Exhibit No.: 87
Issues: Capital Costs
Witness: John J. Reed
Sponsoring Party: Aquila Networks-MPS
[redacted]
Case No.: ER-2004-0034 &
[redacted]

FILED[3]
MAY 10 2004
Missouri Public Service Commission

Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony

of

John J. Reed

Exhibit No. 1087
Case No(s). ER-2004-0034
Date 3-1-04 Rptr TT

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF JOHN J. REED
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS [redacted]
CASE NOS. ER-2004-0034 [redacted]

Q. PLEASE STATE YOUR NAME.

A. My name is John J. Reed.

Q. MR. REED, HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes, I have. I submitted rebuttal testimony on behalf of Aquila Inc. ("Aquila" or "Company") on January 23, 2004.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My surrebuttal testimony responds to the rebuttal testimony of Commission Staff Witness David Murray, which was also filed on January 23, 2004. My surrebuttal focuses on the additional support that Staff Witness Murray offers for his recommended common equity ratio for Aquila. Specifically, I will respond to the following statements and conclusions offered by Staff Witness Murray:

1. That is inappropriate to use Aquila's most recent actual capital structure for ratemaking purposes because it "is not consistent with the comparable companies' capital structure[s]", and, "more importantly, Aquila's common equity ratio as of the update period is not consistent with how Aquila was financed in the past." (Murray Rebuttal, page 4, lines 5-8)

2. "If a hypothetical capital structure were to be used an appropriate common equity ratio would be in the range of 33 percent to 42 percent, not at the level of 47.5 percent recommended by Dr. Murray..." (Murray Rebuttal, page 13, lines 1-3)

3. "Aquila issues the debt and equity for the capital needs of its divisions. Therefore, investors are only interested in Aquila's consolidated operations." (Murray Rebuttal, page 10, lines 19-20)

Q. DO YOU AGREE WITH THE FIRST OF THESE THREE STATEMENTS, I.E. THAT AQUILA'S MOST ACTUAL RECENT CAPITAL STRUCTURE IS NOT APPROPRIATE TO USE FOR RATEMAKING PURPOSES?

A. Yes, I do. What is remarkable is that the grounds on which Staff Witness Murray concludes that the actual equity ratio is unsuitable apply equally to his recommended use of an actual Aquila capital structure as of nine months earlier.

Staff Witness Murray has concluded that the September 30, 2003 actual equity ratio of 30.77% is inconsistent with the equity ratio of comparable companies and is inconsistent with the way in which Aquila was financed in the past. Yet, he adheres to his recommended use of the December 31, 2002 actual equity ratio of 35.31% for ratemaking purposes.

Q. HOW DOES STAFF WITNESS MURRAY'S RECOMMENDED EQUITY RATIO COMPARE TO COMPARABLE ELECTRIC UTILITIES?

A. It is far below the industry average equity ratios for investment grade utilities, and even further below the equity ratio used for those companies in ratemaking proceedings.

Staff Witness Murray attempts to analyze industry average equity ratios at pages 12-13 of his Rebuttal Testimony, but his analysis suffers from four flaws: he uses a very small sample; he does not eliminate companies from the average that are in financial distress; he only looks at one year of data; and he does not examine the equity ratio used to set rates for the utility portions of these companies.

Q. PLEASE EXPLAIN YOUR CONCERN WITH THE SIZE OF THE SAMPLE STAFF WITNESS MURRAY USES.

A. For this analysis, Mr. Murray uses the C.A. Turner Utility Reports as his data source, which reports data for only 24 electric companies, of which only 15 are BBB-rated. Even so, these one-year averages of 41% equity for the 24 companies and 38% for the 15 companies do not support his recommended level of 35%. When Mr. Murray expanded his data source to Value Line, he reported data for only one region's utilities, the central region, and he still only looked at one year, 2002.

My Surrebuttal Schedule JJR-1 provides the year-end equity ratio for all 61 of the electric utilities that Value Line covers, and for all of the years (1993-2003) that it currently reports. As shown on this schedule, the overall average equity ratio for these companies, on an unadjusted basis, is 44.1%

Q. WHAT ADJUSTMENTS DO YOU PROPOSE TO THESE DATA?

A. I propose to eliminate Aquila from the averages, and the following companies which are below investment grade:

Allegheny Energy
Avista Corp.
CMS Energy Corp.
DPL Inc.
Edison Int'l
PG&E Corp.
Sierra Pacific Res.
UniSource Energy
Westar Energy

The companies I would exclude from the averages are shaded on Surrebuttal Schedule JJR-1. Not surprisingly, these companies tend to have very low equity ratios, which are symptomatic of the financial distress they are experiencing. Excluding these companies from the calculations produces an average equity ratio of 45.6% for 1993-2003. Clearly, the data for other investment grade electric utilities supports Aquila's recommended equity ratio of 47.5%, and demonstrates the unreasonableness of Staff Witness Murray's recommendation of 35.31%.

Q. **ARE THERE OTHER DATA THAT REFUTE THE POSITION ADVOCATED BY STAFF WITNESS MURRAY ON PAGE 3, LINES 15 AND 16 OF HIS REBUTTAL AND SUPPORT THE REASONABLENESS OF AQUILA'S PROPOSED EQUITY RATIO?**

A. Yes, there are. First, the target equity ratios used by Standard & Poors ("S&P") in assigning debt ratings to utilities support Aquila's position in this case. As shown on Schedule SDA-1, which was attached to the Rebuttal Testimony of Susan D. Abbott, S&P currently uses a target equity ratio of 45% to 53% for a BBB-rated utility with average business risk, and a target equity ratio of 53% to 58.5% for an A-rated utility of average business risk. Based on the guidelines published by S&P, Staff Witness Murray's proposed equity ratio of 35.31% (resulting from his use of Aquila's consolidated capital structure) is entirely inconsistent with the capital structure of an investment grade utility.

Second, as discussed in my rebuttal testimony, regulators across the country are focused on increasing the equity ratios and financial strength of utilities, not pushing them down to levels that are associated with energy companies that are in or emerging from financial distress. As shown on page 15 of my Rebuttal Testimony, regulators in electric rate cases that were decided in 2003 used an average equity ratio of 48.43%. Over the past seven years, the average equity ratio used in electric rate decisions was 47.25%. This is essentially equal to what Aquila is proposing in this case.

One state commission staff, the California Office of Ratepayer Advocates ("ORA"), conducted a study of what an "optimum" capital structure would be for California's public utilities. That study, which was submitted in the case that set the allowed rates of return for 2003 for all of California's energy utilities, defined an optimum capital structure as one which, from the ratepayers' perspectives, minimized costs over the long term. This study concluded that the "optimum" equity ratios for California's utilities were as follows:

Company	ORA "Optimum" Equity Ratio	CPUC Decision
Pacific Gas & Electric	45.20%	48.00%
Southern California Edison	45.85%	48.00%
San Diego Gas & Electric	46.55%	49.00%
Sierra Pacific Power	48.27%	42.00%

It is interesting to note that the California Public Utilities Commission ("CPUC") felt that the ORA's "optimum" equity ratios were generally too low and too restrictive, and it adopted the equity ratios as proposed by the utilities (Sierra Pacific only sought a 42.00% equity ratio). It also is interesting to note that:

1. In every case, the year-end 2002 and 2003 actual equity ratios for each of the consolidated companies was lower than that which the CPUC chose to use for ratemaking;
2. Only one of the four companies (San Diego Gas & Electric) is at or above investment grade;
3. The CPUC found that these higher equity ratios were in the public interest because they were "intended to either return their credit ratings to investment grade from a speculative grade or to maintain an investment grade rating" and were "designed to attract capital."

The needs faced by California's utilities are very similar to those currently facing Aquila. Consolidated corporate equity ratios that have been affected by the financial distress of other operations should not be the basis for setting the rates of the utility if we want the utility to be able to return to financial health.

Q. **AT THE BEGINNING OF THIS TESTIMONY YOU INDICATED THAT YOU WOULD RESPOND TO STAFF WITNESS MURRAY'S COMMENTS ON THE USE OF A HYPOTHETICAL CAPITAL STRUCTURE, AND HIS CONCLUSION THAT IF A HYPOTHETICAL CAPITAL STRUCTURE WERE TO BE USED, IT SHOULD BE IN THE RANGE OF 33% TO 42%. WHAT ARE YOUR COMMENTS ON THESE STATEMENTS?**

A. At page 8 of his rebuttal testimony, Staff Witness Murray cites comments by Aquila's management regarding how the Company's financial distress has affected its equity ratio. As Mr. Rick Dobson of Aquila said: "The significant amount of impairments we took in 2002 have eroded a lot of book equity..." Notwithstanding this fact, Mr. Murray proposes to use the Aquila, Inc. 2002 year-end equity ratio for setting rates in this proceeding.

The impairments that Mr. Dobson spoke of, when combined with the operating losses that Aquila experienced, produced a $2.1 billion loss for Aquila in 2002. These losses continued, on a much smaller scale, in 2003. The 2002 loss alone reduced Aquila's consolidated equity ratio by 11.0 percentage points (from 44.2% to 33.2%). It is the depressed year-end 2002 ratio that Staff Witness Murray proposes to use in this case.

Q. **HOW DO YOU RESPOND?**

A. The losses experienced by Aquila in 2002 did not result in any way from the Company's utility operations in the U.S. They resulted from impairments and restructuring charges related to Aquila's telecommunications, technology, energy merchant, and international investments. Mr. Murray's position would use the distress of these companies as the basis for significantly *reducing* the rates of Aquila's utility businesses in Missouri, through the adoption of an equity ratio that reflects the 11 percentage point drop caused by those other businesses. That position is inequitable and unsupportable.

Under these circumstances, i.e. when a company's actual capital structure is unreasonable or out of line with industry standards, Mr. Murray recommends that a hypothetical capital structure be used. Aquila's witness, Dr. Donald Murry, adopts the Company's target equity ratios as the appropriate replacement. I agree with that choice. However, Staff Witness Murray's approach, when applied to a corrected set of data, produces essentially the same result. Staff Witness Murray recommends that the hypothetical capital structure be based on equity ratios of other electric utilities. As shown on Surrebuttal JJR-1, this would lead to the use of a 45.6% equity ratio, which is close to Dr. Murry's recommendation of a 47.5% equity ratio, and a long way from the 35.31% that Staff Witness Murray recommends.

Q. YOU ALSO STATED AT THE OUTSET OF THIS TESTIMONY THAT YOU WISHED TO COMMENT ON STAFF WITNESS MURRAY'S STATEMENTS ON PAGE 10 OF HIS REBUTTAL THAT "INVESTORS ARE ONLY INTERESTED IN AQUILA'S CONSOLIDATED OPERATIONS", DUE TO THE FACT THAT AQUILA ISSUES THE DEBT AND EQUITY FOR THE CAPITAL

NEEDS OF ITS DIVISIONS. WHAT ARE YOUR COMMENTS ON THESE STATEMENTS?

A. First of all, I disagree with these statements. Investors are concerned about Aquila's future, not its past. Aquila's stated plan is to return to its roots, i.e. regulated utilities. For that reason, investors are very concerned about the financial performance of and outlook for Aquila's regulated businesses.

Furthermore, it is a widely accepted financial management principle that the costs of capital or "hurdle" rates of return applicable to a diversified business should be differentiated by business unit. The risks of energy commodity trading are far different than the risks of electric distribution. A sophisticated investor wants to be sure that Aquila is at least earning the "hurdle" rate or cost of equity in each of its business units that is applicable to the specific business unit. If the Company is unable to meet the applicable hurdle rate in a business unit, investors expect it to restructure or eliminate that business unit.

The fact that a single legal entity, i.e. Aquila, Inc., provides the debt and equity to each of its businesses cannot be extrapolated to suggest that the capital structures or costs of capital are the same for all business units. This error would be compounded if one were to further extrapolate that the actual consolidated common equity ratio at any point in time is the appropriate equity ratio to be used in setting the rates for the public utility business units.

Q. **WHAT ARE YOUR CONCLUSIONS REGARDING STAFF WITNESS MURRAY'S REBUTTAL TESTIMONY AS IT RELATES TO THE ISSUE OF THE APPROPRIATE EQUITY RATIO FOR AQUILA-MPS AND AQUILA-L&P?**

A. Staff Witness Murray's Rebuttal Testimony does not support his recommended common equity ratio of 35.31%. The standards he employs inexorably lead to the conclusion that Aquila's proposed equity ratio of 47.5% is reasonable, balanced, and in the public interest. This level of equity should be used in setting the rates for Aquila-MPS [redacted] so that Aquila can move towards an investment grade rating, attract capital on reasonable terms, and have a reasonable opportunity of earning a rate of return that is equivalent to that being earned by firms of comparable risk.

Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Common Equity Ratios

Region/Company	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average	Debt Rating
EAST													
Allegheny Energy	46.1%	45.1%	46.6%	45.8%	48.8%	46.4%	42.1%	39.8%	45.0%	33.2%	NA	**43.9%**	B
CH Energy Group	46.9%	48.1%	50.5%	53.0%	53.3%	53.3%	55.3%	56.1%	64.6%	61.6%	61.0%	**54.9%**	A
Central Vermont PS	49.3%	50.3%	51.9%	53.2%	57.7%	57.5%	48.5%	50.0%	48.4%	54.1%	58.5%	**52.7%**	BBB-
Consol. Edison	53.9%	53.0%	54.5%	55.7%	56.8%	58.4%	53.1%	49.1%	49.6%	48.1%	50.5%	**53.0%**	A
Constellation Energy	43.7%	46.9%	47.5%	47.9%	46.6%	47.3%	52.0%	48.5%	57.0%	44.6%	43.5%	**47.8%**	A-
Dominion Resources	44.3%	45.3%	46.6%	47.0%	37.9%	46.4%	37.8%	38.9%	38.0%	42.7%	41.0%	**42.4%**	BBB+
Duke Energy	50.9%	51.0%	52.1%	53.7%	50.6%	52.1%	46.5%	44.2%	47.6%	40.7%	41.0%	**48.2%**	BBB+
Duquesne Light Hldgs	43.4%	45.7%	46.9%	45.6%	47.7%	47.1%	41.2%	33.0%	26.1%	25.5%	29.5%	**39.2%**	BBB
Energy East Corp.	46.0%	46.5%	50.0%	51.9%	52.8%	53.5%	53.0%	41.8%	38.4%	39.2%	38.5%	**46.5%**	BBB+
Exelon Corp.	NA	NA	NA	NA	NA	NA	10.1%	34.7%	37.9%	36.1%	39.5%	**31.7%**	A-
FPL Group	47.3%	47.7%	54.2%	56.9%	60.4%	66.6%	59.2%	57.1%	54.2%	51.5%	49.5%	**55.0%**	A
FirstEnergy Corp.	39.7%	39.6%	43.3%	44.8%	34.3%	37.8%	39.8%	41.5%	37.2%	38.0%	43.5%	**40.0%**	BBB-
Green Mountain Pwr.	49.2%	51.8%	49.2%	47.5%	49.0%	48.7%	49.8%	50.3%	52.2%	48.3%	50.0%	**49.6%**	BBB-
Northeast Utilities	31.5%	32.9%	35.4%	34.6%	33.8%	35.2%	42.7%	48.8%	32.4%	33.9%	34.0%	**35.9%**	BBB+
NSTAR	37.0%	40.4%	41.8%	44.5%	46.5%	50.1%	47.2%	39.4%	39.5%	37.8%	40.0%	**42.2%**	A
PPL Corp.	42.4%	41.9%	43.1%	44.4%	48.0%	34.2%	28.2%	29.5%	23.7%	25.1%	28.0%	**35.3%**	BBB
Pepco Holdings	NA	NA	NA	NA	NA	NA	NA	41.0%	41.0%	36.4%	35.5%	**38.5%**	BBB+
Progress Energy	49.1%	49.2%	48.3%	50.2%	53.2%	52.4%	52.5%	47.6%	38.5%	40.4%	43.5%	**47.7%**	BBB
Public Serv. Enterprise	46.6%	47.3%	47.9%	49.8%	48.2%	45.8%	40.9%	38.1%	27.2%	24.3%	28.5%	**40.4%**	BBB
SCANA Corp.	47.0%	46.6%	48.3%	50.5%	50.8%	49.4%	54.8%	40.3%	43.8%	42.1%	40.5%	**46.7%**	A-
Southern Co.	46.8%	47.6%	47.4%	49.7%	43.5%	42.9%	37.8%	50.6%	42.2%	43.4%	43.5%	**45.0%**	A
TECO Energy	48.3%	50.1%	52.6%	55.4%	57.2%	54.1%	54.0%	52.3%	51.7%	39.7%	30.5%	**49.6%**	BBB-
UIL Holdings	30.7%	35.7%	32.7%	35.1%	38.0%	37.7%	44.6%	47.8%	50.1%	55.0%	54.5%	**42.0%**	N.A
Average	**44.8%**	**45.8%**	**47.2%**	**48.4%**	**48.3%**	**48.4%**	**45.1%**	**44.4%**	**42.9%**	**40.9%**	**42.0%**	**44.7%**	

Note: Shaded companies are below investment grade.

Common Equity Ratios

Region/Company	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average	Debt Rating
CENTRAL													
ALLETE	46.6%	46.4%	45.9%	43.3%	45.1%	50.2%	49.6%	46.7%	53.1%	62.6%	66.0%	50.5%	N.A.
Alliant Energy	54.6%	54.1%	54.9%	59.0%	54.0%	49.2%	57.4%	50.2%	42.7%	39.2%	51.5%	51.5%	BBB+
Ameren Corp.	52.6%	52.6%	53.9%	53.9%	52.4%	54.8%	53.5%	51.8%	52.2%	51.4%	49.5%	52.6%	A-
Amer. Elec. Power	42.0%	43.4%	43.7%	45.7%	46.9%	41.0%	43.5%	44.4%	44.6%	43.1%	40.0%	43.5%	BBB
Aquila, Inc.	43.8%	47.5%	39.0%	42.1%	44.4%	49.5%	37.4%	39.2%	56.1%	40.1%	38.0%	43.4%	B
CMS Energy Corp.	26.5%	25.9%	30.4%	33.4%	33.2%	29.0%	23.0%	22.9%	18.7%	15.0%	18.0%	25.1%	BB
CenterPoint Energy	NA	NA	NA	NA	NA	NA	NA	NA	54.5%	12.6%	13.0%	26.7%	BBB
Cinergy Corp.	41.3%	43.1%	46.6%	48.6%	52.2%	48.5%	46.3%	48.2%	42.6%	42.5%	44.5%	45.9%	BBB+
Cleco Corp.	45.6%	47.5%	47.1%	49.7%	49.2%	51.9%	41.0%	39.7%	42.4%	38.2%	37.5%	44.5%	BBB
DPL Inc.	45.8%	50.3%	51.3%	53.6%	56.4%	56.0%	51.6%	27.2%	24.4%	24.7%	25.5%	42.4%	BB
DTE Energy	43.1%	43.4%	44.9%	46.0%	46.7%	46.1%	49.1%	49.7%	36.7%	37.0%	39.5%	43.8%	BBB+
Empire Dist. Elec.	49.2%	44.4%	45.9%	45.8%	48.9%	45.2%	40.4%	42.4%	42.8%	44.5%	48.5%	45.3%	BBB
Entergy Corp.	42.8%	43.1%	44.6%	43.1%	38.9%	50.6%	49.1%	45.6%	48.6%	50.6%	52.5%	46.3%	BBB
Great Plains Energy	51.2%	49.6%	49.2%	46.8%	42.8%	47.4%	49.7%	42.8%	44.6%	44.7%	47.0%	46.9%	BBB
MGE Energy	59.5%	58.2%	46.5%	58.1%	58.2%	53.3%	55.5%	52.2%	57.8%	54.2%	55.0%	55.3%	AA
NiSource Inc.	44.0%	44.8%	45.3%	46.4%	41.1%	38.8%	35.5%	35.2%	35.8%	43.4%	42.5%	41.2%	BBB
OGE Energy	50.5%	54.1%	51.2%	52.3%	52.5%	52.7%	47.2%	39.2%	40.5%	39.6%	43.5%	47.6%	BBB+
Otter Tail Corp.	45.4%	46.8%	47.1%	49.2%	47.9%	50.6%	53.9%	53.5%	53.5%	53.4%	53.0%	50.4%	A-
TXU Corp.	40.0%	41.5%	35.7%	38.2%	40.7%	33.3%	31.8%	31.4%	31.8%	29.0%	32.5%	35.1%	BBB
Vectren Corp.	NA	NA	NA	NA	NA	NA	58.4%	53.0%	45.5%	47.7%	48.0%	50.5%	A-
WPS Resources	54.3%	55.3%	56.4%	56.7%	57.4%	53.8%	43.9%	41.6%	46.3%	45.8%	48.5%	50.9%	A
Westar Energy	45.6%	49.0%	48.2%	45.1%	44.8%	36.9%	39.2%	36.9%	37.7%	22.9%	31.0%	39.8%	BB+
Wisconsin Energy	55.5%	57.0%	57.2%	57.4%	54.4%	51.7%	45.9%	40.5%	37.2%	39.6%	40.0%	48.8%	BBB+
Average	**46.7%**	**47.5%**	**46.9%**	**48.3%**	**48.0%**	**47.2%**	**45.6%**	**42.5%**	**43.0%**	**40.1%**	**42.0%**	**45.2%**	

Note: Shaded companies are below investment grade.

Common Equity Ratios

Region/Company	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average	Debt Rating
WEST													
Avista Corp.	44.8%	44.2%	45.1%	44.7%	44.9%	29.1%	25.1%	47.1%	35.5%	40.8%	40.0%	**40.1%**	BB+
Black Hills	66.3%	57.6%	52.3%	54.0%	55.7%	56.1%	57.4%	47.2%	54.7%	45.9%	43.5%	**53.7%**	BBB-
Edison Int'l	45.7%	46.5%	44.6%	43.9%	36.8%	37.4%	25.7%	15.0%	18.9%	25.6%	27.0%	**33.4%**	BB+
El Paso Electric	*NA*	*NA*	*NA*	*22.3%*	*25.4%*	*28.8%*	*34.2%*	*35.8%*	*42.1%*	*42.6%*	*45.5%*	***34.6%***	BBB-
Hawaiian Elec.	44.8%	45.7%	46.2%	46.3%	44.0%	43.1%	41.4%	39.9%	41.6%	46.5%	47.0%	**44.2%**	BBB+
IDACORP, Inc.	44.5%	44.9%	45.9%	45.1%	46.8%	44.2%	44.8%	45.9%	47.9%	47.9%	48.0%	**46.0%**	A-
MDU Resources	56.1%	58.2%	57.0%	54.1%	55.0%	56.2%	53.6%	54.2%	58.1%	60.6%	59.0%	**56.6%**	A-
PG&E Corp.	45.4%	47.5%	49.2%	49.3%	51.1%	49.6%	48.0%	30.4%	34.9%	42.8%	NA	**44.8%**	D
PNM Resources	34.8%	43.2%	48.7%	50.9%	52.5%	45.4%	47.3%	48.9%	51.1%	49.5%	51.0%	**47.6%**	BBB-
Pinnacle West Capital	35.3%	38.3%	40.4%	43.2%	45.6%	50.2%	50.0%	54.9%	48.3%	48.2%	47.0%	**45.6%**	BBB
Puget Energy Inc.	48.8%	49.9%	50.9%	53.3%	44.6%	43.7%	40.7%	37.4%	34.9%	37.4%	40.5%	**43.8%**	BBB-
Sempra Energy	49.8%	50.3%	50.9%	49.8%	42.1%	49.3%	49.0%	40.4%	41.2%	38.6%	45.0%	**46.0%**	BBB+
Sierra Pacific Res.	46.0%	49.2%	47.6%	47.5%	45.0%	44.2%	44.5%	36.0%	31.9%	28.7%	26.5%	**40.6%**	B+
UniSource Energy	NA	NA	0.6%	5.9%	9.3%	10.6%	13.9%	15.8%	20.4%	18.5%	18.0%	**12.6%**	BB
Xcel Energy Inc.	54.4%	52.7%	53.2%	53.8%	51.0%	53.5%	40.5%	40.5%	32.8%	39.5%	45.0%	**47.0%**	BBB
Average	**47.4%**	**48.3%**	**45.2%**	**44.3%**	**43.3%**	**42.8%**	**41.1%**	**39.3%**	**39.6%**	**40.9%**	**41.6%**	**42.4%**	
OVERALL AVERAGE	**46.1%**	**47.1%**	**46.6%**	**47.3%**	**46.9%**	**46.5%**	**44.2%**	**42.4%**	**42.1%**	**40.6%**	**41.9%**	**44.1%**	
OVERALL AVERAGE FOR INVESTMENT GRADE COMPANIES	**46.7%**	**47.5%**	**48.0%**	**48.6%**	**48.0%**	**48.1%**	**46.1%**	**44.7%**	**44.1%**	**42.8%**	**44.1%**	**45.6%**	

Note: Shaded companies are below investment grade.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS [redacted], for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS [redacted] area	)	Case No. ER-2004-0034
[redacted]	)	[redacted]

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF JOHN J. REED

John J. Reed, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of John J. Reed;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

John J. Reed

Subscribed and sworn to before me this 13th day of February, 2004.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission expires:
8-20-2004

TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2004