Aquila Power Corporation
10750 East 350 Highway
P.O. Box 11739
Kansas City, MO 64138
Fax: 816-936-8775

November 30, 1998

Mr. Frank DeBacker
Missouri Public Service
10700 East 350 Highway
Kansas City, MO 64138

AQUILA ENERGY

Subject: Proposal to Supply Capacity and Energy for Missouri Public Service (MPS)

Dear Mr. DeBacker:

Aquila Power Corporation (APC) is pleased to modify its July 6, 1998 proposal to MPS for the provision of capacity and energy. This proposal revises the July 6 proposal for the period beginning June 1, 2001, with certain terms and conditions identified herein to remain the same. APC also looks forward to finalizing the terms and conditions of the call option sale to MPS for the period June 1, 2000 through September 30, 2000.

This proposal identifies two sources of capacity to meet MPS' requirements. The primary source of capacity is from a combined cycle gas turbine generation facility to be located on property currently owned or controlled by MPS in or around Pleasant Hill, Missouri. This proposal is contingent upon MPS leasing or selling this property to APC or its designated affiliate. The second source of capacity is from a combined cycle generator in Batesville, Mississippi, identified and described in the July 6 bid.

During the summer months June through September of 2001, the Missouri generation facility will be available in a simple cycle configuration only. Conversion to a combined cycle configuration will require that the facility come off-line for approximately the final three months of the year. Starting January 1, 2002, the generation station will be available in a combined cycle operating mode. The proposal herein reflects how APC will source capacity to meet MPS' requirements prior to the time that the combined cycle configuration is completed.

This proposal shall remain valid for 90 days, unless otherwise extended by APC. Certain pricing provisions will be subject to revision due to changing market conditions for power sourced from the Batesville, Mississippi power plant.

APC thanks you for the opportunity to submit this revised proposal. Should you have any questions, please do not hesitate to contact me at (816) 936-8622. We look forward to meeting MPS' capacity needs.

Very truly yours,

Mike Jonagan
Director - Power Marketing
Aquila Power Corporation

cc: V.J. Horgan
Joe Gocke
David Stevenson

DESIGNATED GENERATION

APC proposes to meet MPS's capacity requirements from the following capacity sources:

Missouri Generator

The Missouri Generator is a proposed power generation station built on property currently owned or controlled by MPS in or around Pleasant Hill, Missouri. The generator will be interconnected to the MPS transmission system. APC or its designated affiliate will develop, construct, own, and operate the generator (the "Missouri Generator").

The Missouri Generator will be constructed in phases. By June 1, 2001, the generator will be constructed and fully operational in simple cycle mode. This will consist of two "F" class gas turbines with a nominal power output rating of approximately 320 MW. The equipment vendor has not been selected at this time. The generator will operate in simple cycle mode from June 1, 2001 through September 30, 2001. At that time, the generator will be removed from service and construction completed on the combined cycle configuration during the three remaining months of 2001.

APC intends to initiate construction of the generator during the fourth quarter of 1999. Preparation of the Prevention of Significant Deterioration permit is complete and will be filed as an application once MPS represents to APC that it owns or controls the property on which the plant will be built. Significant progress has been made in other areas of development, including initial negotiation with EPC vendors.

The Capacity and Energy Prices quoted herein are based on APC developing, owning and operating the Missouri Generator. APC will construct a pipeline header system connecting the generator to two of three interstate pipelines, including Williams, Panhandle Energy, and KNI. The prices do not include the acquisition of firm gas transportation from any of the pipelines. APC believes that MPS is in the best position to negotiate with the pipelines the firm gas transportation required to meet its needs.

The Capacity and Energy Prices additionally assume that APC will be able to purchase "F" class gas turbines with the approximate capacities identified herein at prices no greater than $32 million per turbine. To the extent that turbine prices exceed that amount, APC will be required to increase its capacity price to MPS based on a pro rata distribution of the term of the final contract with MPS to the expected 30 year life of the facility. Additionally, the capacity quantities quoted in this proposal are estimates based on information supplied by an equipment manufacturer. APC reserves the right to adjust the capacity quantity described in this proposal based upon actual contract capacity of the new plant.

Batesville, Mississippi Project

During the period June 1, 2001 through December 31, 2001, APC is proposing to dedicate capacity as detailed under Option #3 in the Capacity Bid section of this proposal from a 279 MW combined cycle generating unit under construction in Batesville, Mississippi. Please refer to APC's July 6, 1998 bid for additional detail regarding this facility. The facility has a scheduled in-service date of June 1, 2000, a full year prior to the designated time period in this proposal.

CAPACITY BIDS

APC proposes to meet MPS' capacity requirements by giving MPS the option to select capacity for certain time periods from the designated generators. The options being offered, and the corresponding terms, are as follows:

Option 1: Missouri Generator Four Year Toll

Time Periods	Capacity	Capacity Price ($/kWmo)
June 1, 2001 - September 30, 2001	320 MW	$6.20
January 1, 2002 - May 31, 2005	200 MW	$6.40
April 1 - September 30, 2002-2005	300 MW	$8.00

Option 2: Missouri Generator Fifth Year Extender

Time Periods	Capacity	Capacity Price ($/kWmo)
June 1, 2005 - May 31, 2006	200 MW	$7.50
June 1 - Sept 30, 2005	300 MW	$9.00
Apr 1 - May 31, 2006	300 MW	$9.00

Option 3: Batesville, Mississippi 2001 Unit Contingent Call Option

Time Period	Capacity	Capacity Price ($/kWmo)
June 1, 2001 - September 30, 2001	180 MW	$7.90
October 1, 2001 - December 31, 2001	200 MW	$0.50

Summary

The Options have been designed to meet MPS's capacity requirements as understood by APC. Collectively, the options provide 500 MW of capacity to MPS during the all summer seasons of April 1 through September 30, and a minimum 200 MW of capacity to MPS during the winter season of October 1 through March 31.

Please note that all energy and capacity values are quoted at the appropriate generator bus.

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3 8 90
14,8 8 0

ENERGY PRICE

Options 1 and 2: Missouri Generator Four Year Toll and Fifth Year Extension

MPS will be required to arrange for and buy all gas associated with start ups, shutdowns, and operation of the power station under a tolling arrangement. The cost of conversion will be $1.25/MWh, escalated from 1998 at the Producer Price Index.

Time Periods	Guaranteed Heat Rate (MMBtu (HHV)/MWh)*
June 1, 2001 - September 30, 2001	Approximately 11.1
All other summer periods	Approximately 7.0
All other winter periods	Approximately 7.8

* The final Guaranteed Heat Rate will be based on equipment manufacturer's design. The values for the first two Time Periods assume full load operation. Operation at part load will result in a higher (worse) heat rate.

Option 3: Batesville, Mississippi 2001 Unit Contingent Call Option

Time Periods	Price
All periods	$200.00/MWH

AVAILABILITY

Missouri Generator

APC or its designated affiliate will be responsible for maintaining the unit in accordance with equipment manufacturer recommendations. APC will guarantee the availability of the generator to MPS at a monthly average rate of 94%. The Capacity Price paid to APC will be reduced pro rata each month that availability is less than 94%.

Batesville, Mississippi Project

Please refer to APC's July 6, 1998 bid for information pertaining to operation and maintenance.

APC will guarantee a minimum availability of 93% each month after the unit achieves commercial operation.

SCHEDULING

Missouri Generator

The generator shall be fully dispatchable by MPS within the design limitations of the equipment manufacturer, to be determined, and consistent with prudent industry practices. The minimum run time shall be sixteen (16) hours and the plant may be started only once each day. MPS shall be responsible for nominating and scheduling gas to the pipeline header system to be constructed by APC or its affiliate. MPS will schedule energy by 10:00 AM CPT one business day prior to the day of the schedule. This pricing does not include the cost for firm gas transportation to the site.

Batesville, Mississippi Project

Scheduling requirements will be consistent with APC's July 6, 1998 bid with the exception that the minimum run time shall be sixteen (16) hours.

DELIVERY POINTS

Missouri Generator

APC shall deliver energy to the interconnection of the Missouri Generator with the MPS transmission system or any other MPS interface at APC's sole discretion. MPS agrees to enter into an interconnection agreement between itself and the company or partnership to be established that will own the power generator. This proposal includes a cost of $5,560,000 to make the transmission system upgrades required to interconnect the Missouri Generator to the MPS transmission system. The capacity charges contained in this proposal will be adjusted accordingly if this cost is changed. To the extent such upgrades need not be borne by APC or its designated affiliate, APC will reduce the Capacity Price to MPS for Option 1 and Option 2, such reduction to be pro rata. Likewise, to the extent such upgrades cost more than $5,560,000, APC will increase the Capacity Price to MPS for Option 1 and Option 2, such increase to be pro rata.

Batesville, Mississippi Project

See July 6, 1998 bid.

CONDITIONS PRECEDENT

Any agreement entered into between APC and MPS shall have certain conditions precedent to the effectiveness of the agreement, including but not limited to:

1. APC receipt of all required regulatory approvals, including Federal Energy Regulatory Commission.

2. UCU Board and management approval to develop, own and construct the Missouri Generator.

3. For the Missouri Generator, achieving financial close no later than December 1, 1999 unless such condition is waived by APC.

4. For the Batesville, Mississippi Project, acquisition of firm transmission service as directed by MPS.

5. Completion of construction and reaching commercial operation for both the Missouri Generator and the Batesville, Mississippi generators.

CONTRACT TERMINATION OPTIONS

APC proposes to provide MPS the option to terminate the contract under the following conditions:

I. The option to terminate is available for contract years beginning June 1, 2002. A contract year is defined as any 12 consecutive-month period beginning June 1 and ending May 31.

II. MPS must notify APC no later than March 1 prior to the first contract year for which the option is exercised. For example, MPS must notify APC no later than March 1, 2003 to terminate the contract beginning June 1, 2003.

III. The termination option cannot be exercised on partial contract years.

Option Pricing: MPS will pay APC an option premium for each month for which the termination option may be exercised. This premium is paid every month for which the termination option may be exercised irrespective of whether the option is exercised.

Option 1: Missouri Generator Four Year Toll

$0.90 per kW Month

Option 2: Missouri Generator Fifth Year Toll Adder

$0.90 per kW Month

10700 East 350 Highway
Kansas City, Missouri 64138

December 9, 1998

UTILICORP UNITED
ENERGYONE

Mr. Mike Jonegan
Director - Power Marketing
Aquila Power Corporation

Subject: Aquila Proposal dated November 30, 1998

Dear Mr. Jonegan:

Missouri Public Service (MPS) is in receipt of Aquila's modified proposal submitted in response to MPS' Request for Proposal issued May 22, 1998.

After preliminary review and analysis of Aquila's proposal, MPS has several questions and areas in which clarification is needed.

1. The capacity price quoted is based on a $32 million purchase price for the combustion turbines. What is the basis for the $32 million figure? That is: Is the price FOB plant site or factory? Does the price include all taxes? Does the price include spares? If the price of the combustion turbines increases 5%, what will be the resulting capacity price?

2. Option 3 is for purchase from Aquila's Batesville project. What will be the cost of transmission (including losses) from the project to the MPS system?

3. What heat rates will apply to purchases at levels less than full output of the facility?

4. The proposal states that MPS shall schedule energy by 1000 the previous business day. Under what conditions will MPS be able to schedule energy on short notice (less than 14 hours but greater than 1 hour)?

Please respond to the above questions at your earliest convenience.

Sincerely,

Frank A. DeBacker
V.P. - Fuel & Purchased Power
UtiliCorp Power Services

c: R. Holzwarth
J. McKinney

RCVD 12/22 0951

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AQUILA ENERGY

December 17,1998

Mr. Frank DeBacker
Missouri Public Service
10700 East 350 Highway
Kansas City, MO 64138

Subject: Proposal to Supply Capacity and Energy for Missouri Public Service - Revision regarding land

Dear Mr. DeBacker:

This letter is a revision to the proposal submitted November 30, 1998 regarding the land on which the proposed Missouri Generator would be located. In that proposal, APC stated that the proposal was contingent upon MPS leasing or selling this property to APC or its designated affiliate. APC hereby revises that letter to remove that contingency. In fact, APC or its designated affiliate will procure ownership of the land on which the Missouri Generator is proposed to be located. The APC proposal thereby does become contingent upon the ability of APC to procure that property, or rights to construct a power station on that property, no later than January 15, 1999.

Should you have any questions, please do not hesitate to contact me at (816) 936-8622.

Very truly yours,

Mike Jonagan
Director - Power Marketing
Aquila Power Corporation

cc: V.J. Horgan
Joe Gocke
David Stevenson
Rob Freeman
John McKinney

Rcvd 0923
12/22/98

Aquila Energy Marketing Corporation
10750 East 350 Highway
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Kansas City, MO 64138
Fax: 816-936-8775

AQUILA ENERGY

December 22, 1998

Mr. Frank DeBacker
V.P. Fuel & Purchased Power
UtiliCorp Power Services
10700 East 350 Highway
Kansas City, MO 64138

Dear Frank:

The following are Aquila Power Corporation's responses to the questions asked in your December 9, 1998 letter.

Question 1

The capacity price quoted is based on a $32 million purchase price for the combustion turbines. What is the basis for the $32 million figure? That is: Is the price FOB plant site or factory? Does the price include all taxes? Does the price include spares? If the price of the combustion turbines increases 5%, what will be the resulting capacity price?

Answer 1

The combustion turbine price of $32,000,000 per unit is current as of 11/30/98 based on a telephone quote (confirmed by fax) from both GE and Westinghouse solicited by Black & Veatch. This quote is specific to the Cass County project for both vendors.

The price includes standard terms and conditions which transfer title to the equipment to the Owner "Ex-Works" while risk of loss or damage remains with the vendor until arrival on board carrier at the nearest published accessible rail siding (for rail shipments) or on board carrier at the jobsite (for truck shipments).

The rail or truck freight from the factory is included in the $32,000,000 price.

The heavy haul from the rail siding to the plant site is NOT included in the $32,000,000 price.

There are NO taxes included in the $32,000,000 price.

There are NO spare parts included in the $32,000,000 price.

The Owner has incorporated an allowance for the heavy haul, taxes, and a major maintenance and spare parts program into the capacity price as bid.

The capacity price as bid is currently variable and directly proportional to the price of the combustion turbines. Any savings or increases resulting from a "committed price" (secured by a down payment) for the combustion turbines will be passed through to the capacity price without any markup by APC.

Every $1,000,000 increase in the $32,000,000 combustion turbine price quoted in the proposal will result in the quoted capacity price increasing $0.055 per kWmo for Option #1 only. Thus, a 5% increase in the turbine price would be $1,600,000, resulting in a quoted capacity price increase for Option #1 equal to $0.088 per kWmo.

Question 2

Option 3 is for purchase from Aquila's Batesville project. What will be the cost of transmission (including losses) from the project to MPS system?

Answer 2

It is our understanding that you no longer have an interest in Option 3.

Question 3

What heat rates will apply to purchases at levels less than full output of the facility?

Answer 3

	MW Output	Heat Rate (MMBtu/MWh)
Simple Cycle		
	320	11.1
	240	12.2
	161	13.8
	160	11.1
	80	12.2
Combined Cycle	500	7.0
	375	7.5
	251	8.3
	250	7.2
	200	7.8
	150	8.2
	100	9.5

NOTE: Only the base load heat rates as quoted are guaranteed for this proposal and these are subject to the final plant design to be specified in the Engineering, Procurement, and Construction Contract. Part load heat rates are rarely guaranteed by vendors without payment of additional premium. No such part load guarantees are included in the capacity price as bid.

Part load heat rates will vary significantly as a function of the method of load reduction (increase) on the combustion turbines and the timing point at which a combustion turbine is removed (added) from service.
The final method and timing will generally be defined by the operating (emissions) restrictions included in the Air Emissions Permit.

Question 4

The proposal states that MPS shall schedule energy by 1000 the previous business day. Under what condition will MPS be able to schedule energy on short notice (less than 14 hours but no sooner than 4 hours)?

Answer 4

Attached please find a revised page 3 from our November 30, 1998 proposal. These prices reflect a minimum of four (4) hours notice to schedule energy. All other terms and conditions would remain the same.

Please let me know if you have any additional questions.

Sincerely,

Mike Jonagan
Director - Power Marketing
Aquila Energy Corporation

cc: V.J. Horgan
Joe Gocke
David Stevenson
Rob Freeman
John McKinney

CAPACITY BIDS

APC proposes to meet MPS' capacity requirements by giving MPS the option to select capacity for certain time periods from the designated generators. The options being offered, and the corresponding terms, are as follows:

Option 1: Missouri Generator Four Year Toll

Time Periods	Capacity	Capacity Price ($/kWmo)
June 1, 2001 - September 30, 2001	320 MW	$6.40
January 1, 2002 - May 31, 2005	200 MW	$6.40
April 1 - September 30, 2002-2005	300 MW	$8.00

Option 2: Missouri Generator Fifth Year Extender

Time Periods	Capacity	Capacity Price ($/kWmo)
June 1, 2005 - May 31, 2006	200 MW	$7.50
June 1 - Sept 30, 2005	300 MW	$9.00
Apr 1 - May 31, 2006	300 MW	$9.00

Option 3: Batesville, Mississippi 2001 Unit Contingent Call Option

Time Period	Capacity	Capacity Price ($/kWmo)
June 1, 2001 - September 30, 2001	180 MW	$8.90
October 1, 2001 - December 31, 2001	200 MW	$0.75

Summary

The Options have been designed to meet MPS's capacity requirements as understood by APC. Collectively, the options provide 500 MW of capacity to MPS during the all summer seasons of April 1 through September 30, and a minimum 200 MW of capacity to MPS during the winter season of October 1 through March 31.

Please note that all energy and capacity values are quoted at the appropriate generator bus.

Aquila Energy Marketing Corporation
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Fax: 816-936-8775

January 6, 1999

AQUILA ENERGY

Mr. Frank DeBacker
Missouri Public Service
10700 East 350 Highway
Kansas City, MO 64138

Subject: APC Proposal of November 30, 1998 to Supply Capacity and Energy for Missouri Public Service - Identification of Legal Entity That Will Develop Missouri Generator

Dear Mr. DeBacker:

Pursuant to our conversation, this letter serves to identify the specific legal entity that will develop, construct and own the Missouri Generator that is the subject of the referenced Proposal.

Aquila Energy Corporation has established a wholly owned subsidiary, MEP Holdings, Inc. d/b/a Merchant Energy Partners, that is engaged in energy asset acquisitions and development through special purpose subsidiary companies. The Missouri Generator will be owned by such a special purpose entity, to be established upon notification from MPS of the awarding of the project to Aquila. This will also be the contracting entity with MPS on the project.

Accordingly, from this point forward all communications on this project will be from Merchant Energy Partners' management.

Please let me know if you have any questions. Thank you.

Sincerely,

Mike Jonagan
Director - Power Marketing
Aquila Power Corporation

cc: Max Sherman
Laurie Hamilton

Merchant Energy Partners
10750 East 350 Highway
P.O. Box 11739
Kansas City, MO 64138
816-936-8712
Fax: 816-936-8724
Pager: 800-431-7491

AQUILA ENERGY

January 7, 1999

Max A. Sherman
Senior Director
Origination

Mr. Frank A. DeBacker
Missouri Public Service
10700 East 350 Highway
Kansas City, Missouri 64138

Subject: Power Supply RFP for Missouri Public Service (MPS)

Dear Frank:

This letter responds to several of the issues you raised in a meeting with Merchant Energy Partners (MEP) personnel on January 4, and additionally in a conversation with me this morning. This letter attempts to clarify, on those points, the rough draft contract we provided for MPS review on December 24, 1998. In particular:

1. Assurances on the Summer 2001 Commercial Operation Date.

   a. A detailed project schedule, which we are prepared to provide for your review, indicates MEP can achieve a mid-summer 1999 financial closing date and issuing a Full Notice to Proceed to the EPC contractor. The present schedule calls for that on July 29. We believe, for staged construction involving simple cycle commercial operation to meet a June 1, 2001 deadline, there is easily 3 months of margin in that schedule (e.g, the June 1, 2001 date can be achieved if Full Notice to Proceed were as late as October 1999).

   b. We are still considering your liquidated damages question for the summer of 2001.

   c. We assume the January 2002 commercial operation date for the plant in combined cycle configuration is less of an issue than Summer 2001, and have therefore not focused on that item.

2. Scheduling flexibility. MEP is willing to revise Article 6 – Scheduling to provide for the following deal points in response to your articulated need for scheduling flexibility:

a. Day-ahead scheduling submitted by MPS to MEP.

b. MEP can relax the minimum run time of 16 hours; we are considering a minimum of eight (8) hours when committing the plant in combined cycle mode, and less in simple cycle mode for the summer of 2001.

c. One start per day, unless we can agree in the PPA on a charge to compensate MEP for the accelerated and additional associated operating and maintenance expense. MEP will also need an annual cap on the number of starts.

d. Ability of MPS to pre-schedule different hourly values over the schedule, subject to equipment operational constraints as determined by the OEM and EPC contractors, and the air permit. This obviously affects the heat rate (discussed below).

e. Ability of MPS to change the schedule in the event MPS loses a resource serving its' native load, including economy energy resources. Schedule changes by MPS would be made consistent with the scheduling requirements of the Southwest Power Pool reserve sharing program, in which reserves are provided through the end of the next half hour. MEP would therefore receive between 31 and 59 minutes' notice of any schedule change, and MPS would therefore receive the additional power at the end of that period to replace the SPP reserves, subject to the generating equipment being on line.

f. We have your request for Automatic Generation Control under review, and want to have further discussions with MPS to resolve this item.

3. Emission Allowances. Per our discussion on January 4 concerning Article 7 of the draft PPA, any emission allowances required to supply energy from the plant to MPS will be provided for by MPS.

4. Part-load heat rate curves -- Estimated values are provided. These are necessarily subject to final selection of the OEM, associated final cycle design, and assumed heat rate degradation between scheduled maintenance.

5. Minimum load requirements -- Estimated values for both simple and combined cycle operation, as expected to be constrained by the Missouri air permit, are (a) ~105 MW

net for simple cycle operation (one combustion turbine on line); (b) ~105 MW net for one combustion turbine on line with heat rejection to the condenser, which is not a normal operating condition; (c) ~155 MW net in combined cycle operation with one combustion turbine on line and steam from the HRSG to the steam turbine; and (d) ~318 MW net in combined cycle operation with both combustion turbines on line and steam from the HRSG to the steam turbine. These estimates are based on a 99°F summer day.

Other issues can be negotiated next week if MEP is awarded the supply contract. Should you have any questions, please do not hesitate to call.

Very truly yours,

Max Sherman
Project Manager

Enclosure

cc: V.J. Horgan
Joe Gocke
Rob Freeman
Becky Sandring
John McKinney

Estimate

Estimated Heat Rates -- "F" Technology Turbines (2x1)

EPC Guaranteed Values -

From B+V Revised bid dated 11/30/98

	99F Unfired	54F Unfired
Net Power (kw)		
GE	464,700	498,220
Westinghouse	486,460	518,110
Advantage W =	21,760	19,890
Net HR (btu/Kwhr) HHV		
Westinghouse	6,971	6,951

Part Load Heat Rates -

Percent Plant Load	100%	90%	80%	70%	60%	50%	40%	30%	20%
(From B+V performance curve 12/11/98 TYPICAL)									
HR Adjustment Factor	1	1.015	1.045	1.08	1.12	1.185	1.065	1.16	1.32
99F Unfired -	7041	7146	7356	7609	7886	← 1% Degrade			
Westinghouse									
Heat Rate (btu/kwhr)	**6,971.0**	7,075.6	7,284.7	7,528.7	7,807.5	8,260.6	7,424.1	8,086.4	9,201.7 ← New & Clean
Load (kw)	486,460	437,814	389,168	340,522	291,876	243,230	194,584	145,938	97,292
54F Unfired -	20	20.3	20.9	21.6	22.4	← 1% Degrade			
Westinghouse									
Heat Rate (btu/kwhr)	6,951.0	7,055.3	7,263.8	7,507.1	7,785.1	8,236.9	7,402.8	8,063.2	9,175.3
Load (kw)	518,110	466,299	414,488	362,677	310,866	259,055	207,244	155,433	103,622

NOTE: The air permit is expected to limit sustained operation of each CT to about 65% load except for startups. Management of this operating constraint will modify the above values.

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AQUILA ENERGY

January 12, 1999

Max A. Sherman
Senior Director
Origination

Mr. Frank A. DeBacker
Missouri Public Service
10700 East 350 Highway
Kansas City, Missouri 64138

Subject: Power Supply RFP for Missouri Public Service (MPS)

Dear Frank:

This letter follows up on discussions between MPS and Merchant Energy Partners (MEP) personnel on January 8, 1999 and your e-mail to me on January 11 on certain transmission issues. We are also choosing to enhance our proposal, as provided below, with the expectation that there won't be another round where bidders will be given another opportunity to revise their proposals.

We also wish to advise that MEP has taken a number of steps to advance our project, since our formal proposal was submitted, to assure timely completion. These include, but are not limited to:

1. We have signed an agreement to purchase the plant site near Pleasant Hill, Missouri. Closing on the transaction is scheduled for Friday, January 15, 1999.
2. MEP has filed the air permit application with the Missouri Department of Natural Resources/Air Quality Division. We expect approval in early June. Approval at the end of the statutory review period does not impact our planned date for issuing a Final Notice to Proceed to the EPC contractor.
3. MEP expects to have a signed Memorandum of Understanding, within the next few days, with our chosen EPC contractor.
4. Similarly, MEP expects to have a letter of intent within the next 2 or 3 weeks with our selected combustion turbine manufacturer, including a committed reservation payment for equipment supply. You will note in Section II.A below that we have provided MPS a cap on combustion turbine prices.

With regard to the issues you have identified in the last few days, we have the following responses:

I. MPS Questions on Transmission Upgrades.

Under the section titled "Delivery Points", the proposal states " The proposal includes a cost of $5,560,000 to make the transmission upgrades required to interconnect .....".

A. What upgrades are included in the $5.6 M figure?

Response: Based on discussions with MPS Transmssion, MEP included $3.56 million of "contribution in aid of construction" in the capacity price to assist MPS in completing a new 161 kV circuit from Pleasant Hill to Belton South as the preferred system upgrade. MEP understands this upgrade will significantly improve the MPS 161 kV system in addition to the 69 kV system in the northern Cass County area.

B. Does the $5.6 M figure include the cost of connecting your proposed facility to the MPS substation at Pleasant Hill?

Response: Yes. The cost to expand the existing 161 kV substation and interconnect the proposed 500 MW plant (from the high side of the step up transformer) to the MPS system has been estimated by MPS Transmission to be $2 million. This cost is included in the capacity price as bid, and is part of the $5.6 million cited above. The interconnect costs have been estimated conservatively, but are not firm at this time.

C. What is the impact on the quoted capacity price in $/kW-mo. of the $5.6 M figure?

Response: Per our conversation late yesterday, the impact should refer to $3.56 million of system upgrade costs. That comprises $0.20/kW-month in the capacity price. If system upgrades will be paid for by MPS without the contribution in aid of construction, the capacity price will be reduced accordingly.

II. Risk Mitigation and Value Enhancement

With the revisions noted below, MEP has mitigated certain risks which MPS has identified in our discussions over the last week; these revisions have significantly increased the value of our proposal:

A. Capacity price contingent on combustion turbine pricing. MEP hereby revises our December 22 , 1998 letter, Answer 1 to Question 1. Combustion turbine pricing in our contract with MPS shall not exceed a $0.5 million/turbine increase over the quoted $32,000,000 price. Pricing of that equipment will therefore use the $32,000,000 price (including rail or truck freight from the factory but excluding taxes and the heavy haul

from the rail siding to the plant), all as described in our December 22 letter, with any price adjustments to MPS for that scope capped at $0.5 million/turbine.

A. Commitments on In-Service Date. MEP will commit to a June 1, 2001 in-service date for the combustion turbines if MEP and MPS can agree on the dates for : (1) MPS award to MEP; (2) execution of the Power Purchase Agreement; (3) filing date by MPS for its request with the Missouri Public Service Commission for approval of the PPA, and (4) date for obtaining such approval;. If MEP fails to meet the June 1, 2001 date for reasons unrelated to items (1) through (4) above, MEP will pay MPS liquidated damages in the amount of $10,000/day, in addition to suspension of the capacity payment until simple cycle project completion, for the duration and to the extent (e.g., pro rata) simple cycle capacity is not provided to MPS.

C. Deadline for Corporate Approvals. Please be advised we have obtained Aquila Energy senior management approval for this transaction. Board of Directors approval is scheduled for February 4, 1999.

D. Heat Rate Guarantees. MEP offers to pass through to MPS the benefits of our negotiation with the OEM, less a degradation allowance. MEP will be able to offer definitive heat rate guarantees when we've locked in equipment supply from the selected manufacturer. We're talking about equipment coming off a very limited number of production lines, with very close heat rate curves from the major OEMs, so we don't see this as a substantive issue.

E. Reduction in Minimum Schedules taken by MPS. MEP is willing to consider lowering the minimum schedule taken by MPS, which we believe to have significant value to MPS. However, an initial review of the matter indicates there is a cost to MEP for allowing this flexibility, for which we'll need some offsetting compensation or value. We suggest a meeting to discuss this at your convenience. If we can make this work, it will require that MEP retain the right to supply power to MPS from off-system resources, in order to minimize the risk transferred from MPS to MEP.

Additionally, MEP would enjoy discussing with you the opportunity to provide additional value to MPS by providing the Fixed Fuel Capacity Reservation and associated transportation required to support your schedule.

F. Reduction in capacity price. MEP hereby reduces its capacity price, for the term of the PPA and in addition to the reduction identified in Item I.C above associated with transmission system upgrades, by thirty cents per kilowatt-month ($0.30/kW-month).

Capacity pricing is therefore, including the transmission-related price adjustment identified above, as follows:

Term	Quantity	Capacity Price
June 1, 2001 through September 30, 2001	320 MW	$5.70/kW-month
January 1, 2002 through May 31, 2005	200 MW	$5.90/kW-month
April 1, 2002 through September 30, 2002	300 MW	$7.50/kW-month
April 1, 2003 through September 30, 2003	300 MW	$7.50/kW-month
April 1, 2004 through September 30, 2004	300 MW	$7.50/kW-month
April 1, 2005 through May 31, 2005	300 MW	$7.50/kW-month

In sum, our revised pricing reflects a $0.50/kW-month reduction across the board, including the $0.20/kW-month transmission price reduction described in Section I.C above.

Other issues can be negotiated when MEP is awarded the supply contract. We look forward to bringing the bidding process to a prompt conclusion. Should you have any questions, please do not hesitate to call.

Very truly yours,

Max Sherman
Project Manager

January 15, 1998

Mr. Max A. Sherman
Merchant Energy Partners
10750 East 350 Highway
Kansas City, MO 64138

Subject: **Merchant Energy Partners Proposal**

Dear Max:

The purpose of this letter is to inform you that the Merchant Energy Partners' (MEP) proposal of November 30, 1998 (including the revisions of December 17 & 22, 1998 and January 6, 7, & 12, 1999) has been selected as the preferred supply side resource in Missouri Public Service's (MPS) 1998 Integrated Resource Planning Process.

UtiliCorp Power Services (UPS) wishes to enter into final contract negotiations on behalf of MPS as soon as MEP is prepared to do so.

Please be advised that the final contract between MPS and MEP is subject to approval by both the Missouri Public Service Commission and the Federal Energy Regulatory Commission.

Should you have questions, feel free to contact me at (816) 936-8639.

Sincerely,

Frank A. DeBacker
Vice President, Fuel & Purchased Power

c: Robert W. Holzwarth
John W. McKinney

bcc: Robert K. Green

RCVD @ 3PM 1/20/99

Merchant Energy Partners
10750 East 350 Highway
P.O. Box 11739
Kansas City, MO 64138
816-936-8712
Fax: 816-936-8724
Pager: 800-431-7491

AQUILA ENERGY

January 20, 1999

Max A. Sherman
Senior Director
Origination

Mr. Frank A. DeBacker
Missouri Public Service
10700 East 350 Highway
Kansas City, Missouri 64138

Subject: Proposed power supply contract for Missouri Public Service (MPS)

Dear Frank:

This letter acknowledges receipt of your letter of January 15, 1999, advising that Merchant Energy Partners' proposal has been selected as the preferred supply side resource, and also expressing the wish to enter into final contract negotiations as soon as MEP is prepared to do so.

Enclosed please find a Power Sales Agreement that we propose be the basis for final negotiations. Two versions are provided – a blackline comparison against the rough, unscrubbed draft provided December 24, 1998, and a clean version. Please be advised that certain appendices will need to be developed; I anticipate this to be a joint effort.

Per previous conversations, MEP proposes to start negotiations on January 25, 1999, in Raytown. Would you please advise, at your earliest convenience, if this date is acceptable.

Very truly yours,

Max Sherman
Project Manager

cc: V.J. Horgan
Steve Arnold
Joe Gocke
Rob Freeman
Dave Kreimer
Becky Sandring
John McKinney
Laurie Hamilton

Aquila Energy
10750 East 350 Highway
P.O. Box 11739
Kansas City, MO 64138

AQUILA ENERGY

February 8, 1999

Mr. Frank DeBacker
UtiliCorp Power Services
10750 East 350 Highway
Kansas City, MO 64138

Dear Frank:

Thank you for your time last week to discuss the terms and conditions in the draft purchases power agreement between Aquila Energy Marketing Corporation and Missouri Public Service. Based on that meeting, AMEC proposes the following changes to the draft agreement.

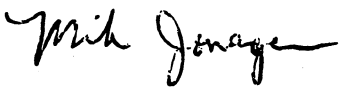
- Replace Section 2.1.1 (a) with;
  Transmission Service Agreements. Complete execution of final contractual arrangements for the delivery of power from Batesville Unit #1 to MPS within 90 days following the Regulatory Approval Date.
- Replace Section 5.2 with;
  Energy Charge. The price for all energy delivered by AEMC to MPS under this Agreement is $100.00 MWh plus the actual cost of transmission losses and ancillary services for the delivery of power to MPS for the specified firm path from Batesville Unit #1 to MPS as set forth in Section 5.5. In addition, for each start-up of the Designated AEMC Resource requested by MPS, MPS shall reimburse AEMC for a pro-rata share of start-up costs. Such reimbursement shall equal MPS's pro-rata share of AEMC's actual cost for 3,000 MMBtu of natural gas at the time of each start-up.
- Replace Section 7 with;
  Transmission Service. AEMC shall request firm transmission service from Batesville Unit #1 across the Entergy System to Ameren, and across the Ameren System to MPS, to supply the capacity and associated energy from Batesville Unit #1 to the Points of Delivery under this Agreement. In the event Entergy or Ameren refuse AEMC's request for firm transmission service, AEMC shall evaluate alternative firm transmission paths. If an alternative path can be obtained, AEMC shall purchase the path.

If AEMC is unable to obtain firm transmission service from Batesville Unit #1 to MPS by the date provided in Section 2.1.1 (a), either party may at its sole discretion terminate this Agreement. The cost of transmission service shall be billed to and reimbursed by MPS as provided in Section 5.5.

- All references to Aquila Power Corporation, Aquila, APC, etc. will be changed to AEMC.
- All the headings are titled as "ARTICLE" but are referred to as Sections in the text. All headings will be retitled as SECTION 1, SECTION 2, etc.

Please contact me as soon as possible to discuss these proposed changes.

Sincerely,



Mike Jonagan
Regional Director, Power Marketing

cc: V. J. Horgan
R. Freeman
T. Wertz