q. By whom are you employed and in what capacity?

9 A. I am Regulatory Utility Manager for the Missouri Public Service Commission
10 (Commission). As such I oversee and supervise the work of the Commission's Auditing
11 Department.

12 Q. Please describe your educational background.

13 A. I attended the University of Missouri in Columbia, MO and received a
14 Bachelor of Science degree in Home Economics with a major in Dietetics in 1968. I
15 attended the University of Texas at San Antonio and received a Masters of Business
16 Administration with a concentration in Accounting in 1977. In November 1978, I passed the
17 Uniform Certified Public Accountant (CPA) examination and was licensed in the state of
18 Texas in 1979 as a CPA. Since July 1981 I have been licensed in the state of Missouri as a
19 CPA.

20 Q. Please describe your work experience.

21 A. I was employed by various certified public accounting firms from July 1979
22 through 1991, where I was responsible for the performance of audits and the preparation of
23 financial statements and tax returns. From 1991 through 1993 I worked for the Affton

1 School District in St. Louis, MO as the Business and Budget Manager. Since 1994, I have
2 been employed by the Commission as a Regulatory Utility Manager of the Auditing
3 Department.

4 Q. Have you previously filed testimony before this Commission?

5 A. Yes. I filed testimony in the St. Louis Water Company rate case, Case
6 No. WR-96-263.

7 Q. Have you made an examination and analysis of the books, records, data
8 request responses and transcribed verbal answers of Aquila, Inc. (Aquila or Company) in
9 regard to matters raised in this case?

10 A. Yes, in conjunction with other members of the Commission's Staff (Staff). I
11 have reviewed the books, records, data request responses and transcribed verbal answers of
12 Aquila in regard to matters raised in this case. I used these materials to evaluate Aquila's
13 Application. I also relied on specific representations from my counsel that I will identify in
14 my testimony. I evaluated the Company's request on an overall basis and coordinated with
15 other Staff members that performed more detailed examination into specific areas related to
16 the Company's request.

17 Q. What knowledge, skill, experience, training or education did you use to arrive
18 at the conclusions expressed in your testimony?

19 A. I relied upon the education, experience and training detailed earlier in my
20 testimony. I specifically relied upon my training and experience as a CPA to conduct my
21 examinations of Aquila's request in this case and arrive at the conclusions that I will express
22 later in my testimony.

1 Q. You mentioned above transcribed verbal answers as one source of information
2 in this case. Please describe that process.

3 A. Staff, Office of the Public Counsel and Intervenors to this case interviewed
4 Aquila representatives on July 16-18, 2003. The interview transcripts were a result of those
5 interviews.

6 Q. Please describe the purpose of your rebuttal testimony.

7 A. The purpose of my rebuttal testimony is to respond to the Application and
8 direct testimony of Aquila, Inc. On April 30, 2003, Aquila filed its Application and
9 supporting testimony requesting approval for authority to "Assign, Transfer, Mortgage or
10 Encumber its Franchise, Works or System." At paragraph 4 of that Application, the
11 Company states that it:

12 ...requests a Commission order authorizing the assignment, transfer,
13 mortgage or encumbrance of Aquila's utility franchise, works or
14 system necessary or useful in the provision of regulated electrical,
15 natural gas and heating company utility services to the public in
16 Missouri in order to secure Aquila's financing arrangements which are
17 used to support the Company's utility operations.

18 I will provide testimony setting out the general review of the Application and the
19 conclusions reached by Staff. Specifically I will: 1) address the standard by which the
20 Application was reviewed; 2) address the fact that this is not a traditional finance case; and
21 3) provide the overview and status of similar applications filed by Aquila in other
22 jurisdictions. I will provide an analysis of the loan provisions related to the pledging of
23 Aquila's Missouri assets. I will address Staff's position regarding Aquila's alleged working
24 capital needs related to its Missouri utility operations.

1 Q. What other Staff witnesses are filing rebuttal testimony and what is the
2 purpose of their testimony?

3 A. Ronald L. Bible of the Commission's Financial Analysis Department will
4 testify to the validity of the financial safeguards proposed by Aquila in this case.
5 James L. Ketter of the Commission's Energy Department will testify to the need to formalize
6 current outage and reliability reporting during the period of Aquila's financial distress.
7 Lena L. Mantle of the Commission's Energy Department will provide testimony regarding
8 Aquila's current and future capacity resource needs that require the Company to maintain or
9 have access to capital investment. J. Kay Niemeier of the Commission's Engineering and
10 Management Services Department will address customer service quality concerns occurring
11 during Aquila's current financial distress. She will propose reporting requirements to
12 monitor this situation to reduce the probability that these concerns are not satisfactorily
13 addressed. David M. Sommerer of the Commission's Procurement Analysis Department will
14 address the impacts of the Company's financial condition on the natural gas procurement and
15 supply process. He will also address certain working capital adjustments proposed by
16 Aquila.

17 Q. How did Staff conduct this investigation?

18 A. Staff reviewed the various testimony and exhibits including the Application
19 itself filed by Aquila relating to the Company's proposal to pledge utility assets for this
20 financing. Staff submitted data requests, discussed data request with Company personnel
21 during the review phase and conducted informal transcribed interviews.

22 The transcribed interviews occurred July 16-18, 2003, and included all of the parties
23 to the case. The Company provided several individuals to answer questions posed by the

1 Staff and the other parties. The Company was allowed to review the transcripts for
2 correctness and accuracy. To the extent Staff has used and relied on these transcribed
3 interviews for purposes of this rebuttal testimony, the corrected versions were used.

4 Q. Is this is a typical finance case?

5 A. No. Unlike every prior finance case of which the Staff is aware, including
6 those Aquila relies upon as precedent in its Application and direct testimony in this case,
7 Aquila has already received the loan proceeds to which the requested encumbrance treatment
8 would apply. In a typical finance case receipt of the loan proceeds is dependent upon
9 Commission authorization. Further, to the extent that Aquila is seeking authority to
10 encumber assets beyond the Term Loans' three-year period, this is also atypical as in the
11 traditional financing case the applicant is seeking authorization limited to a particular
12 transaction before the Commission.

13 **DESCRIPTION OF THE LOAN FACILITIES AND ASSOCIATED ASSET**
14 **COLLATERALIZATION**

15 Q. Please describe the loan facilities Aquila finalized April 9, 2003.

16 A. Aquila finalized two different loans on April 9, 2003. The first is a
17 \$430 million three-year Term Loan Facility and Letter of Credit Facility (Term Loan). The
18 second loan is a \$100 million 364-day Term Loan. During the first 90 days, Aquila had the
19 option to increase the face amount of this second loan to \$200 million. The Company
20 exercised this option June 2003. Aquila received the funds with regard to these loan
21 agreements from a consortium of lenders and banks. This Application is only related to the
22 three-year Term Loan. The \$100/\$200 million 364-day Term Loan is not relevant to the
23 issues in this request.

1 Q. Please describe the asset collateralization provisions associated with the Term
2 Loan.

3 A. Aquila issued First Mortgage Bonds Under Its Indenture of Mortgage and
4 Deed of Trust, dated April 1, 2003, to Bank One Trust Company, N.A., Trustee, and its First
5 Supplemental Indenture, dated April 9, 2003, to Bank One Trust Company, N. A., Trustee.
6 The indenture and supplemental indenture represent a first mortgage lien on Aquila's assets
7 described in the loan documents.

8 Q. Please describe the assets used to collateralize the Term Loan at closing.

9 A. Appendix 3 to the Application provides an execution copy of the \$430 million
10 three-year credit agreement, dated as of April 9, 2003. On page 9 of the direct testimony of
11 Company witness Mr. Rick Dobson, he states:

12 The \$430 million term loan was secured with collateral from the
13 Nebraska and Michigan domestic utilities, a pledge of the capital stock
14 of the holding company of Aquila's Canadian utilities, and a silent 2nd
15 lien on the equity interest in the holding company of Aquila's IPP
16 investments.

17 Aquila represented that it did not need to seek regulatory authority from Michigan or
18 Nebraska in order to pledge the utility assets in those states.

19 Q. What was the value of the assets pledged as collateral for the Term Loan?

20 A. According to the Schedule RD-2 attached to Mr. Dobson's direct testimony,
21 the regulated assets totaled ** _____ ** million (Michigan ** _____ ** million and
22 Nebraska ** _____ ** million); the Canadian assets were valued at ** _____ ** million; and
23 the Independent Power Producers (IPPs) were valued at ** _____ ** million. These assets
24 totaled ** _____ **million.

25 Q. What rate of interest is Aquila currently paying on the Term Loan?

1 A. Aquila is currently paying 8.75% per annum on \$430 million. Aquila is
2 paying \$37.625 million of interest expense annually. If Aquila buys down the loan other
3 than as required by its terms, there is a significant pre-payment penalty (see Section 2.7(a)(1)
4 and the definition of “Make Whole Premium” in the loan agreement). The Term Loan does
5 not have the features required to support utility working capital needs. The Term Loan does
6 not allow the repayment of borrowed funds when cash is available to eliminate interest
7 charges without a penalty charge.

8 Q. Why was it necessary for Aquila to file this Application?

9 A. The terms of the \$430 million three-year credit agreement require the
10 Company to make a “commercially reasonable effort” to seek necessary regulatory approvals
11 to collateralize the domestic utility assets of Aquila. Section 5.13 Post-Closing
12 Matters (a) identifies the terms of the loan that required regulatory approvals as follows:

13 Post-Closing Matters. (a) Use its commercially reasonable efforts to,
14 as promptly as practicable, obtain all necessary governmental and
15 regulatory approvals (x) to add as additional property under the First
16 Mortgage Indenture the tangible assets of each of the Borrower’s
17 operating divisions, to the extent necessary to cause the fair value of
18 the Collateral Utility Business (including the fair value of such
19 additional property (as evidenced by an appraisal dated within three
20 months (or sooner if there has been a material adverse change
21 affecting such additional property)) to be equal to or exceed 167% of
22 the outstanding aggregate principal amount of First Mortgage Bonds
23 then held by the Collateral Agent (such commercially reasonable
24 efforts by the Borrower shall not require it or any of its subsidiaries to,
25 among other things, (i) modify the conduct of its ordinary course of
26 business in any material respect, (ii) divest itself of any significant
27 assets or businesses, (iii) refund any amounts to any customers or (iv)
28 reduce its rates or other charges to its customers) (once the Borrower
29 shall have caused such additional property to be added and caused
30 such ratio described in clause (x) above to have been first met, the
31 Borrower shall have no further obligation to add additional property
32 under this clause).

1 In response to this requirement the Company has filed Applications in the states of Missouri,
2 Kansas, Iowa, Colorado and Minnesota. It should be noted that Aquila agreed with these
3 lenders to collateralize its utility business value for the full outstanding balance
4 (i.e., \$430 million) and not limit the utility collateral to only the amount it determined
5 necessary for its utility needs (i.e., \$250 million as identified on page 10 of Mr. Dobson's
6 direct testimony). Aquila agreed to provide these lenders utility collateral for amounts that
7 the Company would use for non-regulated operations.

8 Q. Is it necessary for the Commission to grant approval of the Application in
9 order for the Company to meet the terms of section 5.13 of the loan agreement?

10 A. It is the Company's position that the Commission need not grant approval of
11 the Application for the Company to meet the terms of the loan agreement. This statement is
12 supported by the following exchange:

13 MR. FEATHERSTONE: If the commission does not grant approval in
14 the state of Missouri or any other jurisdiction that is required, does that
15 fit within the terms of section 5.13?

16 MR. DOBSON: As long as we go through this process it does.

17 [Source: July 16, 2003 Interview Tr., pp. 240 – 241]

18 Commission rejection of this application will not invalidate any Term Loan condition.
19 Rejection of the application will not reduce the amount of funds available to support Aquila
20 or any of its operations.

21 Q. Are there any benefits to the Company if it is able to collateralize the Term
22 Loan with domestic regulated utility assets valued at no less than 167% of the outstanding
23 aggregate principal amount of the First Mortgage Bonds?

1 A. Yes. If the Company is able to pledge utility assets at or exceeding the 167%
2 of the outstanding loan balance, the Company will be able to reduce the \$37.625 million of
3 interest expense that it incurs annually by \$3.225 million per year. The Company is currently
4 paying 8.75% interest on the outstanding balance of the loan. This rate will decrease to
5 8.00% if the Company is able to pledge regulated utility assets with debt capacity value of at
6 least \$430 million.

7 Q. Is this level of interest expense related to Aquila's utility operations?

8 A. No. The Company is repaying and refinancing debt that it incurred unrelated
9 to utility working capital needs with the Term Loan proceeds. This amount of interest
10 expense is greater than the interest that would be charged to a normal utility operation.

11 [Source: July 17, 2003, Interview Tr., p. 353, line 25 – p. 354, line 14]

12 Q. Since the Term Loan closed on April 9, 2003, have any additional utility
13 assets been added as collateral to support the loan?

14 A. Yes. The Company reached an agreement with the Colorado Public Service
15 Commission Staff. As a result of that settlement, the regulated assets in Colorado were
16 appraised as of May 31, 2003, to have a value of ** ____ ** million. After applying the
17 60 percent loan value factor to the appraised value, the properties in Colorado have a debt
18 capacity value of ** ____ ** million. This increases the value of the pledged regulated
19 collateral to approximately ** ____ ** million and the total pledged collateral to
20 ** ____ ** million. At this stage Aquila has more utility collateral supporting the Term
21 Loan than is required to support its alleged working capital needs for its utility operations.

22 Q. Why did Aquila borrow the monies associated with the \$430 million three-
23 year Term Loan?

1 A. The Company borrowed the monies associated with the \$430 million three-
2 year Term Loan and the additional \$100/\$200 million 364-day Term Loan to replace a
3 previously existing \$650 million unsecured revolving loan that it had with a consortium of
4 lenders, for which CitiBank acted as agent. When the Company's financial rating was
5 reduced to less than investment grade status and violated certain interest coverage ratio
6 covenants, it was necessary for the Company to seek a waiver from the lender group of the
7 \$650 million line of credit. As a result of this change of status, in September 2002 the
8 Company sought an extension on the loan in order to obtain alternative financing. An
9 extension of the loan was granted until April 12, 2003.

10 Q. What was the purpose of this \$650 million revolving loan?

11 A. According to the information provided by the Company during the July 2003
12 interview, the monies were used to provide working capital to the various regulated and
13 unregulated operations of the Company as well as provide funds for the short-term
14 construction needs of those same operations.

15 Q. Is the new loan structured as a revolving loan like the \$650 million loan it
16 replaced?

17 A. No. The Company has borrowed the entire \$430 million for a three-year term.
18 Aquila used these monies to refinance the debt it incurred under the revolver. Aquila
19 supports its working capital needs with cash maintained in its corporate level bank accounts
20 and the Company "loans" these funds to the various operating divisions on an as-needed
21 basis. The proceeds from the Term Loan were disbursed and are no longer in Aquila's
22 corporate level bank account.

1 Q. Can you provide some history describing the events that lead to the financing
2 transaction that requires Aquila to seek Commission approval in this case?

3 A. Yes. The Staff filed a report on the Company's financial status in December
4 2002. A copy of the report and the Company's comments in response are attached to this
5 testimony as Schedule 1. This reports contains a detailed description of Aquila's history.

6 Q. Please provide an update of the significant events and their impact on the
7 Company that have occurred since that December 2002 filing.

8 A. On November 19, 2002, Standard & Poors lowered the Company's credit
9 rating to BB with a negative outlook. It previously had rated Aquila BBB-, its lowest
10 investment grade rating.

11 On April 15, 2003, Aquila reported a fully diluted loss of \$5.22 per share for the
12 fourth quarter of 2002, or a net loss of \$977.9 million on sales of \$411.3 million for the
13 quarter. The Company stated that the loss in the fourth quarter was due to impairment
14 charges, losses within discontinued operations and margin losses on winding down Aquila's
15 merchant trading portfolio.

16 The Company also reported a fully diluted loss of \$12.83 per share for the calendar
17 year 2002 on sales of \$2.4 billion for that year. The Company stated that restructuring
18 charges, impairment charges and net losses on sales of assets, losses within discontinued
19 operations and margin losses incurred during the wind-down of Aquila's merchant trading
20 portfolio contributed to the majority of the 2002 net loss.

21 On May 13, 2003, Aquila announced that it had terminated the 20-year tolling
22 agreement for Acadia Power Partners, LLC. Under the toll, Aquila supplied the natural gas
23 to a combined cycle plant in Eunice, Louisiana, and paid fixed capacity payments for the

1 right to sell into the wholesale market 580 megawatts of power generated by the plant.
2 Under the termination agreement, Aquila paid Acadia \$105.5 million to release Aquila from
3 the agreement. The transaction returned \$45 million to Aquila in posted collateral and
4 eliminated \$843 million in payments due Acadia over the remainder of the 20-year term.
5 Aquila entered into the contract with Acadia in 2000.

6 Aquila's financial status during the first quarter of 2003 continued to reflect the costs
7 of winding down its wholesale energy trading business, while also seeing improved results
8 from its domestic utility networks. On May 15, 2003 Aquila reported a fully diluted loss of
9 \$.27 per share for the first quarter of 2003, or a net loss of \$51.9 million on sales of
10 \$579.3 million. The loss was attributed to: 1) trading and contract losses related to last year's
11 decision to exit the energy trading business; 2) an increase in fixed capacity payments for
12 merchant generation capacity; 3) mark-to-market losses on certain long-dated forward
13 contracts; and 4) higher interest cost reflecting additional borrowings and higher interest rates
14 due to the Company's non-investment grade credit rating. The Company also reported
15 \$6.3 million in restructuring charges primarily connected with unfavorable interest rate
16 swaps.

17 On May 22, 2003, Aquila announced that, along with its partner, FirstEnergy Corp., it
18 had reached an agreement to sell their respective shares of Sterling Limited for 43 million
19 pounds. Aquila owned 79.9% of the joint venture.

20 On July 10, 2003, an agreement reached between Aquila and the Colorado Public
21 Utility Commission Staff became effective. This agreement allowed Aquila to pledge
22 Colorado's regulated utility assets as collateral to the three-year Term Loan.

1 On July 24, 2003, Aquila sold its Australian properties. The Company announced
2 that it would receive approximately US \$477 million from the sale or about US \$32 million
3 higher than originally anticipated. This increase was mainly attributed to the stronger
4 Australian dollar.

5 On August 12, 2003, the Company reported net losses for the second quarter 2003 of
6 \$80.6 million or \$.41 per fully diluted share. Mr. Richard C. Green, Aquila's chairman and
7 chief executive officer, stated: "We will continue our restructuring through this year and
8 next, especially our work to address our remaining long-term gas contracts and fixed capacity
9 payments for merchant power plants." The second quarter loss is considered to be due
10 primarily to restructuring and impairment charges related to last year's decision to reshape
11 the business to a regulated utility. Both operating cost and interest expense were higher in
12 2003 due to the Company's non-investment grade credit.

13 The Company is presently in the process of seeking and evaluating proposals with
14 regard to the sale of its Canadian properties.

15 No additional investment rating downgrades have occurred since November 2002.

16 [Source: <http://www.aquila.com>, News & Events, September 9, 2003]

17 Q. Could you describe Aquila's corporate structure?

18 A. Schedule 1 to this rebuttal testimony includes a discussion of Aquila's
19 corporate structure, as was identified in the report generated by Staff December 2002.
20 Aquila is not a holding company and its operating divisions or departments are legally
21 indistinguishable from Aquila, Inc. As such, its utility operations are not separate corporate
22 entities and cannot issue stand-alone debt. Aquila's corporate structure is that of a company

1 where all the regulated, non-regulated and parent activities are performed within divisions or
2 departments within the same overall company.

3 **CONCLUSIONS AND RECOMMENDATIONS**

4 Q. What is the Staff's recommendation regarding Aquila's request to encumber
5 its Missouri assets?

6 A. The Staff recommends that the Commission reject the Application, because
7 granting this action would be detrimental to the public interest. While Staff is unsure of the
8 appropriate standard that applies to the unique features of this case, Staff bases its
9 recommendation on the least onerous standard that Staff has seen applied by the Commission
10 to past finance, merger and sale cases. Pledging Missouri's assets to a completed financing
11 transaction that does not require such a pledge as a condition for receipt of the funds is a
12 detriment to the operations of Aquila's Missouri properties. The use of Missouri properties
13 as collateral for an existing loan will diminish the capability to use these assets for collateral
14 in the future to support Missouri operations in the event such funds are needed. Currently,
15 the Missouri operations have limited access to capital as a result of their association with
16 Aquila's non-regulated endeavors. The capital raising potential of the Missouri properties
17 should not be squandered on a transaction that will raise no funds for Missouri operations.
18 This capital raising potential should be maintained in the event that it is needed to be used to
19 provide future funds to support electric and gas service in Missouri.

20 Q. What are the bases for Staff's recommendation?

21 A. Staff's recommendation to reject Aquila's Application is based on the
22 following seven factors:

1 1) Approval of the Application will not result in Aquila receiving any
2 additional funds to be used for its Missouri operations. In addition to closing the loan,
3 Aquila has already spent the \$430 million it received from the Term Loan. This Application
4 is a post-closing requirement for Aquila to use “commercially reasonable efforts” to get
5 approval to increase the collateral supporting the loan. Approval of Aquila’s Application
6 would result in the Missouri properties being available as secondary, junior or subordinate
7 collateral in the future.

8 2) Rejection of the Application will leave Missouri’s assets available for
9 use in future financings when the proceeds are earmarked to support the cash needs of
10 Missouri-regulated operations.

11 3) Using Aquila as the only resource for the working capital needs of
12 Missouri’s regulated operation is detrimental to the public interest because there is no
13 guarantee that monies will be available when needed by the utilities. Previously, the
14 Company had several means of raising cash when needed. The Company is now restricted to
15 whatever cash it has on hand. The funds to support the working capital needs for Aquila’s
16 utility operations in the United States (US) are the cash balances maintained by Aquila’s
17 Treasury Department. Aquila’s US utility working capital needs can no longer be supported
18 by lines of credit or the ability to sell commercial paper because of their association with the
19 financial consequences of Aquila’s non-regulated operations. If secured financing is used to
20 support Aquila’s regulated working capital needs, there is no certainty that the funds will be
21 available if and when the utility operations actually need the funds. Lines of credit or
22 commercial paper sales are the most efficient method to address working capital needs since
23 monies are only borrowed as needed and interest is paid only for the amount of money

1 borrowed for the time the loan is outstanding. Aquila used a revolving line of credit to
2 provide its working capital needs prior to its loss of investment grade status. The Term Loan
3 provided funds to pay the debt incurred under the revolver. The Term Loan does not provide
4 funds to support any of Aquila's current working capital needs. Aquila must maintain
5 enough cash in its bank accounts to address all its working capital needs. Secured financing
6 is an inefficient method to support the working capital needs of Aquila's US utility
7 operations in general and Missouri's regulated operations specifically. This is because
8 Aquila is paying interest expense for funds when they are not being used to support the US
9 utility operations. Therefore, Aquila's cash balances are reduced by these unnecessary
10 interest expense levels.

11 4) Aquila overstates its utility working capital needs as a result of its
12 internal money transfer program, which permanently extracts utility funds to pay the
13 obligations of its non-regulated operations. The Company classifies these money transfers as
14 "internal dividends" despite the fact that it does not pay dividends to its shareholders and its
15 US utilities are operating divisions, not separate legal entities. These money transfers or
16 "internal dividends" should be retained by Aquila's US utility operations, thereby reducing
17 regulated working capital needs.

18 5) Aquila already has authority to encumber more utility assets
19 (Nebraska, Michigan and Colorado) than is required to support the \$250 million working
20 capital needs it asserts are necessary to support its utility operations. Additional utility
21 collateral commitments provide existing lenders more security for the Term Loan without
22 providing any additional capital or certainty of the availability of these funds for the actual
23 working capital or construction needs of Aquila's utility operations. Additional utility

1 collateral only supports the portion of the Term Loan that Aquila has designated for its non-
2 utility operations.

3 6) It is detrimental to the public interest and unfair to consumers for
4 Missouri operations to have to encumber a disproportionate amount of its capital assets
5 relative to its working capital needs. Missouri is being requested to pledge its assets, which
6 are largely related to electric activities, as additional security for the Term Loan to support
7 Aquila's working capital needs, which are primarily driven by its gas operations. It is unfair
8 to Missouri consumers to encumber Missouri's assets when they are already paying the costs
9 for the revolving lines of credit needed to support Aquila's working capital needs through
10 existing rates.

11 7) Using utility assets to obtain the 75 basis point reduction in interest
12 from 8.75 to 8.00 percent requires Aquila's utility operations to commit more collateral than
13 that required to support the Company's asserted utility working capital needs. Annually, the
14 Company will pay \$37.625 million of interest expense on the Term Loan. Internally the
15 Treasury Department charges the utility operating divisions an annual rate of 3.148% on
16 funds advanced for the number of days outstanding. This over-collateralization of the Term
17 Loan only benefits Aquila's non-regulated operations by reducing the **annual** interest by
18 \$3.225 million or reducing the amount of annual interest expense to \$34.4 million. This will
19 not result in a significant reduction in Aquila's overall annual interest expense payments.
20 Aquila reported \$76.9 million of interest for the second **quarter** of 2003. This equates to a
21 level of interest expense that exceeds \$300 million annually. The 75 basis point reduction
22 and the resultant interest rates stated above are not the result of Aquila's utility operations.
23 The 75 basis point reduction and the resultant interest are the result of Aquila's non-regulated

1 ventures. The 75 basis point reduction and the resultant interest do not represent the normal,
2 on-going operations of an investment grade utility. Aquila's Treasury Department will
3 charge the utility operations for its loans. A 75 basis point reduction in the Term Loan
4 interest rate will not reduce the rate Aquila charges the utility operations for its loans. The
5 only beneficiary of the interest rate reduction will be Aquila's non-regulated operations in
6 spite of the fact that utility assets are used to achieve the interest expense reduction.

7 Q. Is Staff proposing any conditions at present in the event the Commission
8 approves this Application?

9 A. No. It is Staff's position that the Company's proposal is so flawed it cannot
10 provide the conditions necessary to recommend that the Commission approve this proposal in
11 any fashion. Missouri needs to maintain the full extent of its ability to raise capital to protect
12 its Missouri utility operations from the potential threat caused by its association with
13 Aquila's failed non-regulated activities.

14 **STANDARDS APPLIED TO THIS APPLICATION**

15 Q. What standards generally apply to finance cases?

16 A. Aquila's Application relies upon statutory provision Sections 393.180 and
17 393.190.1, RSMo 2000, that contain no review standards. Additionally, it relies on a
18 Commission Rule, now codified at 4 CSR 240-3.110, which references the standard of "not
19 detrimental to the public interest" in connection with the sale of assets. Generally, upon
20 advice of counsel, there are three standards which apply to typical finance cases. In order for
21 a company to issue stock, bonds or debt the proceeds must be "reasonably required" for the
22 operation of the company. With regard to the acquisition of assets, the assets being

1 purchased must be “necessary and reasonable” to the provision of utilities to the customers.

2 The third standard is that the transaction must be “not detrimental to the public interest.”

3 The standard of “reasonably required” does not apply to this situation in that the debt
4 issuance has already occurred. This standard is found in Section 393.200.1 RSMo, which
5 states:

6 ...that there shall have been secured from the commission an order
7 authorizing such issue, and the amount thereof, and stating the
8 purposes to which the issue or proceeds thereof are to be applied, and
9 that, in the opinion of the commission, the money, property or labor to
10 be procured or paid for by the issue of such stock, bonds, notes or
11 other evidence of indebtedness is or has been **reasonably required** for
12 the purposes specified in the order, and that except as otherwise
13 permitted in the order in the case of bonds, notes and other evidence of
14 indebtedness, such purposes are not in whole or in part reasonably
15 chargeable to operating expenses or to income. [emphasis added]

16 The Company structured the loan in such a way that the actual loan did not require
17 Commission approval in that the loan was made to Aquila, Inc., which is a Delaware
18 Corporation. It is my understanding, upon the advice of counsel, that this makes Aquila a
19 “foreign corporation” and, as such, Aquila did not need approval from the Commission for
20 this debt issuance.

21 The second standard, “reasonable and necessary,” also does not apply in this situation
22 since the proceeds from the loan have already been received and put into use by the
23 Company. This standard is established in Section 8393.220.1 RSMo states:

24 The commission shall have power to require gas corporations,
25 electrical corporations, water corporations and sewer corporations to
26 account for the disposition of the proceeds of all sales of stocks, bonds,
27 notes and other evidences of indebtedness in such form and detail as it
28 may deem advisable, and to establish such rules and regulations as it
29 may deem **reasonable and necessary** to insure the disposition of such
30 proceeds for the purpose or purposes specified in its order. [emphasis
31 added]

1 The use of Missouri's assets is neither reasonably required nor reasonable and
2 necessary since the loan already exists and funds have been disbursed.

3 The Staff considers the third standard, "detrimental to the public interest," to be the
4 easiest of the three standards for the Company to meet and the most difficult of the three for
5 the Staff to disprove. All the Company must do is show "no harm" to the ratepayers. The
6 Staff, on the other hand, must prove that the ratepayers have been harmed in some manner to
7 cause the Commission to decide against the Company's request. The burden is upon the
8 Company to demonstrate there is no adverse effect to customers with respect to its request,
9 while the burden is upon those reviewing the request to challenge the Company's claim.

10 Q. What standard did the Staff use to develop its recommendations regarding this
11 Application?

12 A. Although Aquila is not seeking to sell assets, Staff used the standard of
13 "detriment to the public interest." If the Company fails to show that pledging of assets is not
14 detrimental to the public interest in Missouri, i.e., if it has not demonstrated that the proposed
15 pledging of assets will not harm the Missouri public, then the Commission should reject this
16 Application. Staff counsel has advised that the "not detrimental to the public interest"
17 standard is based on case law generally cited in Commission Orders, such as State ex rel.
18 City of St. Louis v. Public Serv. Comm'n, 73 S.W.2d 393 (Mo.banc 1934); State ex rel. Fee
19 Fee Trunk Sewer Co., Inc. v. Litz, 596 S.W.2d 466 (Mo.App. 1980). The standard also
20 appears in 4 CSR 240-3.110, the Commission's rule that addresses particular filing
21 requirements for authority to sell, assign, loan or transfer assets.

22 Q. How is Staff defining the term "public?"

1 A. Consistent with Staff's position in other cases, it views the members of the
2 "public" that must be protected in considering this Application as those consumers taking
3 and receiving utility service from Aquila's electric, natural gas and industrial steam
4 operations in the State of Missouri.

5 In this case, Staff would define "public interest" as referring to the nature and level of
6 impact or effect that the pledging of Aquila's Missouri utility assets will have on its Missouri
7 customers. This includes Aquila's electric, natural gas and industrial steam customers in
8 Missouri. There is a fundamental concern in the regulation of public utilities that the public
9 being served must not be impacted adversely or harmed by those responsible for providing
10 monopoly services. Public utilities in Missouri are charged with providing safe and adequate
11 service at nondiscriminatory, just, fair and reasonable rates. As part of this charge, the
12 utility's assets must be protected to ensure the continued service to the utility's customers. If
13 this Application results in adverse or negative impacts to Aquila's Missouri electric, natural
14 gas and/or industrial steam customers, then the Commission should not approve the
15 Application.

16 In the merger case involving Kansas Power and Light (KPL) and Kansas Gas Energy
17 (KGE) in 1991, the Commission identified the "public" as Missouri ratepayers. At pages 12
18 and 13 of its Report And Order (Case No. EM-91-213), the Commission stated the following:

19 The Commission has found no evidence in this record that KPL would
20 be unable to render safe and adequate service to its Missouri
21 ratepayers as a consequence of the proposed merger. However, the
22 Commission has found that the savings sharing plan proposed by KPL
23 as part of its merger application has the potential of exposing Missouri
24 ratepayers to higher rates than would be the case without the merger,
25 which would be **detrimental to the public interest**

1 The Commission has also found that there is potential for a
2 **detrimental effect on Missouri ratepayers** from the merger through
3 increased A & G and capital costs

4 Based upon these finding and determinations, the Commission
5 concludes that Missouri ratepayers will be shielded from any potential
6 ill effects from the proposed merger and will suffer **no detriment** as a
7 result. Therefore, the Commission concludes that, in the absence of a
8 finding of **detriment to the public interest**, it may not withhold its
9 approval of the proposed merger and will authorize KPL to acquire
10 and merge with KGE. [emphasis added]

11 Clearly, the Commission was identifying the Missouri ratepayer as the relevant
12 “public” in this Report And Order. This is the standard that is being applied to this
13 Application.

14 Q. Is Staff defining “detriment to the public interest” differently in this case than
15 it has in previous cases?

16 A. No. Staff is using the same definition for the standard and is basing its
17 evaluation of this Application on the same detriment standard as it has in previous cases.

18 **SUPPORT FOR STAFFS’ CONCLUSIONS AND RECOMMENDATIONS TO NOT**
19 **PLEDGE MISSOURI ASSETS TO SUPPORT THE TERM LOAN**

20 **SECTION 1: NO ADDITIONAL FUNDS**

21 Q. Why does Staff believe the fact the loan has already been processed supports
22 Staff’s opposition to this Application?

23 A. In review of this Application, it is the Staff’s understanding that the Company
24 is seeking the Commission’s approval to encumber assets to support a financing made in
25 April 2003. The Staff believes this is not a standard finance case wherein the Company
26 would seek pre-approval of the financing. Because the Company is a “foreign corporation,”
27 it did not need to seek Commission approval to execute the loan. The Company, through its

1 execution of the \$430 million three-year Term Loan, dated April 9, 2003, effectively caused
2 the loan to occur and the Company received the \$430 million amount.

3 The terms of the loan agreement do not require the pledging of Missouri's regulated
4 assets. Therefore, the Commission need not approve the Application for Aquila to fulfill the
5 terms of the loan agreement.

6 Q. Did the Company indicate to the lenders that it would seek Commission
7 authority to pledge Missouri assets as additional security to this loan agreement?

8 A. Yes. As part of the loan agreement for the \$430 million three-year Term
9 Loan, the Company committed to seek permission to pledge Missouri's assets. Appendix 3
10 to the Application, Section 5.13 Post-Closing Matters identified the commitment by Aquila
11 to its lenders to seek approval to pledge these assets. Aquila committed to:

12 ...[u]se its commercially reasonable efforts to, as promptly as
13 practical, obtain all necessary governmental and regulatory approvals
14 (x) to add as additional property under the First Mortgage Indenture
15 the tangible assets of each of the Borrower's operating divisions, to the
16 extent necessary to cause the fair value of the Collateral Utility
17 Business ... to be equal to or exceed 167% of the outstanding
18 aggregate principal amount of First Mortgage Bonds then held by the
19 Collateral Agent ...

20 Q. Has Aquila fulfilled this part of the loan agreement?

21 A. Yes. By applying for Commission approval to pledge its Missouri-regulated
22 assets and making a reasonable good faith effort to obtain that approval, Aquila has fulfilled
23 this part of the loan agreement.

24 Q. Please describe why the Company will receive no additional funds if it
25 receives approval from the Commission and, consequently, pledges Missouri's assets as
26 additional security to this loan?

1 A. The Company has already closed, received and expended the entire amount of
2 the loan. The amount to be borrowed was capped at \$430 million. As indicated during the
3 July 17, 2003 interview, the Company indicated it was limited to the \$430 million amount by
4 the Federal Energy Regulatory Commission (FERC) capacity authorization [Source: July 17,
5 2003, Interview Tr., pp. 566, l. 5 – 567, l. 21]. The loan is currently secured by other
6 regulated and non-regulated Aquila assets. Adding Missouri's regulated assets would only
7 provide additional security to the lender. It would not make additional funds available for
8 Aquila's use. Pledging Missouri's regulated assets encumbers those assets without providing
9 any benefits to either ratepayers or the Company.

10 It should be noted that the Aquila's FERC authorization predates the Agency's
11 Westar order, which established a new FERC precedent to provide additional safeguards for
12 utility operations from a company's non-regulated operations. A copy of the FERC order in
13 the Westar case is attached to this testimony as Schedule 2.

14 **SECTION 2: MAINTAINING MISSOURI ASSETS FOR FUTURE FINANCING**
15 **NEEDS**

16 Q. Do the Company's Missouri operations require any capital expenditures in the
17 future?

18 A. Yes. As addressed in the testimony of Staff witness Mantle, Aquila will need
19 to address capacity expansion requirements sometime within this decade. By not pledging
20 Aquila's Missouri assets, it leaves those assets available to address future financing needs
21 that Aquila has indicated will be required. Clearly it is in the interest of Missouri's
22 customers to have sufficient and reliable capacity. To the extent that lenders require security
23 for financing assets (such as generating facilities) then that would directly benefit Aquila's

1 Missouri customers. To encumber assets unnecessarily would not be sound regulatory policy
2 and would shortchange Aquila's customers in the long run. Rejecting this Application
3 provides the required flexibility to allow Aquila, even if it continues to be financially
4 impaired in the near term, to raise the necessary capital that will be needed to meet its future
5 obligations to supply electric, natural gas and steam to customers in this state.

6 **SECTION 3: WORKING CAPITAL**

7 Q. Does the Term Loan contain the features that Aquila traditionally uses to
8 support the working capital needs of its Missouri properties?

9 A. No. Traditionally Aquila supported its working capital needs for its Missouri
10 operations though the use of either a revolving loan (a/k/a letter of credit) or by issuing
11 commercial paper. With a traditional line of credit, Aquila borrowed monies on an as-needed
12 basis rather than incurring interest against an outstanding loan that may or may not be for the
13 correct amount of needed funds. For example, while the Company has borrowed funds
14 through the Term Loan based on a worse case scenario of high gas prices (\$11.63 / MMBtu)
15 and severe weather, these loans may be unnecessary if those circumstances don't materialize.
16 The Company borrowed money under the Term Loan to refinance the debt incurred under the
17 prior revolving loan. Aquila has no funds from the Term Loan to support its current working
18 capital needs.

19 Q. Why does Staff believe that the Term Loan funds do not support the utility's
20 working capital needs?

21 A. The Term Loan funds were used to refinance the debt incurred from prior
22 transactions. The Term Loan does not provide additional funds to Aquila. The Term Loan is
23 not designed to address Aquila's working capital needs. It is inefficient and ineffective to

1 use secured debt financing for working capital needs. Working capital needs are usually
2 served through either an unsecured revolving line of credit or the sale of commercial paper.
3 This allows the monies needed for working capital to be borrowed on an as-needed basis.
4 The need to encumber Missouri's regulated operations should be reserved for situations
5 where infrastructure investments are needed to support expansion. Encumbering Missouri's
6 regulated assets deprives the Missouri ratepayers of the opportunity of using these assets as
7 collateral in the future and is therefore "detrimental to the public interest."

8 Q. Why was it necessary for Aquila to seek this type of financing arrangement
9 rather than use a traditional line of credit or commercial paper for working capital needs?

10 A. The Company could not obtain traditional sources for working capital funds
11 due to its weakened financial condition. As a result of the losses incurred by its non-
12 regulatory operations, the Company sustained several financial credit downgrades, which in
13 turn made them less creditworthy in the eyes of the financial world. Also, as a result of these
14 credit downgrades, the Company failed to meet interest coverage covenants on the existing
15 \$650 million revolving line of credit it had in existence to support its working capital needs.
16 Failure to maintain interest coverage made the revolver debt payable on the demand of its
17 lenders. Hence, Aquila was forced to seek permanent financing in the form of this
18 \$430 million three-year Term Loan to raise the funds needed to repay the debt incurred under
19 the revolver loan. The Term Loan provides no funds to pay any future expenditures related
20 to Aquila's future working capital needs.

21 Q. Are there benefits to Aquila and its Missouri customers if Missouri assets are
22 not pledged in relation to the current \$430 million credit agreement?

1 A. Yes. Since the Company will receive no additional funds by approving this
2 Application, it is unnecessary to pledge Missouri assets for this loan. Rejection of this
3 Application provides flexibility in the future by leaving the assets unencumbered and
4 available as collateral should the need arise.

5 Q. What amount has the Company identified as its working capital needs of its
6 regulated utilities?

7 A. Aquila identified a working capital amount of \$250 million for its regulated
8 operations. This amount was derived by an internal study performed by the Company. The
9 \$250 million was determined on an overall basis for domestic regulated utilities and not on
10 an operational or jurisdictional basis.

11 Q. Where are the funds for the US utility working capital needs maintained?

12 A. The funds for the US utility working capital needs are maintained in the
13 overall cash balance of Aquila's corporate account managed by its Treasury Department.
14 This account is used for payment of regulated and non-regulated expenditures including
15 working capital needs.

16 Q. Does the Company have any safeguards in place on this account to ensure that
17 the \$250 million amount will be available for its utility working capital needs?

18 A. No. The Company has made no provision to separate or segregate these
19 monies by regulated and non-regulated operations. In addition, the Company has made no
20 provision to dedicate these monies by state jurisdiction or utility type (e.g., gas, electric or
21 steam). The Company has stated that it is committed to safeguarding the \$250 million for
22 use by its domestic regulated utility operations but has adopted no other safeguards to ensure
23 that either a specific amount of working capital will be set aside for each state jurisdiction

1 based on the estimated jurisdictional working capital needs, or a specific amount set aside for
2 the use of each state jurisdiction based on the pro-rata values of assets pledged as collateral
3 for this loan.

4 Q. What guarantees does the Company have in place to ensure that the monies
5 “borrowed” from the corporate account for non-regulated purposes will not exceed
6 \$180 million identified on page 10 of Mr. Dobson’s direct testimony as the amount needed
7 by Aquila for its non-regulated working capital needs?

8 A. None. In fact, given the cash needs of the non-regulated operations (e.g.,
9 \$130 million annually for prepaid gas contracts), it is likely that the non-regulated operations
10 will exceed the amount of \$180 million in borrowings.

11 Q. Is the Company asking that all of Missouri’s regulated domestic assets be
12 pledged to this loan?

13 A. Yes. The Company is asking that all of Missouri’s regulated domestic assets
14 be pledged to this loan.

15 Q. What reason did the Company give for pledging 100% of Missouri’s regulated
16 assets rather than only the pro-rata share of the assets?

17 A. In response to Staff Data Request No. 26, the Company stated: “In order to
18 have any value, the underlying collateral must represent a functioning business, or going
19 concern.”

20 Q. What reason did the Company give for pledging regulated utilities as
21 collateral for this loan?

22 A. According Mr. Dobson’s direct testimony (p. 11), the Company believes it is
23 only fair to pledge all regulated utility assets since the \$250 million working capital portion

1 of the loan is needed to support the day-to-day operations of all of Aquila's utility operations.
2 Staff disputes the assertion that the Term Loan supports the day-to-day operations of all of
3 Aquila's utility operations.

4 Q. In the Staff's opinion is it fair to the Missouri ratepayers to pledge 100% of
5 Missouri's assets as collateral for this loan if the Commission finds that the Term Loan does
6 support the day-to-day operations of all of Aquila's utility operations?

7 A. No. First, Missouri regulatory assets far exceed the value of assets located in
8 any of the other states in which Aquila operates. According to Schedule RD-2 attached to
9 Mr. Dobson's direct testimony, for purposes of collateralizing this loan, Missouri's regulated
10 assets represent approximately ** _____ ** million of a total regulatory asset pool
11 of ** ____ ** billion or ** _____ **. Fairness would seem to dictate that every state would
12 be required to provide collateral not in excess of its working capital needs to the extent each
13 state is comfortable using secured financing to support such needs.

14 Second, the Company has provided no evidence that Missouri is a net user of working
15 capital funds. The working capital model as produced by the Company to support the
16 \$250 million amount, the results of which are attached to this testimony as Schedule 3,
17 indicates that Missouri was the only state Aquila operates in that did not require working
18 capital and, in fact, was a net provider of cash.

19 Third, the alleged working capital needs of the Company are greatly exaggerated.
20 The Company has sworn to protect the ratepayers from the costs associated with its lowered
21 investment grade status. The utility operations are creditworthy and should be allowed the
22 normal grace period to pay for goods and services after receipt of those goods and services.
23 Aquila's utilities now must prepay almost all goods and services because of their association

1 with the Company's poor financial standing. In particular the Company is required to prepay
2 for gas supply for its Local Distribution Companies (LDCs) and for its electric operations, as
3 well as, prepay for purchased power. These are two of the key factors in calculating the
4 overall working capital needs for the regulated utilities. The \$250 million working capital
5 amount included the costs associated with the prepayment for gas and purchased power. The
6 Company, by requiring its utility operations to provide collateral to support these additional
7 costs, has failed to protect and safeguard the regulated utilities from the fallout of its poor
8 financial standing. This is an example of how the working capital needs for the utilities are
9 overstated. The costs of prepayment of these goods and services should be absorbed at the
10 corporate level, not at the utility level. Utility assets should not be used to support the excess
11 working capital needs forced upon the utilities due to a corporate structure that failed to
12 shield the utilities from the adverse results from non-regulated activities.

13 Q. Has the Company developed a working capital requirement for its Missouri
14 operations?

15 A. Yes. Aquila, has developed a working capital amount for its regulated
16 operations. This analysis showed that Missouri was the only state that did not require
17 working capital at the time of the peak working capital needs for the utility operations. In
18 response to Staff Data Request No. 75 attached as Schedule 3 to this testimony, the Company
19 provided the working capital model and the underlying assumptions used to develop the
20 working capital amounts for each jurisdiction. As can be seen on Schedule 3, Missouri is the
21 only state that has a negative working capital amount. The model results show the following
22 Peak Working Capital Need by State:

<u>State</u>	<u>Net Working Capital</u>
Colorado	** _____ **
Iowa	** _____ **
Kansas	** _____ **
Michigan	** _____ **
Minnesota	** _____ **
Missouri	** _____ **
Nebraska	** _____ **
<u>Other</u>	** _____ **
Total	<u>\$244,626,783</u>

13 Q. What percentage of working capital needs does Missouri represent?

14 A. Using the numbers provided by the Company on Staff Data Request No. 75,
15 the original working capital model showed that Missouri had a negative ** _____ ** of the
16 peak working capital needs. The Company's working capital model calculated Missouri's
17 working capital needs as a negative ** _____ ** million for January 2004. Missouri is actually
18 shown to be a net positive cash flow provider. It was only after the Company took those
19 initial calculations and made additional adjustments that it was able to state on page 11 of
20 Mr. Dobson's testimony that all of its regulated operations needed the loan to provide
21 necessary working capital for operations.

22 The Company, through its analysis, identified additional working capital needs
23 beyond the analysis that they asserted would result in a positive working capital amount for
24 Missouri's regulated operations. These adjustments resulted in Missouri's working capital
25 needs being changed from a negative ** _____ ** million to a positive ** _____ ** million.

26 [Source: Wandel rebuttal, Schedule 3]

27 Q. Did Aquila develop a requirement for each of its state operations?

1 A. No. In response to Staff Data Request No. 75, Aquila indicated that it
2 developed a working capital requirement on an overall regulated utility basis rather than state
3 by state. However attached to that Data Request is a schedule that provides the amounts the
4 Company has identified as needed on a state-by-state basis.

5 Q. How did the Company develop the overall working capital requirement for the
6 utilities?

7 A. Aquila's working capital model was developed using "the Company's overall
8 cash needs peak in the winter, primarily driven by gas purchased for distribution. Missouri's
9 gas and electric operations represent a portion of this peak" (Staff Data Request No. 75
10 attached as Schedule 3 to this testimony). The analysis was done using the peak month of
11 January 2004 estimates. Since this is a winter month, the working capital amount developed
12 by using this model was primarily driven by the gas distribution operation. Missouri's gas
13 distribution operations are relatively small (i.e., less than 6%) in relation to Aquila's
14 regulated gas operations in the other states. Therefore, the working capital amount is
15 primarily driven by other states.

16 Q. What assumptions did Aquila use in developing the model?

17 A. To develop the working capital requirement, Aquila made the following
18 assumptions:

- 19 1. Gas would be prepaid for all LDC and electric operations.
- 20 2. Purchased power would be prepaid for all electric operations.
- 21 3. Gas was stress tested at \$11.63 per MMBtu.
- 22 4. 10% increase in volumes of gas purchases.
- 23 5. All cash receipts were modeled based upon the revenues from the 2003
- 24 through 2005 budgets.

1 Q. What additional adjustments were used to modify the model results for
2 Missouri operations?

3 A. The Company included: 1) the Missouri Purchased Gas Adjustment (PGA)
4 which was based on February 2001; 2) underbilled budget billing based on February 2001;
5 3) a Missouri ice storm that last occurred in January 2001; 4) the January 2003 coal supply
6 purchases; 5) a December 2002 coal supply purchases prepayment scenario; and 6) the
7 January 2003 capital expenditures. The estimated peak, when added to the
8 negative ** ____ ** million determined by the model, resulted in a
9 positive ** ____ ** million adjusted working capital need for Missouri. [Source: Wandel
10 rebuttal, Schedule 3]

11 Q. Please describe the modifications there were made to the Company's original
12 working capital analysis for Missouri?

13 A. The Company made several adjustments to Missouri's peak working capital
14 need calculation that resulted in a ** ____ ** million positive working capital need.
15 Although these adjustments are outside the model, we compared this amount to the original
16 total working capital as computed by the model. This computed to ** ____ ** of that total.
17 It should be noted that the modifications made to Missouri's working capital model results as
18 performed by the Company would, in all likelihood, also apply to the other states as well and
19 would cause the working capital percentage for Missouri to be reduced. The Company did
20 not make similar adjustments to the model's outcomes for the other states. This, in effect,
21 skewed the results attributed to Missouri operations. For example, Missouri's working
22 capital needs were increased by \$2.7 million for January 2003 construction expenditures
23 when the Company noted in the transcribed interview (p. 650) that monies needed to finance

1 construction programs were excluded from the calculation of the maximum utility working
2 capital needs.

3 The post-model adjustments that increase Missouri's working capital needs conflict
4 with the model's basic assumptions. For example, an adjustment is made for an ice storm in
5 January 2004. However, ice storms occur at temperatures that are warmer than the
6 temperatures used by the model to create a 10% increase in volumes of gas purchases. If an
7 ice storm occurs creating working capital needs, then the needs would be offset by the
8 reduction in working capital caused by a reduction in gas volumes purchased as a result of
9 the warmer temperatures causing the ice storm.

10 Q. Does Staff agree with the working capital amount developed by Aquila for the
11 Missouri operations?

12 A. No. The Staff believes that the working capital needs for Missouri are
13 overstated based on the assumptions applied to the model and the additional adjustments
14 applied to the model outcome for Missouri. These assumptions and adjustments, such as the
15 prepayment of gas supply and purchased power, include amounts that would not be necessary
16 were it not for the fact that Missouri's operations are associated with the Company's non-
17 regulated activities and their negative consequences. The inclusion of such assumptions and
18 adjustments inflates the calculated working capital needs associated with Missouri's
19 regulated operations. Aquila has asserted the Term Loan proceeds support the utility
20 working capital needs. They do not. However, in order to justify the pledging of Missouri
21 assets to this loan the Company has: 1) asserted a relationship between the Term Loan and
22 the utility working capital needs; and 2) overstated the working capital needs for the
23 regulated utilities because of their relationship with Aquila's non-regulated financial losses.

1 During the July 16, 2003, interview [Source: July 16, 2003 Interview Tr., p. 245, ll. 12 - 18]
2 the following comments were made:

3 MR. SCHALLENBERG: And you mention under an investment
4 grade scenario. Are you saying that by not being investment grade
5 makes the working capital requirements of the utilities greater?

6 MR.DOBSON: It does.

7 MS. ARMSTRONG: Yes, it does.

8 On page 247 of that transcript [Source: July 16, 2003 Interview Tr., p. 247, ll. 11 -
9 16] in response to a query by Mr. Sommerer regarding the effects of a lower investment
10 grade status on the working capital needs, Mr. Dobson stated: "As a non-investment grade
11 company, they require us to prepay for the commodity up front before flow, which causes a
12 significant delay in the payment for the commodity in the billing cycle and collection of
13 those bills."

14 Q. Are there any other items included in the working capital model that cause the
15 results of the model to be overstated?

16 A. Yes. The Company included several items in its working capital calculation
17 that caused the results to be overstated. The Company estimated its working capital needs
18 using a worse case scenario, including a very severe winter, extremely high gas prices, winter
19 storms, etc. The application of these assumptions inflates the need for working capital by the
20 utilities. Since the Company has no other resources for working capital, it was forced to
21 maintain cash on hand rather than use a revolving letter of credit or issuing commercial paper
22 to meet its working capital needs. While the Staff understands that all companies have
23 working capital needs, the Staff does not agree that Missouri assets should be pledged in the
24 event Missouri's working capital needs are increased because of an association with the

1 Company's downgraded financial position and its inability to use efficient methods to
2 address these needs. Had the Company not suffered such losses on its non-regulated side, it
3 would have been able to borrow money through the traditional methods of financing working
4 capital without any condition to pledge its Missouri assets.

5 Q. How will the Company's regulated Missouri customers be harmed if Missouri
6 assets are pledged because Aquila has unnecessarily increased Missouri's working capital
7 needs and cannot support these increased cash needs through normal methods?

8 A. The Company's Missouri operations will need financing for new
9 infrastructure/new capacity in the near future. Any assets that are unnecessarily encumbered
10 today reduce the amount of capital that these assets can raise in the future. This benefits
11 neither the Company nor its Missouri customers.

12 Q. Has Staff reviewed the working capital needs of Missouri-regulated
13 operations independent of the negative consequences of being associated with Aquila's non-
14 regulated ventures?

15 A. Yes. Typically in a major rate case, Staff examines the working capital
16 components of the utility including cash working capital (CWC). In each of Aquila's past
17 rate cases, including those filed under its former name UtiliCorp United, Inc., Staff reviewed
18 the working capital requirements that should be included in rates. Each of those analyses
19 resulted in a negative cash working capital component being included in rates. The last
20 general rate case filed by Aquila in Missouri was Case No. ER-2001-672. Staff performed a
21 lead/lag study that identified the cash working capital requirement for Aquila as a negative
22 \$20.9 million. In addition, the allowances for customer advances and customer deposits in
23 that case amounted to \$5.7 million. Those items are a source of cash and can be used by the

1 Company for cash needs. Customers provided a total of \$26.6 million from the above items,
2 an amount sufficient to fund expenditures for materials, supplies, fuel inventories and
3 prepayments all of which are uses of cash and totaled \$22.9 million in Case
4 No. ER-2001-672. The above amounts are all calculated on a Missouri jurisdictional basis
5 [Source: Staff's revenue requirement runs in Case No. ER-2001-672, filed December 2001,
6 Accounting Schedules 2 and 8]. These sources of customer funds would offset the Company
7 adjustments for the January 2003 coal supply purchases and a December 2002 coal supply
8 purchases prepayment scenario.

9 Q. What is cash working capital as you used the term in your previous answer?

10 A. Cash working capital is the amount of cash necessary for a Company to pay
11 the day-to-day expenses incurred to provide utility service to Aquila's customers.

12 Q. How has the Staff historically determined the cash working capital needs of
13 the Company?

14 A. The Staff has historically determined the Company's cash working capital
15 needs through a lead/lag study. A lead/lag study determines the number of days it takes the
16 Company to receive payment for service it provided to its customers. A led/lag study also
17 determines who provides the cash working capital.

18 Q. What are the sources of CWC?

19 A. Shareholders and ratepayers are the potential sources of CWC. Shareholders
20 are the provider of cash working capital when the Company pays for an expense before the
21 ratepayers provide the cash. Ratepayers are providers of CWC when they pay for services
22 before the Company pays expenses it incurred to provide that service. A positive CWC

1 means that the shareholders have provided the CWC and a negative CWC means that the
2 ratepayers have provided the CWC.

3 Prior rate case studies have consistently shown that customers provide more cash for
4 Aquila's day-to-day operational needs than external sources. These results are consistent with
5 Aquila's working capital model results (before adjustment) that showed negative working
6 capital needs for Missouri.

7 Q. Is cash working capital the same as working capital?

8 A. Cash working capital is a component of working capital. Working capital,
9 while it includes cash working capital, also includes materials and supplies, inventories, fuel
10 stock inventories and prepayments.

11 Q. Did Staff perform a cash working capital analysis in this case?

12 A. While Staff did not perform a comprehensive lead/lag study, it did review
13 several components of the cash working capital analysis and computed the expense lags for
14 purchased power, gas supply and coal inventories. These expense items were examined
15 because they formed some of the basis for Aquila's analysis. That analysis found that these
16 items did not create a working capital need for the Company. We found that the outflow of
17 cash to pay for the expense items was matched with the inflow of revenue so no lags resulted
18 and positive and negative cash flows were balanced.

19 Q. How did Staff calculate the lag associated with purchased gas and purchased
20 power?

21 A. The Staff compared the delivery dates with the dates the invoices were paid.
22 These calculations resulted in a purchased gas lag for electric generation of 37.6 days, a
23 purchased power lag of 45.3 days and a purchased gas for gas distribution lag of 39.2 days.

1 The coal lags were used from the previous case, Case No. ER-2001-672. Those lags are 25
2 days for the Sibley Generating Station and 7 days for the Jeffrey Generating Station and were
3 calculated in the same manner. It should be noted that the Sibley lag created a requirement,
4 but when netted against the purchased gas, purchased power and the other coal lag created a
5 net positive cash inflow or a negative cash working capital requirement.

6 Q. How did the Staff determine that these components created no cash working
7 capital requirement?

8 A. The Staff compared the cash receipts (revenue lag), as it is defined in the cash
9 working capital analysis, with the expense lags. The cash receipts lag (when the Company
10 receives revenues from its electric and natural gas customers) was calculated in Aquila's last
11 rate case, Case No. ER-2001-672. The revenue lag in that case was 21.6 days [Source:
12 Accounting Schedule 8]. When the receipts are compared with disbursements, it is obvious
13 that the cash available to the Company exceeds the cash disbursements requirement
14 associated with these expenses.

15 Q. Is the working capital that is included in the ratemaking process the same as
16 the working capital that the Company is referencing for the Term Loan?

17 A. No. Working capital used to determine rates is based upon normalized
18 operations and calculated on an annual basis. The working capital that the Company is using
19 to support its Term Loan agreement, as noted above, is on a worse case scenario. It is
20 calculated based on the winter peaking months only. This was done to support a substantial
21 working capital need of the regulated utilities in order to create the perception of a need for
22 the regulated operations to pledge their assets to fulfill the Term Loan's post-closing
23 requirement.

1 Q. Are the Staff's CWC results comparable with the Company's working capital
2 model that it presented in this case?

3 A. Yes. It is noteworthy that while the Company and Staff define working
4 capital requirements differently and the approach to the analysis is different, the results are
5 comparable. The Staff's working capital analysis was determined by netting its negative
6 CWC lead/lag results with the materials and supplies inventories, fuel stock inventories and
7 prepayments, the result of which is a negative \$3.7 million. The Company's working capital
8 model resulted in a negative ** ____ ** million for Missouri.

9 Q. Is Aquila's asset pledging proposal fair to Missouri ratepayers?

10 A. No. Missouri is being asked to pledge all of its regulated utility assets while it
11 has little if any need for the working capital. In Iowa, on the other hand, Aquila's operations
12 have approximately ** ____ ** of the assets but ** ____ ** of the working capital needs based
13 on its working capital needs estimate for January 2004. Correspondingly, Missouri has less
14 than 6% of the gas load in January 2004. Therefore, Iowa has over twice the working capital
15 requirements of Missouri at the time of the Company's working capital peak. While Iowa is
16 also being asked to pledge 100% of their regulated assets, even if approved, Iowa would still
17 be pledging assets worth substantially less than Missouri's assets. [Source: July 17, 2003
18 Interview Tr., pp. 645 – 647]

19 **SECTION 4: WORKING CAPITAL NEEDS ARE EXAGGERATED BY AQUILA'S**
20 **INTERNAL MONEY TRANSFER PROGRAM**

21 Q. What is Aquila's policy for handling cash receipts?

22 A. All customer payments are deposited into a lock box at the Company's
23 primary banking facility. The revenues are then posted to Aquila's books as credits to

1 divisional Accounts Receivable and debits to Cash. The Cash is transferred to Aquila's
2 Treasury Department by posting a credit to Cash and a debit to To/From Corporate account
3 on the Divisions' records, and a debit to Cash and credit to the To/From Division account at
4 the Treasury Department level.

5 Q. How are payments posted for goods and services made by the operating
6 division?

7 A. Payments for goods or services are disbursed by the Treasury Department.
8 Such disbursements are posted as a credit to the To/From Corporate account and a debit to
9 the appropriate expense account at the division level, and as a debit to the To/From Division
10 account and a credit to Cash at the Treasury Department level. Other disbursement
11 transactions are processed in a similar manner.

12 Q. Since all the monies are swept into the Corporate Treasury Department
13 accounts does that mean that the monies technically belonging to a division with a positive
14 cash flow could be used by other operating divisions?

15 A. Yes. If an operating division is a positive cash flow provider, then the excess
16 funds provided by that entity could be used on an as-needed basis by other operating
17 divisions, both regulated and non-regulated.

18 Q. Does an operating division that is a positive cash flow provider receive any
19 "interest" on the excess funds from Aquila's?

20 A. Yes. According to responses made by Ms. Beth Armstrong, Chief Financial
21 Officer of U.S. Networks, during the July 17, 2003 interview, the Company posts interest
22 income to the operating division whenever that division is in a positive cash flow position at

1 the Treasury Department level. [Source: July 17, 2003 Interview Tr., p. 534, line 22 through
2 p. 535, line 4]

3 Q. Does an operating division that has a negative cash flow position at the
4 Treasury Department level pay interest on the funds that have been advanced?

5 A. Yes. If an operating division is in a negative cash flow position, that division
6 is charged interest for any funds advanced by the Treasury Department. [Source: July 17,
7 2003 Interview Tr., p. 534, line 22 through p. 535, line 4]

8 Q. Do the interest rates charged and paid by the Treasury Department represent a
9 reasonable return on investment for both the Treasury Department and the operating division
10 when monies are either borrowed from the Treasury Department or loaned to the Treasury
11 Department group by the operating division?

12 A. Yes. The Treasury Department pays the same amount whether borrowing
13 monies or loaning monies to the operating divisions.

14 Q. Please define the phrase “internal dividends” for purposes of this testimony.

15 A. Aquila is set up as a corporation with operating divisions rather than as a
16 parent company with subsidiaries. In a situation where the corporate structure is a parent
17 company and subsidiaries, the subsidiaries operate as separate entities and as such establish a
18 dividend plan based on each entity’s financial status, cash flow needs and net income.
19 Companies set up as corporations with operating divisions normally report on a total
20 company basis. In a situation where financial information must be accounted for on a
21 division-by-division basis, such as when the division is a regulated utility for purposes of
22 setting rates, it becomes imperative that all financial transactions be maintained on a
23 division-by-division basis. In order for the corporation to receive/transfer monies earned at

1 the division level, “internal dividends” are created. “Internal dividends” are defined for
2 purposes of this testimony as monies earned at the division level that are transferred from the
3 division to the corporate level on a permanent basis.

4 Q. How does Aquila accomplish these permanent cash transfers or “internal
5 dividends” from the operating levels to corporate?

6 A. According to the Company, in each quarter 70% of one-fourth of the
7 divisions’ budgeted annual income is permanently transferred to corporate as an internal
8 dividend. Since November 13, 2002, when the Company ceased paying dividends to its
9 shareholders through June 30, 2003, the Company has permanently transferred
10 \$40.434 million from out of its utility cash balances. [Source: July 17, 2003 Interview Tr.,
11 p. 538, ll. 4-22]

12 Q. Why does the Staff believe that the transfer of funds through the “internal
13 dividend” process is, during the current financial crisis, detrimental to the public interest?

14 A. The Staff believes that “internal dividends” issued to the Aquila Treasury
15 Department during this current financial crisis creates an artificial need for increased working
16 capital that would not otherwise exist and are, therefore, detrimental to the public interest.
17 Aquila is using this artificial need for increased working capital to justify pledging utility
18 assets to support the transfer of utility monies to pay non-regulated expenditures. If the
19 monies were maintained in the division’s To/From Corporate/Division accounts, then the
20 individual divisions would have more cash at their disposal interest free or potentially even
21 earning interest. In other words, if the monies were available internally, the division would
22 not need to borrow as much, and potentially, not any additional funds for working capital
23 purposes. The fact that the monies are transferred on a permanent basis to the Treasury

1 Department allows the Company to use the funds earned through the profitable operating
2 divisions to pay the expenditures of its non-regulated operations and otherwise subsidize the
3 operations of those divisions. The Staff believes it is unfair to cause the ratepayers to
4 subsidize these non-regulated entities by unnecessarily increasing the working capital needs
5 of the utility and subsequently increasing the costs to the ratepayers.

6 Q. Has the Company declared a moratorium on dividends to shareholders during
7 this current financial crisis?

8 A. Yes. The Company has ceased paying dividends to shareholders as a means
9 of conserving resources in an effort to reduce debt and other obligations and regain an
10 investment grade rating.

11 Q. Is the Staff able to draw a parallel between the Company's two dividend
12 policies?

13 A. Yes. The Staff believes that if the Company chooses not to pay external
14 dividends to its shareholders during this financial crisis, then the Company should not pay
15 "internal dividends." Not only should the monies be maintained at the division level to
16 reduce the working capital needs of the division and, thereby, lessen the costs to the
17 ratepayers, but also the monies earned as a result of regulatory operations should not be used
18 to subsidize the non-regulated operations.

19 **SECTION 5: STATUS OF THE TERM LOAN COLLATERAL PROCESS**

20 Q. Did the Company discuss pledging domestic utility assets as collateral for the
21 Term Loan as part of its Application and direct testimony?

22 A. Yes. The Company is proposing that all regulated assets of the domestic
23 utilities be pledged as collateral for the Term Loan. The Company is not proposing to limit

1 pledging utility assets to only the amount it alleges it needs to fund utility working capital
2 needs. Aquila is seeking to pledge utility assets to support the non-regulated amount of the
3 loan as well. [Source: Aquila Application, filed April 30, 2003, p. 7]

4 Q. What is the current status of the regulated utility properties pledged toward the
5 Term Loan?

6 A. Currently, the regulated assets of the states of Nebraska, Michigan and
7 Colorado are pledged as collateral to this Term Loan.

8 Q. How are the assets valued for purposes of debt capacity?

9 A. The valuation of the Company's assets is provided on Schedule RD-2 of the
10 direct testimony of Company witness Dobson. The value of these assets, for purposes of
11 determining their collateral value (debt capacity value), is accomplished by taking the value
12 of the assets, reducing that value for any outstanding debt and then multiplying that amount
13 by the loan value factor. Those loan factor values were set at 50% for the initial collateral,
14 which included the Canadian properties, Michigan-regulated utility properties and Nebraska-
15 regulated utility properties. The IPPs were valued using the Net Present Value of equity
16 distributions from contracted power plants at discount rates of 10% to 12%.

17 The Company had each of the assets originally pledged as collateral for this loan
18 appraised by BearingPoint to determine its debt capacity value. Aquila later had the
19 Colorado assets appraised. The value of the original domestic regulated assets and the value
20 of Colorado assets that were added to the collateral pool for purposes of meeting the debt
21 capacity is now ** _____ **million. This means the Company presently has more than
22 adequate collateral to meet the terms of the loan agreement that it alleges supports the
23 \$250 million working capital needs related to its regulated utility operations.

1 Q. How much additional collateral will the Company need to pledge to meet the
2 collateral requirements?

3 A. In order to meet the terms of the loan facility, the Company will need to
4 pledge additional regulated utility assets valued at ** _____ ** million for debt capacity. If
5 the Company is unable or unwilling to do this by the sale date of the Canadian assets, the
6 loan will need to be paid down to an amount equal to the debt capacity of the assets pledged.
7 It should be noted that any additional utility collateral that is pledged only allows Aquila not
8 to pay down the debt related to its non-regulated operations, which it needs to do.

9 Q. Does Staff believe that the terms of the loan agreement requiring the
10 Company to pledge regulated utility collateral with a debt capacity of at least \$430 million to
11 be detrimental to the public interest?

12 A. Yes. The pledging of assets with a debt capacity in excess of \$250 million is
13 in fact the subsidy of non-regulated operations and, therefore, detrimental to the public
14 interest. Aquila's non-regulated operations are completely responsible for the financial
15 hardship of this company.

16 Q. Does the Staff believe it is detrimental to the public interest to pledge any of
17 Missouri's assets toward this loan?

18 A. Yes. As previously stated in this testimony, the loan is already accomplished.
19 No additional funds for working capital were received as a result of the execution of this
20 loan. The loan proceeds were used to pay off the Company's existing line of credit. Over-
21 collateralizing this loan will not provide \$1 for use by the Company. In fact, the additional
22 collateral only provides these lenders with more security for their loan, thereby, providing
23 them greater protection in case of default or bankruptcy. Aquila's utility operations have had

1 access to the capital markets to meet its working capital needs, short-term and long-term
2 obligations. It is only the Company's poor financial conditions that caused Aquila to
3 maintain an excessive cash balance to support its working capital commitments because
4 traditional methods are no longer available to the Company.

5 **SECTION 6: COST OF LINES OF CREDIT ALREADY INCLUDED IN COST OF**
6 **SERVICE**

7 Q. Does the Company's current cost of service include the cost of providing
8 working capital through a revolving line of credit?

9 A. Yes. The Staff included the cost associated with the traditional line of credit
10 financing for the Company's working capital needs in its cost of service calculations during
11 the last rate case, Case No. ER-2001-672. As previously indicated, lines of credit are by far
12 the more efficient and effective way to meet the short-term obligations, such as the working
13 capital needs of the Company. Most major companies of which we are aware have
14 established lines of credit with their financial institutions so they can access cash as needed.
15 This is the practice that Aquila and its predecessor, UtiliCorp, operated under prior to this
16 financial crisis. Because of the Company's poor liquidity, financial institutions were no
17 longer willing to provide a revolving line of credit to meet the Company's obligations, which
18 resulted in the need for the Term Loan agreement. The Company's poor financial condition
19 is the sole reason why it has had to resort to obligating the Company for a loan to meet the
20 working capital needs for its businesses.

21 Q. Does Staff believe Missouri's regulated assets should be used to support the
22 Company's poor financial conditions that resulted from its non-regulated operations?

23 A. No.

**SECTION 7: APPLICATION REFLECTS THE FINANCIAL CONDITION OF
AQUILA-NOT THE ONGOING REGULATED MISSOURI OPERATIONS**

Q. Does this Application reflect the financial condition of Aquila's regulated Missouri operations?

A. No. Missouri's regulated operations are financially sound. If the Missouri utilities were operating on a standalone basis, there would be no need to pledge Missouri assets to obtain a loan to support the working capital needs of the Company. Missouri's utility operations would qualify for traditional financing, such as a line of credit and, as such, would be able to develop their own cash management and dividend policies. Even if it was part of a financially healthy parent/subsidiary relationship, it would be likely that the earnings of the Missouri operations could be retained to finance their short-term construction and working capital needs. A distressed parent puts pressure on the companies/divisions that generate cash to transfer that cash to the parent/Treasury Department. Once that cash is transferred, it puts more of a burden on the profitable operations to externally finance working capital requirements and construction projects.

Q. Does the Application reflect the financial conditions of Aquila as a whole?

A. Yes. This Application is driven by the weakened financial condition of Aquila, which is solely the result of the losses sustained by its non-regulated operations.

Q. How does the detriment to the public interest standard apply to this argument?

A. If the need to file this Application is driven by the weakened financial conditions of the non-utility divisions of the Company, then it is easy to draw the parallel that assets of the utility divisions should not be encumbered to support this loan and that these

1 assets must be protected for the benefit of the utility ratepayers in case of future financing
2 needs.

3 **STATUS OF FINANCING CASES IN OTHER JURISDICTIONS**

4 Q. With respect to the similar applications filed in Kansas, Iowa, Colorado and
5 Minnesota, please provide an update on these cases.

6 A. The Kansas Corporation Commission has established a procedural schedule
7 for that state's financing case. Kansas Staff are currently in the discovery phase and is
8 scheduled to prefile direct testimony October 31, 2003. Aquila is to prefile rebuttal
9 testimony on November 14, 2003. Kansas' hearings are scheduled to occur on
10 November 20-21, 2003.

11 In Iowa, the Company's Application is being contested. The testimony was prefiled
12 in the case. The Iowa Utility Board heard the case on August 26, 2003, and is to issue its
13 order by October 29, 2003.

14 The Colorado Commission Staff and Aquila reached an agreement to allow the
15 Company to pledge that state's assets toward the three-year Term Loan. Staff received a
16 copy of the Administrative Law Judge's recommendation to approve the Colorado
17 Stipulation. This recommendation contained a provision that indicated if no disagreement to
18 the Stipulation was noted, the Stipulation would go into effect after 10 days as though the
19 Commission issued an order approving said Stipulation. No objections were received and the
20 agreement became effective July 10, 2003.

21 The Minnesota case is being contested. Parties to the case are presently in process of
22 filing comments before the Minnesota Public Utilities Commission. This case is being
23 handled on an informal basis. No hearing date has been set.

1 Q. Does this conclude your revised rebuttal testimony?

2 A. Yes it does.