Exhibit No.: *1053*
Issues: *Supplemental Executive Retirement Plan; Corporate Cost Allocations; Severance Adjustment*
Witness: *Charles R. Hyneman*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *ER-2004-0034*

Date Testimony Prepared: *February 13, 2004*
as Modified: *February 27, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

FILED
FEB 2 7 2004
Missouri Public Service Commission

SURREBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric)

CASE NO. ER-2004-0034

Jefferson City, Missouri
February 2004

Denotes Highly Confidential Information

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks L&P and Aquila Networks MPS to implement a general rate increase in electricity.	)))	Case No. ER-2004-0034

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the following surrebuttal testimony as modified on February 27, 2004, in question and answer form, consisting of 40 pages to be presented in the above case; that the answers in the following surrebuttal testimony as modified on February 27, 2004, were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Charles R. Hyneman

Charles R. Hyneman

Subscribed and sworn to before me this 26th day of Feburary 2004.

D SUZIE MANKIN
Notary Public - Notary Seal
STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

D Suzie Mankin

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OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric)

CASE NO. ER-2004-0034

Q. Please state your name and business address.

A. Charles R. Hyneman, 3675 Noland Road, Independence, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Charles R. Hyneman who has previously filed direct testimony in this proceeding?

A. Yes, I am. I filed direct testimony in this case on December 9, 2003, on the areas of Aquila Inc.'s (Aquila or Company; formerly known as UtiliCorp United, Inc.) corporate cost allocations to Aquila Networks-MPS (MPS)

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Q. What is the purpose of this surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address the rebuttal testimonies filed by certain Aquila witnesses. I will address (1) the rebuttal testimony of Aquila witness Philip M. Beyer concerning the Staff's proposed disallowance of Aquila's Supplemental Executive Retirement Plan (SERP) costs, (2) the rebuttal testimony of Aquila witness

Jon R. Empson concerning the Staff's proposed allocation of a portion of certain Aquila corporate overhead department costs to Aquila's current corporate financial restructuring operations and (3) the rebuttal testimony of Aquila witness Ronald A. Klote concerning the Company's proposal to recover severance and related expenses associated with its so-called "state-based reorganization."

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Q. Please summarize the areas of Mr. Beyer's rebuttal testimony concerning Aquila's SERP that you will address in this testimony.

A. I will establish the following points in response to Mr. Beyer's rebuttal testimony relating to Aquila 's SERP:

- The "Change in Control" provisions of Aquila's SERP are "golden parachutes" designed to prevent a takeover of Aquila and serve as nothing more than an executive protection mechanism if a change in control of Aquila occurs.
- The Staff's treatment of SERP expenses in this case is consistent with its treatment of the SERP expenses of other utility companies operating in Missouri.
- Aquila's SERP costs are based, in part, on multi-million dollar bonuses paid to Aquila executives for their performance building and growing Aquila's non-regulated merchant and energy-trading activities.
- Aquila's SERP was originally designed as a "restoration plan" to restore incremental pension benefits to highly-compensated employees disallowed by tax law, but has evolved into an additional compensation plan as well as an executive protection plan reserved only for selected highly-compensated employees.
- Aquila's change in accounting for its SERP from the pay-as-you-go method to an accrual method under Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (FAS 87) resulted in greatly increased SERP costs in 2002.

Q. What is a Supplemental Executive Retirement Plan?

A. A SERP is an unfunded, non-qualified pension plan that provides pension benefits to a select group of executives. These pension benefits are in excess of those provided by a company's qualified pension plan, which covers all employees, including executive-level employees. Unlike a true pension benefit restoration plan, a SERP goes beyond simply restoring benefits that the qualified plan cannot include because of tax law limitations. For example, while qualified plans typically base benefits on salary alone, SERPs can take bonuses and other incentives into account if the board of directors so desire. A restoration plan is a plan designed solely to restore pension benefits not payable because of limitations imposed by tax laws.

Q. What is a Non-Qualified Plan?

A. A nonqualified plan is any retirement, savings or deferred compensation plan for employees that does not meet all of the tax and labor law requirements that are applicable to qualified pension plans. Nonqualified plans are usually used to provide benefits to a select group of executives within a company and are, therefore, subject to different tax and accounting treatments. Aquila's employee pension plan is a qualified plan while its SERP is a non-qualified plan.

CHANGE IN CONTROL PROVISIONS IN AQUILA'S SERP

Q. Mr. Beyer states at page 6 of his rebuttal testimony that the "Change-in-Control" provisions of Aquila's SERP does not create an expense. Please comment on this assertion.

A. Aquila has not been subject to a change in control as defined in its SERP. Therefore, the Change in Control provisions of the SERP have not been implemented. However, if there is a change in control of Aquila (as defined in paragraph 1.04 of Aquila's SERP), paragraph 3.02 of Aquila's SERP states that even if an executive has not met the normal vesting requirements of the plan, he or she becomes automatically vested if a change in control occurs. This provision would clearly create an additional expense in that it would provide SERP benefits to executives that have not been earned.

Whether or not Aquila's Change in Control provisions have created or increased the cost of the SERP is irrelevant. If a regulated utility's board of directors design a SERP to protect the jobs of the company's executives by making it more difficult for the company to be acquired by another company, then the cost of the SERP should be borne by the beneficiaries of those provisions. In theory, utility ratepayers should not care who actually runs the utility company as long as the management of the utility ensures the provision of safe and adequate service. Costs to retain one group of management over another should not be passed on to ratepayers.

The Change in Control provisions of Aquila's SERP are golden parachutes designed to prevent a takeover of Aquila and serve as nothing more than an executive protection mechanism if a change in control of Aquila occurs. These costs should not be borne by Aquila's regulated customers.

THE STAFF'S TREATMENT OF SERP EXPENSES OF OTHER UTILITY COMPANIES OPERATING IN MISSOURI

Q. At page 4 of his rebuttal testimony, Mr. Beyer states that he has no knowledge of Staff eliminating SERP expenses from other utilities' revenue requirement determinations. Has the Staff recommended the costs of a utility's SERP be excluded from its revenue requirement because of the SERP's Change in Control provisions?

A. Yes. In Case No. GR-2002-292, the Staff recommended the disallowance of Missouri Gas Energy's allocated SERP costs from Southern Union Company for several reasons. One primary reason was that Southern Union's SERP contained a "change in control" provision similar to the provision in Aquila's SERP.

Q. How has the Staff treated SERP expenses in general for utilities other than Aquila and MGE?

A. The Staff's general treatment of SERP expenses is that if the costs are reasonable in amount and accounted for on a pay-as-you go basis, then the Staff usually recommends that the Commission allow the SERP expenses in the utility's revenue requirement. I have reviewed the Staff treatment of SERP expenses in several recent Missouri utility rate cases.

Empire District Electric Company's (Empire) latest rate case was Case No. ER-2002-424. In 2001, Empire recorded $14,560 in SERP costs (Staff Data Request No 110, Case No. ER-2002-0424). The Staff and Empire agreed on the method of accounting for pension expense in Case No. ER-2002-0034 which resulted in $0 SERP expense included in Empire's revenue requirement in that case, which was settled by the Commission's acceptance of a stipulation and agreement.

In Laclede Gas Company's last rate case, Case No. GR-2002-356, and AmerenUE's last gas rate case, Case No. GR-2003-0517, the Staff allowed SERP costs on a pay-as-you go basis using an average of test year and previous year SERP payments. Both of these cases were settled by the Commission's acceptance of stipulations and agreements.

Since Kansas City Power & Light Company has not filed a rate case since 1985, there is no information readily available to determine how the Staff treated KCPL's SERP expenses in its last rate case audit, or if KCPL even had a SERP plan in 1985.

Q. Is there any basis for Mr. Beyer's insinuation that the Staff is treating Aquila's SERP costs any differently from how it has treated SERP costs for other Missouri utilities?

A. No, there is not.

Q. Is Aquila is proposing to charge its Missouri ratepayers for the multi-million dollar bonuses it paid to its top executives for their part in building and growing Aquila's non-regulated merchant and energy-trading activities.

A. Yes. On page 5 of his rebuttal testimony, Mr. Beyer seeks to justify Aquila's inclusion of bonus payments in the calculation of its SERP benefits. His justification is that "most" peer companies include bonus income in the calculation of supplemental base pay and Aquila's outside consultant recommended Aquila include bonus pay in its SERP benefit calculation.

The changes to Aquila's SERP executed on June 28, 2001, and made retroactive to January 1, 2001, allows for executive bonus pay to be included in the calculation of SERP benefits (Bonus SERP Benefit). This bonus pay was made to executives primarily for their work on Aquila's non-regulated energy merchant and energy trading operations. For example, information obtained from SEC reports show that Aquila's current Chairman and Chief Executive Officer (CEO) Richard Green was paid a base salary of $972,116 in 2001 and was also paid a bonus of $3,000,000. This $3,9722,116 in compensation was used to calculate the Mr. Green's average compensation which is used as the basis to determine his SERP benefits.

Q. What is the basis for your assertion that executive bonuses paid in 2001 was primarily a reward for Aquila's performance in its nonregulated operations?

A. In Aquila's Securities and Exchange Commission (SEC) Form DEF 14A, Proxy Statement filed with the SEC on April 15, 2003, Aquila provides the explanation of the Compensation Committee of Aquila's Board of Directors basis for bonus payments from 1999 through 2001 and why no bonuses (with the exception of retention bonuses) were paid in 2002:

> We believe it is critical that the executive compensation programs align executive awards with the performance of the Company and reflect the Company's strategy and scale. Our industry, and our company, experienced an extreme year of volatility in 2002. It is imperative that our executives' compensation for 2002 reflects the Company's performance for the year. To that end, there were no executive incentives awarded for 2002 performance, nor were there any new awards of performance units or stock options. From 1999 through 2001 our company experienced dramatic growth and exceptional financial performance. The awards earned by our executives for that period reflected that superior performance, just as the lack of awards for 2002 reflects the year's disastrous financial results

Q. Does the Staff believe it is reasonable for Aquila to charge its Missouri ratepayers for compensation costs that were developed significantly on the basis of an executive's performance in the utility's nonregulated operations?

A. No. The Staff believes it is unreasonable for MPS' regulated customers to pay for multimillion-dollar executive bonuses, which are compensation for the executive's work on non-regulated operations. The inclusion of bonus payments in the calculation of SERP benefits, the majority of which have been for nonregulated operations, represents just one of several significant flaws in Aquila's rationale for including SERP expenses in MPS' cost of service in this case.

Q. Are there other examples where MPS' regulated customers are being asked to pay for multimillion-dollar executive bonuses which are unrelated to regulated utility operations?

A. Yes. Aquila's former CEO Robert Green was also paid a $3,000,000 bonus in 2001 for his work in Aquila's nonregulated operations. Aquila's current Chief Operating Officer, Keith Stamm was CEO of Aquila Merchant Services from January 2000 through November 2001. His bonus for 2001 was $4,310,000 in addition to a base salary of $323,017. Also, Aquila's General Counsel Leslie J. Parrette, Jr., was paid a $300,000 bonus in 2002 to "retain his services through a critical period for the company" (Aquila DEF 14A filed April 15, 2003). The bonus was in addition to his base salary of $305,144. Mr. Parrette was also the only senior executive to receive a bonus in 2002.

Q. Did Aquila make an adjustment to its per book expense to remove Mr. Parrette's $300,000 bonus from this rate case?

A. Yes. Aquila recognized that this bonus should not be charged to regulated operations by removing this bonus in its adjustment CS-16A. However, Aquila did not remove the increase in SERP benefits and SERP expense caused by this bonus or any other bonus it has paid since January 1, 2001.

Q. Mr. Beyer states on page 2 of his rebuttal testimony, that restoration plans like Aquila's are not intended to provide enhanced benefits. He also states in the next sentence that Aquila's SERP is limited to restoring lost benefits due to the tax law. Do you agree with these statements?

A. No. Aquila's SERP was originally designed as a "restoration plan" with the purpose to restore executive-level incremental pension benefits excluded by tax laws, but has evolved into an additional compensation plan reserved only for selected highly-compensated executives. Aquila's SERP, as it stands today, goes much beyond the purpose of a restoration plan and provides additional benefits over and above what a traditional restoration plan provides.

Prior to 1998, Aquila's SERP was a restoration plan designed to provide pension benefits to selected highly-compensated executives that would have been received by these executives but for the existence of the tax law's compensation limits. On January 1, 1998, the SERP was amended to include executive compensation under Aquila's nonqualified deferred compensation plan. This benefit came to be knows as the "Basic SERP Benefit." It was at this point that Aquila's SERP changed course from a benefit restoration plan to a plan that provides benefits over and above what is provided by Aquila's all-employee qualified pension plan.

On August 4, 1998, the Change in Control provisions of Aquila's SERP was amended to make it easier for an attempted takeover to meet the SERP's definition of Change in Control.

On November 29, 2000, Aquila again amended the Change in Control provisions of the plan by requiring Aquila to make an irrevocable contribution to a SERP trust. The amount that is required to be contributed to the SERP trust is the amount that would equal the value of the SERP benefits payable under the plan as of the date of the Change in Control. This change was added, it appears, not only as a "poison pill" that serves as a detriment to the potential takeover of Aquila, but also as a "golden parachute" as a means to ensure that funds are available to pay Aquila's executives the SERP benefits that have accrued to the date of that Change in Control.

Aquila's latest amendment to its SERP was made on June 28, 2001. The SERP was amended to provide, in addition to Aquila's Basic SERP Benefit, a "Bonus SERP Benefit" and a "Supplemental SERP Benefit." The following explanations of these additional benefits are provided in a document , which is a part of the SERP, entitled Summary of Modifications, UtiliCorp United Inc. Supplemental Executive Retirement Plan (As Amended and Restated Effective January 1, 2001). This document is attached as Schedule 1 to this testimony:

> *The Bonus SERP Benefit is designed to provide executives an additional retirement benefit based on the executive's annual bonus pay.
>
> *The Supplemental SERP Benefit is designed to provide executives employed in pay bands I-IVa an additional market-based retirement benefit.

Q. At page 4 of his testimony, Mr. Beyer states that the Staff has allowed SERP expenses in its MPS cost of service recommendation to the Commission. Is this correct?

A. Yes. In Aquila's past rate cases, the Staff has determined that the amount of directly charged and allocated SERP expense to MPS was accounted for on a pay-as-you-go basis and was reasonable in amount. MPS' SERP expense in its last two rate cases was $0 and $44,983, respectively.

In Case No. ER-97-394, Aquila witness Beth Armstrong stated in response to Staff Data Request No. 407 that, "No dollars have been spent or charged to MPS for any SERP in 1996." (Schedule JWM-1, page 152 of 465, attached to the Surrebuttal Testimony of Aquila witness John W. McKinney in Case No. ER-97-394; attached as Schedule 2 to this testimony).

In Case No. ER-2001-672, Aquila's total company allocable SERP costs were $265,906, of which MPS was allocated $44,983 with an electric jurisdictional expense of $34,688 (Direct Testimony of Staff witness Graham Vesely, page 12, Benefits Supplemental Retirement, Case No. ER-2001-672; attached as Schedule 3 to this testimony).

Mr. Beyer references Staff witness Vesely's Direct Testimony in Case No. ER-2001-672, at page 4 of his rebuttal testimony, in making his point that the Staff allowed

SERP expenses for MPS, but his testimony does not mention the fact that the amount of MPS' SERP expense was $44,983, compared to the $465,151 MPS is seeking to recover in this case.

Q. How does the amount of SERP costs in Aquila's last rate case compare to the amount in this case?

A. In 2002, the test year for corporate allocations in this rate case, Aquila's total allocable SERP cost was $2,080,313. Of this amount, MPS was allocated $465,151

.

Q. Did the Staff discover an error in the quantification of its SERP adjustment while preparing this surrebuttal testimony?

A. Yes. The Staff SERP adjustment only removed Aquila's corporate allocated SERP costs. The Staff inadvertently overlooked the SERP costs that were directly charged to MPS ($9,529 credit). The Staff's updated revenue requirement calculations and reconciliation will reflect this correction.

Q. Mr. Beyer states on page one of his rebuttal testimony that SERP-type programs are standard within the industry. Do you agree with this statement?

A. Yes. However, the actual terms and conditions of various utility SERPs are as different and diverse as the utility companies themselves. Mr. Beyer's statement is similar to saying that employee benefit programs are standard within the utility industry. It is not the type of compensation in the broadest sense that is being questioned by the Staff, it is the actual terms and conditions of Aquila's SERP that is being questioned. It is the actual terms and conditions of the SERP which determine who benefits from the SERP and who should pay for the costs of the SERP that is relevant in this discussion.

Some SERPs are strictly pension restoration plans with reasonable costs and proper accounting and are eligible to be considered for ratemaking purposes. While other SERPs include golden parachute type Change in Control provisions, with executive compensation and benefits in excess of what is covered in the all-employee qualified pension plan. The costs of this type of SERPs should not be included in a utility's cost of service.

Q. Did Aquila's change in accounting for its SERP from the pay-as-you-go method to an accrual method under Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (FAS 87) result in greatly increased SERP costs in 2002.

A. Yes. Prior to 2002, Aquila's SERP costs were immaterial. However, because of Aquila's Board of Directors' decision to significantly increase the size of its SERP, Aquila's actuarial consultant recommended that the increase in the size of the SERP required a change in accounting to the FAS 87 accrual method. Just the change to the FAS 87 method of accounting caused the SERP to increase from approximately $250,000 in 2001 to approximately $2.7 million in 2002.

Q. What is the Staff's recommendation concerning Aquila's accounting for its SERP?

A. The Staff recommends to the Commission that in any future rate case, it allow recovery only if Aquila's SERP costs are (1) accounted for on a pay-as-you go basis, (2) the costs are reasonable considering Aquila's SERP expenses in previous years, (3) the terms and conditions of the SERP allow for the calculation of the SERP benefit only at the amount that is limited by tax law compensation limits, and (4) the SERP does not include Change in Control provisions which act in the manner of a "poison pill" or executive "golden parachutes."

<u>CORPORATE COST ALLOCATIONS - RESTRUCTURING OPERATIONS</u>

Q. At page 9 of his rebuttal testimony, Mr. Empson states that the Staff has "subjectively" chosen to eliminate a portion of selected corporate department costs. Do you agree with Mr. Empson's characterization of your adjustment as subjective?

A. No. My adjustment to allocate certain corporate overhead costs to Aquila's current financial restructuring operations is based on my experience auditing corporate allocated costs (including auditing Aquila's corporate allocated costs in its previous rate case, Case No. ER-2001-672 and Southern Union Company's last Missouri rate case, No. GR-2001-292), as well as a study and analysis of documentary evidence. This evidence includes responses to Staff data requests, Aquila's annual reports to the Securities and Exchange Commission (SEC), Form 10-K, Aquila's income tax returns for 2001 and 2002, Aquila's press releases and Aquila's Cost Allocation Manual (CAM). My adjustment was based on professional judgment given my experience with Aquila's corporate organization and the study and analysis of substantial documentary evidence.

Q. Which departments did the Staff determine should be allocated to restructuring operations?

A. The Staff determined that 75 percent of departments 4035, CFO, and 4040, Chairman, should be allocated to Aquila's restructuring operations. In addition, the Staff is proposing an allocation of 50 percent of departments 4030 Chief Operating Officer; 4031 General Counsel; and 4043 Board of Directors Management. Finally, the Staff is proposing a 25 percent allocation of department 4183 Corporate Financial Reporting; department 4194 Tax-Income Team; and 6131 President Global Networks Group to Aquila's current financial restructuring operations.

Q. Which department did Aquila determine should be allocated to restructuring operations?

A. In its direct filing, Aquila eliminated 100 percent of the following corporate departments - 4035 CFO, 4032 Strategic Initiatives, 4100 Capital Structure and Analysis, and 4042 Strategic Planning and Analysis.

Q. Please provide a description of each of the corporate departments in the Staff's restructuring adjustment.

A. The following department descriptions are included in Aquila's 2003 Cost Allocation Manual (CAM), which is attached to Aquila witness Agut's direct testimony:

> Dept 4030 Chief Operating Officer - Management costs incurred for day-to-day supervision of the entire company operations including international operations.
>
> Dept 4031 General Counsel - Overall responsibility for all matters of a legal nature including mergers, acquisitions, joint ventures and divestitures.

Dept 4040 Chairman and CEO - Makes Executive decisions for the corporation. Performs services for all divisions as well as overseas operations.

Dept 4043 Board of Directors Management - Oversees the coordination of issues surrounding the board of directors.

Dept 4183 Corporate Financial Reporting- Perform external reporting for consolidated Aquila, Inc. Also includes external audit fees.

Dept 4194 Tax-Income Team - Responsible for all income tax compliance including the preparation of tax returns, tax accounting, and audit administration.

Dept 6131 President-Global Networks Group - Provide financial support, financial analysis, and business counsel for global networks operations, which includes both international and domestic networks. Time incurred with respect to international units and the cable.

Q. On page 10 of his rebuttal testimony Mr. Empson states that senior management's time has been and continues to be focused on the day-to day operations of the utility business. In your opinion is this an accurate statement?

A. No. This statement is not accurate. In my opinion, based on my experience auditing Aquila's corporate cost allocations in its previous rate case, Case No. ER-2001-672 and this case, Aquila's senior management has spent very little time managing the day-to-day operations of Aquila's utility businesses. Management focus in 2000 and 2001 was on developing Aquila's nonregulated businesses (wholesale energy trading and merchant operations), nonregulated investments (Quanta Services, Inc.) and international business acquisitions. Senior management's focus in 2002 and 2003 was on selling off the many companies Aquila acquired over the last decade and trying to prevent Aquila from succumbing to the enormous financial pressures it has recently experienced.

Q. What are the primary sources of evidence you used in developing your opinion that Aquila management's focus since 2000 has been on the nonregulated and international operations of the Company rather than its U.S. regulated utility operations?

A. There are at least three unbiased and objective sources of evidence that can be used to determine the priorities of a company's senior management. These sources are (1) board of director minutes (what senior management is communicating to the board of directors about company operations), (2) SEC reports and annual reports to shareholders (what senior management is communicating to the company's shareholders and the SEC) and company press releases (what senior management is communicating to the general public). I have studied each of the these three sources for the past three years and have concluded that Aquila's senior management does not spend a significant amount of time on the day-to day management of utility operations.

Q. Please summarize your review of Aquila's SEC reports and why the information you learned from studying these reports indicates how management is spending its time.

A. In its annual report to the SEC (Form 10-K405) filed on March 29, 2001, Aquila (then named UtiliCorp United, Inc.) described its key events in 2000 under the heading "Financial Review." The Staff believes these key events indicate where the focus of the company, including its senior officers, was during this time period. Of the 10 key events in 2000, five are related to international business units, two are related to Aquila's initial public offering of its merchant and energy trading operations and acquisition of GPU International, two are related to the acquisition of St. Joseph Light & Power Company and the termination of the merger with the Empire District Electric Company, and one is related to its increasing investment in Quanta Services, Inc. This list of key events, as set out in Aquila's 10-K for 2000 is as follows:

KEY EVENTS IN 2000

1. UnitedNetworks acquired the Orion New Zealand gas distribution business in April for $274 million.

2. We invested an additional $360 million in Quanta Services, Inc. during the first half of the year, raising our beneficial equity interest to 36%.

3. In June, we reduced our interest in UnitedNetworks from 79% to 62% and granted the minority shareholder participation and protective rights. This resulted in deconsolidating the financial reporting for our New Zealand operations and removing approximately $670 million in existing New Zealand debt and related assets from UtiliCorp's balance sheet.

4. We purchased the Alberta electric network operations of TransAlta Corporation in late August for $480 million and formed UtiliCorp Networks Canada. In November, we sold the retail part of the acquired business for $75 million.

5. In September, Uecomm, United Energy's broadband telecommunications business, had a successful initial public offering in Australia of 34% of its shares. As a result, UtiliCorp recorded a $44 million gain.

6. UtiliCorp and United Energy acquired 45% of AlintaGas Limited, the largest gas distribution company in Western Australia, in October for $166 million.

7. On December 13 we announced plans for an initial public offering of approximately 20% of Aquila's common shares, expected to take place in the first or second quarter of 2001.

8. Aquila bought GPU International in December for $225 million, acquiring interests in six power plants with 500 megawatts of generating capacity.

9. We completed our $282 million merger with St. Joseph Light & Power on December 31. Its Missouri electric and gas territory is adjacent to ours.

> 10. On January 2, 2001, we terminated our agreement to merge with the Empire District Electric Company due to regulatory uncertainties.

What is significant in the review of these top ten Aquila events in 2000 is that not one of the top ten events for Aquila in 2000 involved Aquila's domestic electric and gas utility companies other than in the area of mergers and acquisitions.

Q. What were Aquila's key events in 2001?

In its annual report to the SEC (Form 10-K405) filed on March 21, 2002, Aquila described its seven key events in 2001. Of the seven key events in 2001, two are related to Aquila's initial public offering of its merchant and energy trading operations, two are related to debt and equity financings, two are related to acquisitions and one is related to the impact of the Enron bankruptcy on Aquila's wholesale energy trading operations. The two financing events are related to the Company as a whole. The other five events have no association with managing the day-to-day operations of a utility company. This list of key events as set out in Aquila's 2001 10-K is as follows:

> KEY EVENTS IN 2001
>
> 1. In March we raised approximately $332 million through the sale of shares of our common stock.
>
> 2. We completed an initial public offering of Class A Aquila Merchant common shares in April, which raised approximately $446 million in net proceeds and left us with an 80% interest in the subsidiary.
>
> 3. In June, we exchanged $189.5 million of senior notes with interest rates ranging from 8.0% to 9.0% for $200 million of new senior notes with interest rates at 7.75%, maturing in June 2011. We also retired $204.1 million of senior notes, mortgage bonds and company-obligated preferred securities.
>
> 4. We formed a partnership in August with ArcLight Energy Partners Fund I, L.P. to buy a gas storage facility under construction near Sacramento, California. The cost to acquire and complete the

> facility is about $220 million. Our investment in this project is expected to be $25.0 million. We expect to complete the purchase in the second quarter of 2002, subject to regulatory approval.
>
> 5. We have agreed to acquire Midlands Electricity plc for $362 million. Midlands is the fourth-largest regional electric company in the United Kingdom. The transaction is expected to close in the first quarter of 2002. Midlands also has $1.7 billion of debt that would be non-recourse to us.
>
> 6. We announced in November that we would offer to acquire all outstanding publicly held shares of Aquila Merchant in exchange for shares of Aquila common stock. We completed the exchange offer in January 2002 by issuing about 12.6 million Aquila common shares. At that time Aquila Merchant again became a wholly-owned subsidiary and public trading of its shares ceased.
>
> 7. In December 2001, Enron Corporation filed for bankruptcy. As a result, we made provisions for receivables and open trade positions of $40 million on an after-tax basis.

Q. Finally, provide some key events for Aquila in 2002 as reported in its Form 10-K for that year.

A. In its annual report to the SEC (Form 10-K405) filed on April 15, 2003, Aquila explained that its 2002 earnings were down significantly from 2001 and provided the following events which had a major impact on this decline. While these events were not specifically designated as "key events" they are the major events that impacted Aquila's earnings in 2002 and thus would be the major areas of management focus. These events as described by Aquila in its Form 10-K for 2002 were:

> 1. We exited from the wholesale energy trading business during the third quarter of 2002 and incurred trading and contract losses of $115.8 million during the last half of the year that related to our exit. This business contributed EBIT of approximately $25.6 million in the third and fourth quarters of 2001, compared to a loss before interest and taxes of $270.0 million in 2002, before impairments and restructuring charges.
>
> 2. Less volatile commodity prices in the first half of 2002 compared to a robust commodity environment in the same period of 2001 resulted

> in a $139.5 million decrease in EBIT from Wholesale Services, before restructuring and impairment charges.
>
> 3. In 2002, we incurred $210.2 million of restructuring charges in connection with the realignment of our Domestic Networks business and the exit from our wholesale energy trading business.
>
> 4. As a result of asset sales and impairments, we recorded impairment charges and net losses on sale of assets of $1,583.2 million in 2002.
>
> 5. Lower power prices and higher natural gas prices in 2002 resulted in narrow "spark spreads" (the difference between the price at which electricity is sold and the cost of the fuel used to generate it) which reduced or eliminated the economic benefits of running certain power plants and exercising power generation rights under our tolling contracts. These conditions also negatively impacted our ability to sell additional generation capacity that came on-line. EBIT for Capacity Services in 2002 was down $96.9 million when compared to 2001, before impairments and restructuring charges.

Again, as was clear from 2000 and 2001, the major events in 2002, which captured senior management's time, were not related to the day-to-day provision of electric and gas utility services. However, in 2002 there was one issue related to utility operations included in Aquila's annual significant events - the realignment of its domestic utility business.

Q. What actions did Aquila take in 2002 as part of its corporate financial restructuring?

A. Aquila describes the restructuring events in 2002 on page 4 of its Form 10-K as follows:

> • The wind down of our Merchant Services trading portfolio in North America and Europe.
>
> • The sale of our natural gas storage facilities in both North America and the United Kingdom.
>
> • The sale of our notes receivable loan portfolio.
>
> • The sale of our gas gathering and processing business located primarily in Texas and Oklahoma.

> • The sale of our investment in Quanta Services, Inc. (a company specializing in building and maintaining networks used to carry energy and telecommunications) from 38% to 10.2%. We sold the remaining shares during the first quarter of 2003.
>
> • The sale of our equity investment in our regulated utility operations in New Zealand.
>
> • The initiation of negotiations to sell our Australian and United Kingdom investments.

Q. Please describe the events in 2003 which indicate how Aquila's senior management spent its time.

A. In its SEC Form 10Q filed on November 6, 2003, Aquila described the significant events up to the third quarter in 2003 which had a significant impact on Aquila's earnings. These events were listed as follows:

> 1. Sales, cost of sales and gross profit decreased \$239.5 million, \$161.9 million and \$77.6 million, respectively, in 2003 compared to 2002. These decreases were primarily due to the sale of our gas gathering and pipeline assets and our coal handling facility in the fourth quarter of 2002. In addition, sales and gross profit for our Canadian network operations decreased \$30.0 million and \$27.0 million, respectively, due to the decision by the Alberta Energy and Utilities Board (AEUB) to decrease our 2002 and 2003 customer billing rates. Offsetting these decreases were sales and gross profit for Lake Cogen and Onondaga that were higher in 2003 by \$12.7 million and \$14.3 million, respectively, due to mark-to-market gains on long-term gas and power swaps resulting from higher natural gas and power prices in the first half of 2003, partially offset by lower volumes delivered.
>
> 2. Operating expense decreased \$61.7 million in 2003 compared to 2002 primarily due to the sale of our gas gathering and pipeline assets, our Merchant loan portfolio and our coal handling facility in 2002 and early 2003.
>
> 3. Impairment charges and net loss on sale of assets consisted of \$47.5 million related to our consolidated independent power plants, Lake Cogen and Onondaga. In the third quarter of 2003, we decided to proceed with the sale of these assets and therefore wrote these assets down to estimated fair value less costs to sell, which was less than their carrying value. Impairment charges in 2002 consisted of a \$236.6 million loss on the sale of our gas gathering and pipeline assets.

> 4. Depreciation and amortization expense decreased $58.4 million in 2003 compared to 2002. The elimination of depreciation from our Canadian utility plant was due to its classification as held for sale which decreased depreciation expense $14.5 million as discussed above. In addition, approximately $23.2 million of the decrease was due to the sale of our gas gathering and pipeline assets and our coal handling facility in the fourth quarter of 2002. The remaining decrease was primarily due to the decision by the AEUB to reduce the depreciation rates on most of our distribution assets in Alberta, which impacted the first six months of 2003.
>
> 5. Equity in earnings of investments decreased $4.9 million due to the sale of our investment in the Oasis Pipe Line Company in the fourth quarter of 2002.
>
> 6. Other income decreased $50.4 million in 2003 compared to 2002, primarily due to the sale of our Merchant loan portfolio in the fourth quarter of 2002. This business generated $37.1 million of other income in 2002. In 2003, we incurred $6.8 million of costs related to a currency put option intended to protect us from unfavorable currency movements on the Canada sale proceeds and $2.2 million of foreign currency losses related to U.S. dollar denominated debt issued by our Canadian subsidiaries.
>
> 7. Income tax expense (benefit) decreased $56.5 million primarily due to pretax income in 2003 compared to a pretax loss in 2002 and the AEUB decision discussed above. This decision decreased sales and depreciation; however, only the sales impact is tax effected for Canadian regulatory purposes.

For the fourth year in a row, the key events for Aquila had very little or nothing to do with managing a utility company. Yet Mr. Empson's testimony states, "senior management's time has been and continues to be focused on the day-to-day operations of the utility business."

Q. Have you performed an analysis of Aquila's press releases in your study of Aquila's corporate allocations and as an indication of how senior management of Aquila spent its time?

A. Yes. I performed an analysis of Aquila's press releases for 2000 and 2001 in my audit of Aquila's corporate cost allocations in Case No. ER-2001-672. The results of this analysis follow:

In the years 2000 and 2001, Aquila issued 115 press releases about significant events affecting the Company. The Staff assumes that Aquila's senior management was involved in the events surrounding the subject of the press release. The Staff placed the topic of each press release into one of six categories. The results are as follows:

Category	Number	Percent
1. International Operations	19	16.5
2. Aquila Merchant/Trading	20	17.4
3. Domestic Utility	14	12.2
4. Domestic Mergers	6	5.2
5. Other Nonregulated	8	7
6. General Corporate	48	41.7
Total	115	100

The Staff's analysis shows that only 12 percent of Aquila's press releases during this period were directly related to Aquila's domestic utility operations while 46 percent were focused on nonregulated and international operations.

Q. Did the Staff perform an analysis of Aquila's 2002 and 2003 press releases?

A. Yes. The Staff reviewed 141 press releases issued by Aquila in 2002 and 2003 and classified them into the four categories of 1) Nonregulated Operations; 2) Restructuring Operations (including asset sales); 3) General Corporate Operations; and 4) Utility Operations. The results are as follows:

Category	Number	Percent
1. Nonregulated	36	26
2. Restructuring (asset sales)	64	45
3. General Corporate	22	16
4. Utility	19	13
Total	141	100

The results of this study indicate that senior management's time was focused on nonregulated activities including Aquila's current financial restructuring at about 70 percent of the time. What is significant is that for both press release studies, 2000-2001 and 2002-2003, utility operations was the focus of the press release in only 12 to 13 percent of the time. This analysis is attached as Schedule 4 to this testimony.

Q. You state that your review of Aquila's press releases is one source of evidence you used to formulate an opinion of how senior management spent its time over the past four years. Did you make an adjustment to allocate the time of any employees of Aquila's department responsible for researching, writing and issuing corporate press releases to Aquila's restructuring operations?

A. No, I did not. However, it would have been clearly reasonable to do so. This corporate department, 4120 External Communications performs communication work for and reviews the communication's work of all operations of the company, including international operations. The department's responsibilities include media relations, corporate advertising, publications, graphics, corporate identity, presentations, annual meeting, and internal communications. While the evidence indicates that a significant amount of this department's time has been spent on Aquila's restructuring operations, I determined that the Staff's adjustment on Aquila's restructuring operations, although conservative, is the appropriate adjustment to make in this case. If the Staff's adjustment removed too high of a percentage of one department's cost, there are other departments involved in restructuring operations, such as department 4120, where no adjustment was made.

Q. Describe the results of the Staff's review of the minutes of Aquila's Board of Directors meetings.

A. During my audit of corporate cost allocations in Case No. ER-2001-672, I reviewed the minutes of Aquila's Board of Directors meetings in 1999, 2000 and 2001. My review of these meeting minutes shows that Aquila's senior management and Board of

Directors spent a significant amount of time on international business unit issues as well as Aquila's other nonregulated activities. I continued the review of Aquila's Board of Directors meeting minutes for 2002 and 2003. The focus of the Board meetings shifted in 2002 and 2003 from Aquila's international business acquisitions and other nonregulated investments to dealing with the significant financial difficulties Aquila was experiencing during this time. From my review of these Board meeting minutes from 1999 through 2003, only approximately 5 percent of the discussion was related to specific regulated utility operations. Approximately 40 percent related to general corporate matters, and approximately 55 percent of the discussion related to Aquila's nonregulated operations, nonregulated investments, international businesses and Aquila's current financial difficulties.

Q. On page 11 of his rebuttal testimony Mr. Empson states that you arbitrarily disallowed significant costs from several corporate departments without any factual basis. Please comment.

A. Mr. Empson is incorrect. As I explained earlier, my adjustment was based on my audit of Aquila's corporate cost allocation procedures and significant objective documentary evidence. In my direct testimony in this case, I explained that as the basis for this adjustment I reviewed Aquila's Board of Directors minutes, annual reports, income tax returns, SEC filings, press releases, outside auditor workpapers, responses to Staff data requests, testimony filed in past Aquila regulatory proceedings and payments to outside contractors. In addition, I used experience gained in auditing Aquila's corporate allocations process in its last rate case to develop a general understanding of the extent of Aquila's corporate departments' involvement in Aquila's restructuring operations.

Q. Has Aquila's past actions made it more difficult for the Staff and to obtain information on how Aquila's executives spend their time?

A. Yes. The issue of positive time reporting has been brought up in past Aquila rate cases. In Case No. ER-97-394, the Staff asked the Commission to order Aquila to keep positive time reporting so the Staff could more easily identify the projects that Aquila's senior management worked on during the year. Aquila resisted the Staff's proposal. In its Report and Order in that case, at page 53, the Commission strongly suggested to Aquila that it adopt positive timekeeping, as recommended by the Staff.

Q. Has Aquila adopted positive time reporting?

A. No, not in any meaningful way. The only way positive time reporting would be helpful for the purpose of allocating corporate overhead costs is for selected corporate department employees to keep track of the specific projects they worked on and/or the specific subsidiary or division the work they did during that day was related to. This would result in a significant percentage of corporate costs being directly charged to the specific utility company or project. This is the ideal method of corporate cost assignment.

Q. In his rebuttal testimony, Mr. Empson describes how he provided guidance to Aquila's regulatory team in making sure that Aquila's customers do not bear the costs associated with Aquila's corporate financial restructuring (exiting or winding down Aquila's nonregulated and international businesses). He then describes how Aquila witness Beverlee Agut removed $17.4 million from Aquila's corporate cost allocation pool. Please describe the nature of the $17.4 million of costs removed from the corporate allocations pool.

A. The following is a breakdown of the $17.4 million removed from the pool of corporate overhead department costs to be allocated to Aquila's business units. Of the total costs removed, $15.3 was not related to Aquila's corporate restructuring, while $2.1 million was related to the restructuring.

<u>Restructuring-related costs removed from Aquila's filing ($2.6 million)</u>
* Elimination of 3 Departments involved in Corporate Restructuring - $500,000
* Removal of CFO costs due to work on restructuring operations - $800,000
* Retention Bonuses for General Counsel Department - $800,000
* Costs related to Aquila's credit quality problems - $500,000

<u>Non Restructuring-related costs removed from Aquila's filing ($14.8 million)</u>
* Nonrecurring restricted stock awards - $6 million
* Reaudit of Aquila's 2001 books and records $2 million
* Combination of CEO and Chairman departments - $2 million
* Elimination of Dept 6130, UED Headquarters President - $3.8 million
* Miscellaneous other costs - $1 million

Q. How did Ms. Agut describe the elimination of three departments involved in corporate restructuring activities in her direct testimony in this case?

A. Ms. Agut states at page seven of her direct testimony in this case that she removed the costs of three departments involved in corporate restructuring activities "because their function during the test period mainly focused on selling off business units. It is anticipated that this type of work will continue."

Q. How did Ms. Agut describe the elimination of CFO department costs in her direct testimony in this case?

A. Ms. Agut states at page eight of her direct testimony that, "in 2002, the Chief Financial Officers, Messrs. Dan Streek and Rick Dobson, extensively focused on maintaining the solvency of Aquila. It is anticipated that this focus will continue for at least a couple of years."

Q. Given the basis for Aquila's adjustment to remove $2.6 million in corporate costs that were related to its corporate financial restructuring as indicated above, is the purpose for the Staff's adjustment and Aquila's adjustment essentially the same in that both adjustments attempt to prevent corporate restructuring costs from being passed on to Aquila's regulated utility customers?

A. Yes. However, the extent of the analysis and evidence produced by Aquila to support its adjustment appear to be nothing more than the following statements in Aquila witness Agut's direct testimony in this case:

> * The first three departments were removed because their function during the test period mainly focused on selling off business units. It is anticipated that this type of work will continue.
>
> *In 2002, the Chief Financial Officers, Messrs. Dan Streek and Rick Dobson, extensively focused on maintaining the solvency of Aquila. It is anticipated that this focus will continue for at least a couple of years.

After a review of Aquila's proposed corporate allocation adjustments in this case I found it difficult to understand how Aquila's CFO could be "extensively focused" on Aquila's financial restructuring while other senior officers such as Aquila's Chairman and CEO, Richard Green were not.

As a result of the questions raised in my review of Aquila's proposed corporate allocations adjustment, I designed my audit of Aquila's corporate cost allocations using essentially the same sources of evidence I used in Aquila's previous rate case, Case No. ER-2001-672. In the 2001 case I addressed a similar issue of trying to determine how to allocate the costs of several senior officer corporate departments. The results of my study and analysis in Aquila's current case caused me to go further than Aquila witness Agut in assigning more corporate department costs to Aquila's financial restructuring operations.

Q. In discussing Aquila's corporate restructuring costs Mr. Empson states at page 12 of his rebuttal testimony that during 2002, most direct payroll related costs were either within the Merchant business or within departments whose allocated costs were eliminated by Aquila before it filed its rate increase application. Is this statement correct?

A. No. In order for this statement to be correct, it would have to be true that Aquila's Chairman and CEO, Mr. Richard Green, did not spend a significant amount of time in 2002 on Aquila's corporate restructuring activities as Aquila did not allocate any of Mr. Green's payroll costs to restructuring operations in this rate case.

It is simply not credible to assert that the Chairman and CEO of a major energy company currently experiencing the severe financial problems that Aquila is experiencing does not spend most if not all of his time on efforts to bring the company back to financial health. In order for Mr. Empson's statement to be true, one would have to accept that during 2002--at the height of Aquila's financial problems, the year when Aquila exited the wholesale energy marketing and trading business, the year where Aquila sold approximately $1 billion in Company assets and suffered rating agency debt downgrades-- Aquila's CEO spent most of his time on the day-to-day management of Aquila's regulated electric and gas utility operations.

Q. At page 12 of his rebuttal testimony Mr. Empson appears to be critical of the Staff's restructuring adjustment because Mr. Empson claims Aquila's restructuring activities are one-time, non-recurring events. Is this position consistent with the position taken by Aquila in its direct testimony in this case?

A. No. It is completely inconsistent. Mr. Empson is criticizing a position he agreed with when Aquila filed its direct testimony in this case in July 2003. Mr. Empson gave Ms. Agut the guidance to remove costs related to corporate restructuring operations and she made an attempt to do so. She removed the cost of three departments because their function during the test period mainly focused on selling off business units. She also stated that Aquila anticipated that this type of work would continue. Ms. Agut, under the supervision of

Mr. Empson removed the cost of the CFO office in this case. Ms. Agut's reason for this adjustment was that:

> In 2002, the Chief Financial Officers, Messrs. Dan Streek and Rick Dobson, extensively focused on maintaining the solvency of Aquila. It is anticipated that this focus will continue for at least a couple of years.

Q. If Aquila's restructuring activities ended today, would the Staff's adjustment in this case still be appropriate?

A. Yes. Because of the significant amount of work involved in the complete overhaul in Aquila's business, Aquila still needs people with the experience and expertise to run the operations of an international diverse energy company until the restructuring of Aquila's operations is complete.

The people involved in the acquisition of Aquila's various international companies, power plants, pipelines, etc., and the people involved in the operations of Aquila's energy trading and merchant operations are the ones who will be needed to oversee the winding down of these operations. Conversely, once the restructuring operations are complete, these employees will no longer be needed and will likely be let go.

Q. ** ____

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A. ** ____

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________________________ **.

Q. ** ____ __________________________ **?

A. ** ____ ____ ____ ____ ____ ____ ___________. **

Q. Please provide an example the types of employees Aquila needs while it is involved in its restructuring operations that it won't need when it returns to a traditional electric and gas utility company.

A. During its restructuring, Aquila will need to maintain its substantial General Counsel's department with attorneys who have experience and expertise in merger and acquisition activities. This expertise is needed in order to oversee the legal implications of selling billions of dollars in corporate assets. Aquila's General Counsel's department includes 17 employees with many who earn a salary in excess of $100,000. It is doubtful that if and when Aquila returns to being a simple electric and gas utility that it will need this type of expertise.

Q. Please describe Aquila's General Counsel department.

A. This department has overall responsibility for all matters of a legal nature including mergers, acquisitions, joint ventures and divestitures.

NP

Q. Please explain the development of Aquila's General Counsel's corporate overhead department.

A. In a June 19, 2000 press release, Aquila's then President and Chief Operating Officer, Robert Green, stated "UtiliCorp's growth has resulted in the company reaching a scale and complexity of global operations that warrants the establishment of a professional in-house legal staff headed by an experienced general counsel." A logical conclusion would be that once Aquila transitions back to a traditional domestic electric and gas utility, the current size and experience level of Aquila's in-house legal staff may not be needed. An indication of this is that Aquila paid $800,000 in retention bonuses to Aquila's legal staff to retain their services through its current financial restructuring.

Q. On page 14 of his rebuttal testimony, Mr. Empson states that the Staff used Aquila's Cost Allocation Manual (CAM) as the basis for its disallowance percentages. Is this a correct statement?

A. No. As I explained in my direct testimony in this case, my adjustment was made after I reviewed Aquila's Board of Directors minutes, annual reports, SEC filings, press releases, outside auditor workpapers, responses to Staff data requests (including Aquila's CAM), testimony filed in past Aquila regulatory proceedings and payments to outside contractors. In addition, I used experience gained in auditing Aquila's corporate allocations process in its last rate case to develop a general understanding of the extent of Aquila's corporate departments' involvement in Aquila's restructuring operations.

Q. Did you rely in part on Aquila's CAM in formulating your adjustment?

A. Yes. Aquila's CAM provides a description of each department's activities as well as other information related to the basis of each department's allocation of costs to Aquila's business units.

Q. Mr. Empson states at page 14 of his rebuttal testimony that "the CAM is intended to describe the general functions of departments over time and does not necessarily constitute the specific activities performed by each department." Is Mr. Empson's characterization of the CAM consistent with what is stated as the purpose of the CAM in its overview page?

A. No. Section A of the CAM, Summary of Cost Assignment describes the first purpose of the CAM is to provide a consistent method of assigning costs to Aquila's Business Units, Divisions, and product lines. Nowhere in the CAM itself does it state the purpose if to "describe the general functions of departments over time." Section A of the CAM states:

> The Aquila Inc. Corporate Cost Allocation Manual (CCAM) was designed to satisfy three primary purposes:
>
> 1. To provide a consistent method of assigning costs to Aquila's Business Units, Divisions, and product lines.
>
> 2. To promote operational efficiencies.
>
> 3. To aide management as a tool for cost control.

Q. Please explain how you used the CAM in your audit?

A. The first step in the review of a specific department is to review the department's description in the CAM. For example, in reviewing the operations of Department 4194 Tax-Income Team, I read the following department description in the CAM: "Responsible for all income tax compliance including the preparation of tax returns, tax accounting, and audit administration."

I then reviewed Aquila's previous two federal income tax returns. From my review of these tax returns, I determined that a significant portion of the tax returns were dedicated to selling assets and other nonregulated activities. Included in the 2002 tax return were several Form 966s, Corporate Dissolution or Liquidation; Form 4797, Sales of Business Property, tax forms calculating the gain on sale of Aquila's corporate aircraft that it disposed of as part of its restructuring operations; Form 5471 related to foreign corporations and other forms that are related to Aquila's current restructuring operations.

From my review of the actual work product of the tax department I determined that a conservative estimate of the amount of time that Aquila's restructuring operations caused the employees of the Tax department in preparing these tax returns was approximately 25 percent.

SEVERANCE ADJUSTMENT

Q. At pages 12 and 13 of his rebuttal testimony Mr. Klote describes Aquila's proposed severance cost adjustment. Please comment on this portion of Mr. Klote's rebuttal testimony.

A. In his rebuttal testimony Mr. Klote described Aquila's "state-based" reorganization which Aquila began in 2002. The purpose of Aquila's movement to a state-based organizational structure was to make utility operations more efficient, primarily in the area of reduced payroll costs The following is Aquila's April 16, 2002 press release announcing this project:

> KANSAS CITY, Mo., Apr 16, 2002 (BUSINESS WIRE) -- Aquila, Inc. (NYSE:ILA)(formerly UtiliCorp United) is moving to a state-based organizational structure for its utility operations to enhance operational efficiency and community focus, a company official said today.
>
> The realignment is designed to provide greater operational accountability within Aquila's seven-state utility operations that serve 1.3 million

> natural gas and electricity customers in Missouri, Kansas, Nebraska, Colorado, Iowa, Michigan and Minnesota.
>
> "A state-based leadership structure will allow us to more effectively address operational and community issues in the individual states," said Keith Stamm, president and chief operating officer of Aquila's Global Networks Group. "Our goal is to continue supplying safe, reliable energy supplies while creating a stronger focus on improving customer service."
>
> As a result of the restructuring, some of the company's Kansas City-based centralized staff will relocate into state operations. It's expected the realignment will result in an overall reduction in workforce, primarily positions at the central headquarters in Kansas City. The level of reductions will be determined as state structures are formed in the next few weeks, Stamm said. All new state structures will be in place by July 31.
>
> "It's difficult to adopt a change that impacts individuals' job security," said Stamm. "Aquila will consistently treat affected employees fairly and with respect during this transition."
>
> Prior to 1995, Aquila's U.S. networks operated in a state-based organizational structure. These operations are comprised of utilities acquired by Aquila since 1985 when the company began expanding from its original Missouri Public Service base. In 1995, Aquila consolidated the leadership and support staff functions into a centralized corporate structure to build a unified corporate culture among the various utilities and to create efficiencies and standardization in technology and basic operating procedures.
>
> "Since we have achieved the goal of standardizing the core operating and financial systems, as well as corporate governance policies, it's a natural progression to now place additional responsibility within the state operations," said Stamm. "Leadership in the state operations is best equipped to make many business decisions based on their customer, community and regulatory knowledge.
>
> "Our utilities will continue to provide a strong foundation for Aquila, and we believe these steps will help ensure their economic well-being in the future. "

Q. Was Aquila's new efficient utility structure reflected in MPS's rates in its last rate case, Case No. ER-2001-672?

A. No. Rates from Case No. ER-2001-672 went into effect in March 2002. Aquila did not announce its new efficient utility structure until April 2002. MPS' rates that are in effect today (and will be in effect until June 2004) still reflect Aquila's old less efficient utility structure.

Q. Is Aquila proposing any adjustment in this rate case to compensate MPS' customers for charging rates that were based on the old less efficient utility structure in Case No. ER-2001-672?

A. No. In fact, Aquila is proposing to charge MPS' customers for the fact that it made its utility structure more efficient. This is the whole basis of Aquila's proposed severance adjustment, also known as adjustment CS-10. Aquila totaled up the severance and severance-related payments for the employees it severed under this project and is proposing to recover MPS' share of these costs in this rate case over a three-year period. Although Aquila recognizes that it has collected higher payroll costs in rates than it is actually paying to employees (Mr. Klote states at page 14 of his rebuttal testimony that "Aquila does not deny the fact that regulatory lag exists concerning this issue"), it refuses to recognize these payroll savings as an offset to its severance costs.

Q. At page 11 of his rebuttal testimony Mr. Klote list the reasons why the Staff is opposed to Aquila's severance adjustment. Does Mr. Klote correctly describe the Staff's reasons for its opposition to this adjustment?

A. No. One primary reason why the Staff is opposed to the recovery of severance costs is that these types of costs are non-recurring expenditures. In addition to being nonrecurring, the costs that Aquila seeks to recover have already, at least to a significant extent, been recovered in rates. The rates for Aquila's last rate case, Case No. ER-2001-672 went into effect in March 2002 as a result of the Commission accepting a settlement that simultaneously resolved both that rate case and a Staff excess earnings complaint case. Since that date, and continuing until rates are changed from the resolution of this case in June 2004, Aquila has been recovering and will continue to recover payroll, payroll taxes and other benefit costs in current rates for substantially all of the employees that are no longer on MPS' payroll.

Q. What is your knowledge of the level of payroll that was included in MPS' last rate case, Case No. ER-2001-672?

A. During that audit I worked closely with the Staff auditor who was responsible for MPS' payroll adjustment, Graham A. Vesely. I have reviewed Mr. Vesely's testimony in that case and noted that he did not recommend any adjustment to MPS' proposed level of base payroll costs in that case. In fact, the Staff's payroll adjustment in this case included all employee additions and payroll increases through January 31, 2002, (Vesely Direct Testimony, Case No. ER-22001-672, page 3). I reviewed the rebuttal testimonies of 13 Aquila witnesses in that case and found that Aquila had no objection to the Staff's (or any other parties to the case) base payroll adjustment. Aquila did have one witness to presented rebuttal testimony on the Staff's proposed partial disallowance of incentive compensation costs. Therefore, I am confident in saying that for the purposes of a discussion on regulatory lag on the issue of payroll costs in Aquila's last rate case, 100 percent of the base payroll costs that Aquila thought should be included in MPS' rates, were included.

Q. Does Mr. Klote disagree with the position taken in your direct testimony that Aquila has recovered at least a portion of its severance costs through regulatory lag?

A. No. Mr. Klote does not disagree that Aquila has recovered at least a portion of its severance costs through regulatory lag. However, he argues that the Commission should not recognize the fact that Aquila has recovered these costs because Aquila's rates do not reflect payroll increases in the years between rate cases and because the Staff did not pick up a projected pay increase that is considerably outside of the test year in this case.

Q. What is "regulatory lag?"

A. Regulatory lag is the passage of time between when a utility's financial results change, and when that change is reflected in the utility's rates.

Q. How does regulatory lag allow for a company such as Aquila to retain payroll savings for a period of time?

A. Payroll costs represents one of the largest if not the largest expense of providing utility service. When rates are set in a rate case, 100 percent of the payroll costs needed to provide safe and reliable utility services are generally included in these rates. If a utility takes an action, soon after rates are set in a rate case, to significantly reduce its payroll costs, then these payroll savings, net costs to achieve these payroll savings will accrue to the utility's shareholders. This situation will then persist until the utility's rates change, either as a result of a rate increase application from the company in question or as a result of a complaint application filed by the Staff or another party to reduce rates.

Q. Can regulatory lag work both to the benefit and the detriment of a utility?

A. Yes. Due to natural changes in revenue and expenses, either the utility or the ratepayer may temporarily benefit from the effects of regulatory lag. Under ideal circumstances, both parties have an equal opportunity to benefit because regulatory lag is generally supposed to be caused by an unplanned and naturally occurring event. Sometimes certain expenses decrease faster than other costs increase, thereby offsetting the impact and sometimes the opposite occurs. Sometimes revenues increase faster than expense and, again, sometimes expenses increase faster than revenues. Regulatory lag can be thought of as a natural phenomenon in the utility ratemaking process.

Q. Does the Staff have any opposition to Aquila's retaining the benefits of its payroll reductions until its actual payroll costs are reflected in rates in this case?

A. No. The Staff's objection is not that Aquila has retained the savings of its payroll reductions, the Staff objects to the fact that Aquila wants to retain 100 percent of the payroll savings, yet also wants to recover in rates 100 percent of the costs to achieve those savings. The Staff believes this position is unfair and unreasonable and should be rejected by the Commission.

Q. Did Aquila do any study to determine if it even suffered from a financial detriment from incurring the severance costs associated with its employee reductions?

A. No. The Staff is not aware of any study where Aquila offset the dollar amount of severance costs it incurred with the amount of payroll savings it accrued.

Q. Under what circumstances would you consider recommending recovery of a cost similar to Aquila's severance cost adjustment?

A. The first criteria would be that the cost would have to be recurring in nature. Secondly, Aquila would have to do a detailed study of the amount of payroll savings it accrued in rates from its workforce reduction. The amount of payroll savings would then be compared to the amount of severance costs it incurred. If the study results show that the severance costs exceeded the payroll savings and this incremental amount was determined to be material in amount, then, and only then, would the Staff consider some form of rate relief.

Q. Has the Commission ruled on the issue of rate recovery of severance costs for Aquila?

A. Yes. In Aquila's rate case ER-97-394, the Commission ruled that severance costs should not be recovered in rates. Specifically, the Commission stated at page 45 of its Report and Order in that case:

> The Staff has proposed an approximate $142,600 disallowance for test year severance costs. The Staff witness states that such costs are largely non-recurring and are quickly offset by savings in payroll expense. The typical severance pay is six months salary.
>
> UtiliCorp disagrees with the Staff's position. UtiliCorp states that payroll savings are achieved, to the benefit of the ratepayers, by severing employees. UtiliCorp believes that the concurrent severance costs, therefore, should also be borne by the ratepayers.
>
> UtiliCorp also points out that it regards severance pay as a management tool and therefore seeks inclusion of what it considers an ongoing amount of severance costs in rates. The test year severance expense was a result of the UtiliCorp reorganization program, referred to as "Building Tomorrow's UtiliCorp," or BTU. The UtiliCorp witness explains that the BTU program is ongoing, along with a certain level of severance costs. UtiliCorp maintains that these costs should properly be reflected in rates.
>
> The Commission finds the weight of evidence in this issue indicates that the severance costs in question were a one-time occurrence and not an ongoing expense. In addition, while some benefit to the ratepayer may accrue, the evidence is insufficient on that point.
>
> Therefore, the Commission will adopt the proposed adjustment of the Staff.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Summary of Modifications

UtiliCorp United Inc. Supplemental Executive Retirement Plan

(As Amended and Restated Effective January 1, 2001)

- Executives employed in pay bands I-V are eligible for the SERP.

- The SERP was amended to add a new "Bonus SERP Benefit" and "Supplemental SERP Benefit."

- The Bonus SERP Benefit is designed to provide executives an additional retirement benefit based on the executives' annual bonus pay. Bonus pay is currently excluded from consideration under UtiliCorp's qualified defined benefit pension plan. All SERP participants are eligible for the Bonus SERP Benefit. (See SERP sections 1.02 and 4.02)

- The Supplemental SERP Benefit is designed to provide executives employed in pay bands I – IVa an additional market-based retirement benefit. The maximum retirement benefit is generally equal to 7.5% of the executive's average total pay in excess of the annual Internal Revenue Code dollar limitation. (See SERP sections 1.10, 1.12, 1.13 and 4.03)

- In order to receive the Bonus SERP Benefit and Supplemental SERP Benefit, an executive must either (i) retire from employment on or after attaining age 55, or (ii) separate from service after completing ten (10) or more years of service. All SERP benefits are adjusted to take into account early retirement and other applicable actuarial adjustments. (See SERP section 3.01)

- If a married executive dies after having satisfied the vesting requirements for the Bonus SERP and Supplemental SERP Benefits, the executive's surviving spouse will receive a benefit equal to 50% of the benefit that would have been paid to the executive. There is no death benefit for unmarried executives. (See SERP section 4.07)

- The Committee has the discretion to adopt a mandatory pay-out policy pursuant to which an executive's SERP benefit would be paid in a single lump sum if the actuarial value of such benefit is less than specified dollar amount. (See SERP section 4.05)

Response: (1) Discussions regarding the funding of OPEB benefits have been underway since the Missouri Legislature passed the law in 1994 (Section 386.315 RSMo) which allowed the utilities SFAS 106 recovery for OPEB amounts which are externally funded by the utility. Since there was no cash flow included in the 1993 electric case for FAS 106 expense, the actual funding was not completed until April 9, 1997. Funding was made at this time to support the Company's rate case seeking FAS 106 recovery. (2) A VEBA (Voluntary Employee's Beneficiary Assoc.) account is being used as a funding vehicle. The aggregate funding method has been used to determine the amount funded. (3) The VEBA funding is done specifically for MPS employee post-retirement benefits. (4) See attached Mercer computation of the $1 million which has been funded to date. (5) The funding of the VEBA account is intended to cover the entire FAS 106 expense (i.e. benefit payments and benefits accrued but not paid during the current year). (6) See attached Mercer computation of the $1 million that has been funded to date. The data used in this computation is an extrapolation of the information included in the December 31, 1996 report for 1997. The actuarial assumptions used are the same as documented in the 1996 report except as noted in the footnotes on the attachment.

ATTACHMENTS: Mercer computation of the estimated maximum tax deductible VEBA contribution.

ANSWERED BY: Beth Armstrong

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MPSC-407 Information requested:

(1) Provide the 1997 actuarial reports (ERISA and FAS87 & 106) as soon as they are available. Include all reports which would be charged 100% to MPS or on an allocated basis. (2) Provide any additional actuarial reports for any Supplemental Executive Retirement Plan also. (3) Identify actual dollars spent (charged to MPS) for any SERP plan in 1996. (4) Identify the expense recorded on MPS' books for any SERP plan in 1996 and indicate whether the expense amount is based upon accrual accounting under FAS87 or actual cash disbursements for benefits.
Response: (1) The 1997 actuarial reports are not available as of the date of this response. We anticipate receipt of the reports in late October 1997. (2) UtiliCorp has a SERP, however, there are no actuarial reports for such plan. (3) No dollars have been spent or charged to MPS for any SERP plan in 1996. (4) No amounts have been expensed for any SERP plan in 1996.

ATTACHMENTS: None

ANSWERED BY: Beth Armstrong (assisted by Brenda Williams)

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MPSC-408 Please provide the latest annual insurance premiums for all types of insurance coverages and the actual insurance premiums that were in effect at June 30, 1997.
Response: See attached spreadsheet.

ATTACHMENTS: Spreadsheet

ANSWERED BY: Diana Powell, Risk Management

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MPSC-409 Refer to the response to DR 277.

1) Question 2 in DR 277 did not request MPS's opinion as to whether prior ratemaking treatment for capitalized software/hardware costs is relevant to this case. The question asked is whether or not MPS has requested Rate Base treatment and/or depreciation/amortization on costs incurred for capital assets which were not in service/fully implemented, in any prior Rate Case. 2) In addition, MPS's BTU adjustment requests recovery of budgeted costs for BTU projects which will not be incurred until 1998 or 1999. Please identify any prior rate case in Missouri where MPS requested or was granted Rate Base and/or cost of service recovery of budgeted expense and/or costs for capital assets.

reflects the difference between annualized employer costs and those incurred in the test year.

Q. Please list employee benefits charged to MPS that you are recommending be included in cost of service, exclusive of disallowances previously discussed.

Resource Code	Staff Annualization Description	MPS Juris Electric Expense
1709	401K Employer Share	1,556,023
1711	Employee Stock Contribution Plan (ESCP)	706,957
1715	Benefits Health and Dental	2,174,418
1716	Benefits Life Insurance	94,795
1717	Benefits Educational Reimbursement	24,222
1718	Benefits AD&D Insurance	21,336
1725	Benefits Supplemental Retirement	34,688
1726	Benefits Restricted Stock	30,199
1727	Benefits LT & ST Disability	64,094
1729	Benefits Great Pursuits	50,079
1799	Benefits Other	127,434
	Annual Incentive Compensation	1,678,752
	Union Incentive Compensation	138,664
	Total	7,601,660

A. The Staff has included in its filed case the incentives and benefits levels shown above, on an annualized basis, allocated as appropriate to electric operations, without further proposed disallowances.

FUEL INVENTORIES

Q. What was your responsibility in this case with regard to the determination of fuel inventory levels?

A. My responsibility was to determine an estimate of an appropriate level of inventories for coal and oil maintained at UtiliCorp's generating facilities. Coal inventories are maintained at the Jeffrey Energy Center and the Sibley plant. Oil inventories are maintained at the Nevada and Greenwood facilities.

Number	Category	Date	Press Release
1	1	01/28/04	Aquila, CFTC Reach Settlement
2	1	08/29/03	Aquila Agrees to $75,975 Settlement on Western Energy Market Manipulation, Reaffirms That It Acted Properly
3	1	08/20/03	Aquila CEO Announces Stock Sale to Pay Tax Obligation
4	1	08/19/03	Aquila responds to EPCOR statement of claim
5	1	07/07/03	Default Under Aries Power Project Construction Loans Has No Impact on Aquila's Liquidity or Debt Obligations; Existing Power Contract Unaffected
6	1	05/09/03	Aquila's Tire-Derived Fuel Project Helps Communities Fight Spread Of West Nile Virus
7	1	09/20/02	Competitive Wholesale Power Market Still Needed; Subcommittee's Draft Report Provides Roadmap, Remedies
8	1	09/05/02	Aquila Makes No Recommendation On Main Street's Unsolicited Mini-Tender Offer
9	1	07/02/02	Aquila Comments On Quanta Services, Inc.; Confirms 2002 EPS Guidance of $1.30-$1.40 Per Share
10	1	06/05/02	Aquila Submitted Responses to FERC; Review of Gas Trades Confirms No Round-trip Trades Occurred
11	1	06/03/02	Aquila Submitted Responses to FERC; Confirms Round-Trip Trades Not an Acceptable Practice
12	1	05/24/02	Aquila Responds to News Reports About California `Ricochet' Power Trades
13	1	05/24/02	Aquila Refutes Inaccurate, Misleading Reports About Its European Operations
14	1	05/20/02	Aquila Concludes Review of Trading Activity, Finds No Improper Transactions; Webcast to Discuss Review at 8:00 a.m. Eastern Time Tomorrow
15	1	05/17/02	Aquila Says New York Times Article Inaccurate
16	1	05/14/02	Aquila Presentation to Financial Analysts Will be Webcast Live On May 14
17	1	05/13/02	Aquila Applauds Decision by Delaware Chancery Court '; Confirms Program To Offer Appropriate Premium To Quanta Stockholders
18	1	05/08/02	Aquila Completes Purchase of Ownership Interest in Midlands Electricity
19	1	05/03/02	Aquila Mails Additional Proxy Materials to Quanta Stockholders
20	1	04/30/02	Aquila to Acquire Cogentrix Energy, Adding 3,500 Megawatts of Contracted Generation; Details Reviewed in Webcast Today at Noon Eastern Time
21	1	04/16/02	Aquila Mails Definitive Proxy Materials to Quanta Stockholders
22	1	04/03/02	Aquila Files Preliminary Proxy Materials
23	1	03/25/02	Hearing for Preliminary Injunction Against Quanta's Sect Set for May 7, 2002
24	1	03/25/02	Aquila Teams With Florida's Seminole Electric On Consulting And Power Deals
25	1	03/21/02	Aquila Files Lawsuit Against Quanta Services and Certain of its Directors
26	1	03/18/02	UtiliCorp Changes Name to Aquila, Inc., Begins Trading Under Symbol ILA
27	1	03/18/02	Aquila and FirstEnergy Agree to Final Terms for Aquila's Acquisition of Midlands Electricity
28	1	02/06/02	Red Lake Gas Storage Open Season Starts Today
29	1	01/31/02	Aquila Set to Develop Arizona Gas Storage Facility
30	1	01/29/02	Aquila Brings Energy and Risk Management Skills to Global Chemical Fertilizer Industry
31	1	01/16/02	California Meteorologist Wins $50,000 in Aquila/AMS Forecast Competition
32	1	01/14/02	Aquila And Nisource Form Alliance
33	1	01/11/02	Aquila Expands Line of Weather Products to Cushion Agribusiness Community From Crop Yield Volatility
34	1	01/07/02	UtiliCorp Completes Aquila Short-Form Merger NYSE Trading of Aquila Shares Ceases
35	1	01/04/02	UtiliCorp Accepts Tendered Aquila Shares, Expects to Complete Short-Form Merger January 7
36	1	01/03/02	UtiliCorp Says Its Aquila Exchange Offer is Set for Completion
37	2	01/16/04	Aquila and FirstEnergy Complete Sale of Midlands Electricity to Powergen
38	2	11/13/03	Aquila Agrees to Sell Interests in 12 Power Plants to ArcLight Capital Partners for $300.9 Million
39	2	11/06/03	Aquila Reports Third Quarter Net Loss of $169.9 Million, Reflecting Continued Restructuring
40	2	10/30/03	Aquila Review of 2003 Third Quarter Results Will be Webcast On November 6 at 9:30 a.m. Eastern
41	2	10/21/03	Avon Energy Partners Holdings: Sale of Aquila Sterling Limited
42	2	10/21/03	Aquila and FirstEnergy Sign Agreement to Sell Midlands Electricity to Powergen
43	2	10/06/03	D2r2 Announces Agreement To Purchase Aquila's Unite Subsidiary
44	2	10/06/03	Aquila Agrees To Sale Of Missouri Eastern Natural Gas System To Ameren Corporation
45	2	09/25/03	Aquila Agrees to Terminate Arrangement to Sell Its Interest in Midlands Electricity
46	2	09/25/03	Aquila, Inc., FirstEnergy Corp. and Scottish And Southern Energy plc Announcement
47	2	09/15/03	Aquila Agrees to Sell Canadian Utility Operations for CDN$1.36 Billion

48	2	08/12/03	Aquila Reports Second Quarter Net Loss, Reflecting Merchant Wind-Down; Continues to Make Progress on Foreign Asset Sales
49	2	08/07/03	Aquila Review of 2003 Second Quarter Results Will Be Webcast on August 12 at 9:30 a.m. Eastern
50	2	07/24/03	Aquila Receives $477 Million on Sale of Australian Properties
51	2	07/11/03	Aquila Obtains Approval from Colorado Public Utilities Commission to Collateralize Utility Assets
52	2	07/10/03	Aquila Passes Major Milestone to Completing Sale of Australian Properties
53	2	05/22/03	Sale of Aquila Sterling Limited -- Information for Bondholders
54	2	05/22/03	Aquila Signs Agreement to Sell Its Interest in Midlands Electricity
55	2	05/15/03	First Quarter Net Loss Reflects Costs of Energy Merchant Wind-Down, Rate Actions and Lower Expenses Contribute to Improved Results in Networks
56	2	05/13/03	Aquila Terminates Acadia Tolling Agreement; Aquila Continues to Deliver on its Restructuring Plan
57	2	04/30/03	Aquila Seeks State Regulatory Approval to Secure Obligations Supporting Utility Working Capital Requirements
58	2	04/22/03	Aquila Agrees to Sell Its Interests in Australia
59	2	04/15/03	Aquila Fourth Quarter and Year-End Net Loss Driven by Impairment and Restructuring Charges as Company Repositions Business
60	2	04/11/03	Aquila Completes Refinancing
61	2	03/28/03	Aquila to File for Extension of 10-K Report; Company Announces June 4 Annual Meeting Date
62	2	03/14/03	Aquila Posts Information on Restructuring Efforts on Website; Work Progressing on Renewal of Short-Term Financing
63	2	12/20/02	Aquila Will Not Issue Guidance for 2003
64	2	11/19/02	Aquila Responds to S&P Downgrade
65	2	11/15/02	With Liquidity of $897 Million, Aquila is Positioned to Withstand Potential Effects of Fitch Downgrade
66	2	11/13/02	Aquila Reports 3rd Quarter Loss, Suspends Dividend to Support Ongoing Transition Plan and Receives Interest Coverage Waiver
67	2	11/12/02	Aquila Conference Call On Third-Quarter Results Will be Webcast At 9:00 a.m. Eastern, Thursday, November 14
68	2	10/31/02	Aquila Exits Lodi Gas Storage Project
69	2	10/18/02	Aquila Presentation At EEI Financial Conference Will be Webcast October 22 At 1:30 P.M. Eastern
70	2	10/16/02	Aquila Announces More Asset Sales, Raising Total to $976.6 Million; Winds Up European Energy Merchant Operations
71	2	10/15/02	Aquila Closes $34.9 Million Sale of Its U.K. Gas Storage Assets
72	2	10/11/02	Aquila Subsidiary Completes $503 Million Sale of Its Interest in New Zealand's UnitedNetworks; Estimates Fourth Quarter Gain of $28 Million
73	2	10/07/02	Aquila Completes $265 Million Sale of Natural Gas Pipeline and Processing Assets
74	2	10/01/02	Aquila and Its CEO Robert K. Green Agree Upon Resignation; Responsibilities Assumed by Chairman Richard C. Green, Jr.
75	2	09/30/02	Aquila Completes Sale of Its Interest in Lockport Energy Facility
76	2	09/09/02	Aquila Signs Agreement to Sell Its Controlling Stake in UnitedNetworks; Vector Limited Selected as Successful Bidder
77	2	09/04/02	Standard & Poor's Concludes Review; Aquila Maintains Investment Grade Rating
78	2	09/03/02	Aquila Positioned to Withstand Potential Effects of Moody's Action
79	2	08/19/02	Aquila Confirms $754 Million Liquidity Position, Company Well-Financed to Withstand Possible Moves by Rating Agencies
80	2	08/19/02	Aquila and ET Company, Ltd Sign $265 Million Agreement On Sale of Texas/Oklahoma Natural Gas Pipeline and Processing Systems
81	2	08/16/02	Aquila Reaffirms Liquidity Position and Credit Standing in Response to Yesterday's Market Activity
82	2	08/08/02	Aquila and ScottishPower's PacifiCorp Power Marketing, Inc. Sign $180 Million Agreement On Sale of Texas Gas Storage Assets
83	2	08/08/02	Aquila Reports Second Quarter Operating Earnings of $.34 Per Diluted Share, Records Non-Recurring Charges of $966 Million
84	2	08/07/02	Aquila Seeks Buyer for Midlands Electricity
85	2	08/06/02	Aquila to Exit Wholesale Energy Marketing and Trading Business
86	2	08/05/02	Aquila Conference Call On Second-Quarter Earnings Will be Webcast At 9:00 a.m. Thursday, August 8
87	2	08/02/02	Aquila and Cogentrix Agree to Terminate Acquisition Agreement; Current Power Market Conditions Cited
88	2	07/31/02	Aquila's Acquisition of Cogentrix Uncertain
89	2	07/03/02	Aquila Completes Concurrent Equity and Debt Offerings as Part of Its Strategic and Financial Repositioning
90	2	07/02/02	Aquila Says the Sale of Pulse, EdgeCap and Utili-Mode in Australia Has No Ongoing Impact On Its Earnings Per Share
91	2	07/02/02	Aquila Reaches Agreement to Sell Interest in Lockport Energy Facility
92	2	06/28/02	Aquila Prices $500 Million Senior Notes Offering as Part of Its Strategic and Financial Repositioning
93	2	06/27/02	Aquila Completes Equity Offering as Part of Its Strategic and Financial Repositioning: Prices 37,500,000 Primary Common Shares
94	2	06/18/02	Aquila Plans $900 Million of Concurrent Equity and Debt Offerings to Strengthen Its Balance Sheet and Liquidity Position
95	2	06/17/02	Aquila Announces Strategic and Financial Repositioning; Reduces Dividend, Earnings Guidance and Wholesale Activity

96	2	06/13/02	Aquila's Board Meets to Review ``Project BBB+/Baa1" Progress, Initiates Review of Dividend Policy; Cooperating With SEC Informal Inquiry
97	2	06/11/02	Aquila Announces Plans to Sell New Zealand Assets as Part of Its Project BBB+/Baa1
98	2	05/22/02	Aquila Eliminates 200 Positions, Move Supports Project BBB+/Baa1
99	2	05/21/02	Aquila Focused on Improving Credit Rating, Launches Project BBB+/Baa1
100	2	04/29/02	Aquila Reconfirms Commitment to Strong Balance Sheet and Investment Grade Rating
101	3	06/04/03	Aquila Shareholders Elect New Independent Director; Company Reviews at Annual Meeting Ongoing Efforts to Restore Aquila's Financial Stability
102	3	05/13/03	Aquila Board Names New CFO; Establishes Corporate Compliance Function
103	3	10/18/02	Aquila Names Rick Dobson Interim Chief Financial Officer, Effective November 20
104	3	10/18/02	Aquila Aligns Board and Conference Call Schedule With Schedule for SEC Filings
105	3	10/04/02	Aquila Names Keith Stamm Chief Operating Officer; Mike Jonagan Will Head Capacity Services
106	3	08/15/02	Aquila Completes Certification With Securities and Exchange Commission Without Modification
107	3	08/07/02	Aquila Declares Quarterly Dividend
108	3	07/10/02	Aquila Chairman Richard C. Green, Jr. Urges Congressional Action on Energy Derivatives; Endorses Senator Feinstein's Legislation
109	3	06/10/02	Aquila Presentation to Financial Analysts Will be Webcast Live On June 12
110	3	05/31/02	Aquila Expects 70 Percent of 2002 Operating Earnings to Come From Regulated Utilities and Contract Power Sales
111	3	05/21/02	Aquila Appoints KPMG to Serve as Company's Independent Auditors
112	3	05/01/02	Three Directors Reelected At Aquila Annual Meeting; Company Leaders Reiterate Confidence in Future Direction
113	3	05/01/02	Aquila Declares Quarterly Dividend
114	3	05/01/02	Aquila announces $.32 first Quarter EPS; Conference Call And Webcast Set for 1:00 P.M. Eastern Time Today
115	3	04/19/02	Aquila Expects Lower First-Quarter EPS; May 1 Conference Call and Webcast Set for 1:00 p.m. EDT
116	3	04/16/02	Aquila Secures $650 Million in New Credit Lines
117	3	02/07/02	Correcting UtiliCorp Reports Record Full-Year Operating EPS of $2.44
118	3	02/07/02	UtiliCorp Reports Record Full-Year Operating EPS of $2.44; Today's New York Meeting and Webcast Set for 8:30 A.M. EST
119	3	02/06/02	UtiliCorp Declares Quarterly Dividend
120	3	01/30/02	UtiliCorp Completes Offering of 12,500,000 Common Shares
121	3	01/21/02	UtiliCorp Announces Plans to Issue 11 Million Common Shares
122	3	01/21/02	UtiliCorp Expects Record Full-Year Operating EPS of $2.44; February 7 Conference Call and Webcast Set For 8:00 a.m. EST
123	4	10/24/03	Aquila Webcast To Feature Company CEO Presentation at EEI Conference
124	4	10/15/03	Largest Kansas Wind Farm Reaching Operation Milestone, State Legislators Gather at Site with Aquila, FPLE Officials
125	4	09/17/03	Aquila Seeks First U.S. Green Tags For Biomass To Generate Power At W.N. Clark Plant In Colorado
126	4	09/16/03	Aquila Chairman Outlines Initiatives to Bolster Economic Development and Improve Energy Supply in Missouri; Industry,
127	4	08/01/03	Aquila Files Missouri Gas Rate Case with Commission
128	4	08/01/03	Aquila Files Gas Rate Case for St. Joseph Region
129	4	07/30/03	Minnesota Commission Approves Rate Increase for Aquila Natural Gas Customers
130	4	07/03/03	Aquila Files Electric Rate Case for St. Joseph Area to Recover Costs of Electric Service Operations
131	4	07/03/03	Aquila Files Electric Rate Case with Commission
132	4	06/30/03	Aquila Files for Natural Gas Rate Increase in Nebraska to Recover Costs of System Improvements--Rate Area
133	4	06/26/03	Aquila Seeks Input from Community and State Leaders on Upcoming Rate Case for Missouri Electric Customers
134	4	06/13/03	Colorado Public Utilities Commission Approves Rate Increase For Aquila Electric Operations
135	4	05/01/03	Aquila Webcast to Feature Company CEO Presentation at AGA Conference
136	4	03/31/03	Aquila Adjusts Its Gas Cost Recovery Rate Due To Higher Wholesale Gas Prices
137	4	03/13/03	Michigan Public Service Commission Approves Final Phase of Rate Increase for Aquila Natural Gas Network
138	4	02/20/03	IOWA UTILITIES BOARD APPROVES RATE INCREASE FOR AQUILA NATURAL GAS NETWORK
139	4	06/03/02	AQUILA Seeks Recovery of Investment in Iowa Natural Gas Distribution System
140	4	04/16/02	New Aquila Networks Structure Focuses On States and Communities
141	4	04/02/02	Aquila Seeks Power Supply Contracts to Provide for Colorado Customers