

Bacon, Brad

From: Reitz, Christopher
Sent: Thursday, November 30, 2006 5:52 PM
To: Bacon, Brad
Subject: FW: Project 132 Update

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December 19, 2007
Data Center
Missouri Public
Service Commission

HC

Exhibit No. 301
Case No(s) CM-2007-0374
Date 11-27-07 Rptr 11-27-07

-----Original Message-----

From: Green, Rick
Sent: Thursday, November 30, 2006 5:50 PM
To: Stamm, Keith; Reitz, Christopher
Subject: FW: Project 132 Update

Read below. This has been a good day. See you guys tomorrow for the next round of whatever happens.

-----Original Message-----

From: ihockaday [mailto: [REDACTED]]
Sent: Thursday, November 30, 2006 5:47 PM
To: Green, Rick
Subject: Re: Project 132 Update

Good. I agree we should work hard to develop alternatives and a careful assessment of Army's prospects is in order. While I'm in no way blaming anyone (certainly not management) I'm a little disappointed in our advisors--either the mis-read, or were mis-led, by Navy's advisors.....or something has caused a change in interest on Navy's part.

Irv

-----Original Message-----

From: "Green, Rick" < [REDACTED] >
Date: Thu, 30 Nov 2006 17:34:53
To: <ihockaday [REDACTED]>
Subject: RE: Project 132 Update

Irv, there is no doubt that Navy's actions are confusing. We talked this over with Will Hiltz and we believe there are a lot of options beyond Navy. A number of the other participants may be ready to engage again in the early part of next year, like Army. Given the current attitude at Navy this may be a good choice. We will continue to work on this and give the Board some different scenarios we can talk about and make a decision.

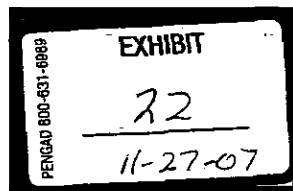
-----Original Message-----

From: ihockaday [mailto: [REDACTED]]
Sent: Thursday, November 30, 2006 5:08 PM
To: Green, Rick; [REDACTED]; Herman Cain; Michael Crow; Nick Singer; Patrick Lynch; Stan Ikenberry
Cc: Bellville, Debbie; Debbie Hackett; Harris, Loretta; [REDACTED]; [REDACTED]; Reitz, Christopher; [REDACTED]
Subject: Re: Project 132 Update

The way Navy is positioning themselves indicates they are convinced we have no other options. Their stance also calls into question at least in my mind, the advisors' assessment that Navy really wants to do this deal.

Either they do want to do it but believe they can dictate price and terms since we lack alternatives.....or they are more agnostic about this than we had supposed. Either way, it makes our position difficult. Evercore and other advisors should help us analyze where our "walk-away" line is drawn.

Irv



HIGHLY
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-----Original Message-----

From: "Green, Rick" <[REDACTED]>

Date: Thu, 30 Nov 2006 16:37:42

To: [REDACTED], [REDACTED], [REDACTED], [REDACTED],
[REDACTED], [REDACTED], [REDACTED], [REDACTED],
Cc: "Bellville, Debbie" <[REDACTED]>, [REDACTED], "Green, Rick"
<[REDACTED]>, "Harris, Loretta"
<[REDACTED]>, [REDACTED], [REDACTED], [REDACTED],
[REDACTED], "Reitz, Christopher"
<[REDACTED]>, [REDACTED]

Subject: "Project 132 Update"

Dear Aquila Directors:

Since receipt of the Navy non-binding proposal on November 22, management has been studying its regulatory implications, met in New York to do a line-by-line review and mark-up of the legal documents, performed "desk-top" financial due diligence on Navy using public information, and is preparing the stand-alone valuation information and alternatives requested by the Board at its last meeting. I will be sharing more detail about that work and the results in a subsequent e-mail. The purpose of this e-mail is to apprise you of a phone call that took place between Navy's and Aquila's advisors yesterday evening and to alert you to a new timing concern raised by Navy today, which according to them, could cause them to withdraw their non-binding proposal.

Yesterday evening, Lehman and Blackstone spoke with Navy's advisors to seek clarification of and improvements of commercial points in the Navy proposal. Here is a summary of the discussions as reported by Jim Metcalf and Raffiq Nathoo.

* Price

Lehman/Blackstone Issue Raised: The Navy proposal is below the top of its indicative range. Events since the indicative bid date (such as the potential acquisition of Aries) have enhanced value and justify a higher, not lower, non-binding offer.

Navy Response: The existing offer is generous and there will be no price increase.

* Price certainty

Lehman/Blackstone Issue Raised: Navy has proposed a fixed exchange ratio such that Aquila shareholders will be at risk for a decrease in Navy's stock price. Navy's stock price has fluctuated significantly the last two years and, at \$31.60 today, is near its high. Several of the analysts covering Navy have a sell recommendation. The cash component of their proposal should be increased or an adjustment made to the exchange ratio that protects against a decline in the Navy stock price.

Navy Response: A fixed exchange ratio is customary for utility transactions and will not be changed. The cash portion of the non-binding proposal will not be increased.

* Further disclosure concerning the combined company

Lehman/Blackstone Issue Raised: Navy's nonbinding-proposal did not include the pro forma analysis requested by the bid instruction letter. Given that 60% of the consideration proposed is Navy stock and Aquila shareholders will represent approximately 30% of the combined company, the absence of this leaves a significant gap that must be understood. For example, without understanding the portion of the purchase price being paid by Navy's partner and their assumptions about synergies, it is not possible to construct pro forma financial statements of the combined company. In addition, Navy has a generation and environmental capital expenditure plan that exceeds even that contemplated by Aquila. It is critical to understand the impact of that on Navy's prospects and credit rating.

Navy Response: No non-public financial information will be provided absent a commitment to exclusivity. Although the non-binding proposal stated there was a requirement they retain all synergies, this was apparently overstated and synergies are not that critical. Internal financial projections are more favorable than public

information.

* Further disclosure concerning regulatory plans

Lehman/Blackstone Issue Raised: Navy's non-binding proposal did not include its regulatory plan as requested by the bid instruction letter. Navy has indicated that it will request certain rate treatment from the Missouri Commission related to our Iatan 2 investment and anticipated merger synergies as part of regulatory process. We need to better understand Navy's regulatory plan before we can assess the likelihood of the Missouri Commission approving these requests. In addition, we need to understand how Navy intends to address several other items (such as recovery of fuel costs and environmental capital expenditures) that result in disparity between our and its current rates. Furthermore, recognizing that Navy's partner does not have experience with operating gas utilities of this scale, we need to understand Navy's regulatory plan, including whether or not it intends to request approval for anything beyond the minimal approval required to acquire our gas assets and Colorado electric assets.

Navy response: Navy's regulatory plan has more flexibility than indicated in their non-binding proposal. They will share the details only if given exclusivity.

* Timing

Navy Issue Raised: Navy disclosed a timing constraint. They indicated that they must begin a public remarketing of an outstanding security that will involve the circulation of a prospectus beginning in January. They cannot be in limbo with the Project 132 process when the remarketing takes place, or they will have an obligation to disclose in the prospectus the status of the negotiations. Consequently, the December 8th deadline articulated in the non-binding proposal is no longer valid. Further, Navy indicated that the offer received by Aquila on Wednesday, November 22nd is sufficient and the Aquila Board should have met over the Thanksgiving Holiday to confirm exclusivity for Navy. The December 8th meeting may be too far away and they may have to withdraw their non-binding proposal. Additionally, Navy needs to be in a position to sign a definitive agreement by the end of the year.

Lehman/Blackstone Response: We are surprised about the timing issue because the scheduled December 8th Board meeting coincides with the December 8th expiration date they set forth in their non-binding proposal. Aquila has been and will continue to work through the details of the Navy letter. The timing issue identified was not mentioned in their proposal and was apparently going to be a problem regardless of when the Aquila Board met. We still want them to be considered when the Board meets on December 8th and if they are selected, Aquila will work expeditiously to meet their deadline. The additional information required by Navy (as articulated in the asset purchase agreement) will make it difficult to sign an agreement by the end of the year.

* Legal Issues

Lehman/Blackstone Issue Raised: The attorneys see a number of problems with the Navy merger agreement and would like to have a call with Navy's lawyers right away to review them so Navy can address them in advance of December 8th.

Navy Response: Given the potential for Navy to withdraw its non-binding proposal, there is no point in the lawyers talking. If they do agree to talk, Navy's lawyers will be in "listen only" mode. They will get back to us.

In regards to the timing issue, the belief is that it is probably just posturing. In any event, they stated they would call back and confirm whether the timing constraint associated with their February 2007 security offering will require action on our part or their withdrawal. We briefed Evercore yesterday on the process and have another call scheduled with them later today for another update.

I will keep you updated. Please do not hesitate to contact call if you have questions or thoughts before then.

--Rick