



Aquila

News Release

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AQUILA FILES ELECTRIC RATE CASE WITH COMMISSION TO RECOVER MISSOURI FUEL, SYSTEM IMPROVEMENT COSTS

Proposes to Share 75 Percent of Merger Savings with Customers

KANSAS CITY, MO, July 3, 2003 – Aquila, Inc. (NYSE:ILA) today filed a request for an electric rate increase with the Missouri Public Service Commission.

In its request, the company seeks to recover the higher costs of natural gas needed to generate electricity as well as system improvement costs for the company's former Missouri Public Service properties. The company is requesting a 19 percent increase in annual revenues.

The 220,000 electric customers in the former Missouri Public Service properties currently pay rates that are at 1983 levels.

“We've taken a number of steps, totaling approximately \$16 million annually, to reduce the amount of the rate filing request,” said Jon Empson, senior vice president of Regulatory, Legislative and Gas Supply Services for Aquila. “It's important for the company to recover electrical system operating costs that were incurred to provide safe and reliable service for our customers.”

To further help reduce the rate increase, Aquila proposes to share 75 percent of the savings achieved through the consolidation of St. Joseph Light & Power. St. Joseph Light & Power was acquired in 2001. The plan is to use 50 percent of those savings to reduce the size of the rate increase. Aquila proposes that another 25 percent will be used to provide funds for residents in Aquila's Missouri service territory who cannot afford to pay their utility bills.

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If the rate increase is approved by the commission, an average residential customer using 10,000 kilowatt-hours (kwh) of electricity a year would see an increase of approximately \$13.25 a month. The overall rate increase would total \$65 million.

The key factors in the company seeking a rate increase are:

- 44 percent is driven by higher costs for natural gas needed to generate electricity.
- 21 percent reflects recovery of capital investments made to provide electric service to customers.
- 14 percent is caused by loss of the opportunity to sell power to potential off-system customers.
- 9 percent is caused by the contribution required to properly fund employee pension plans.
- 12 percent results from other costs associated with providing safe and reliable electricity to customers.

The \$16 million in annual savings was achieved through several initiatives, including reducing operating costs through office and service center consolidations, employee reductions and technical improvements in the company's power plants, as well as adding new growth through joint community efforts. Also, Aquila voluntarily decided to reduce its rate request by \$15 million, which puts the company at risk to achieve more savings in the near future.

In addition, current Missouri electric customer rates allow for a gas cost of about \$2.80 per thousand cubic feet (Mcf), while the current market price for natural gas is around \$6 per Mcf. Aquila is asking the commission to increase the rate the company is allowed to include for natural gas costs from the current level of \$2.80 per Mcf to \$5.64 per Mcf. The company also is recommending that any amount collected above the company's actual gas costs would be refunded to customers at the end of each year.

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In addition, capital expenditures that Aquila already made to update its power plants and electric distribution system total \$50 million to \$60 million annually. The current rate structure does not have a provision for these necessary expenditures.

Likewise, the existing rate structure does not fully cover current pension costs. Customer rates in past years were reduced to reflect favorable market investment returns. But with the stock market now depressed and interest rates lowered, those favorable returns no longer exist. Aquila, like many other companies throughout corporate America, must now make contributions to cover these costs.

In the past, the company has been able to offset some of its increased gas costs by selling excess power in the open market. However, with the economy currently in recession, as well as an abundance of excess power available throughout the area, Aquila has seen a \$9 million decline in those off-system sales and does not expect to see opportunities to renew off-system sales in the foreseeable future.

Prior to filing the rate increase, Aquila held outreach meetings to discuss the proposed increase with Missouri community and legislative leaders.

Aquila serves 338,000 electric and natural gas customers in Missouri. Based in Kansas City, Missouri, Aquila operates electricity and natural gas distribution networks serving customers in the U.S., Canada, the United Kingdom and Australia.

In the U.S., the company provides energy service to 1.3 million customers in Missouri, Kansas, Colorado, Michigan, Minnesota, Iowa and Nebraska. More information is available at www.aquila.com.

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