

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO**

**DOCKET NO. 02S-594E**

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**RE: THE INVESTIGATION AND SUSPENSION OF TARIFF SHEETS FILED BY  
AQUILA, INC., DOING BUSINESS AS AQUILA NETWORKS-WPC, WITH ADVICE  
LETTER NO. 579.**

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**SETTLEMENT AGREEMENT**

Aquila, Inc., doing business as Aquila Networks-WPC, ("Aquila"), the Trial Staff of the Colorado Public Utilities Commission ("Trial Staff"), the Colorado Office of Consumer Counsel ("OCC"), the Fountain Valley Authority, the Board of Water Works of Pueblo, the City of Canon City (collectively the latter three are referred to as "Public Intervenors"), and the Cripple Creek & Victor Gold Mining Company ("CC&V") (together referred to as "Parties"), by and through their respective undersigned counsel, and for good and valuable consideration, herewith enter into this Settlement Agreement ("Settlement Agreement") to settle all disputed issues that have arisen or could have arisen in this docket regarding Advice Letter No. 579 and accompanying tariffs (commonly referred to as "Phase I" of Aquila's 2002 electric general rate case). The parties respectfully submit that this Settlement Agreement results in a fair disposition of the disputed issues in this docket, that the Phase I revenue requirement and rate revisions for all customer classes that result from this Settlement Agreement are just and reasonable, and that, therefore, the Settlement Agreement should be approved by the Commission.

**I. PROCEDURAL HISTORY**

1. On October 15, 2002, Aquila filed its Advice Letter No. 579 and accompanying tariffs proposing a general increase in rates affecting all classes of service. On that same date, Aquila filed its supporting Direct Testimony and Exhibits. The filing proposed a "roll-in" of actual energy costs to base energy rates and a General Rate Schedule Adjustment ("GRSA")

rider of a positive 18.27%. The positive 18.27% rider and the “roll-in” of actual energy costs would have resulted in an annual increase in Aquila’s base electric rates of \$23,402,694, based upon the revenue requirements for the test year ending June 30, 2002 and the use of year-end rate base. The combined effect of the energy cost “roll-in” and the GRSA rider would have resulted in a 21.8% rate increase overall for Aquila and varying rate increases for the respective customer classes. The revenue increase as filed would have enabled Aquila the opportunity to earn a rate of return on equity of 13.25% and an overall rate of return on rate base of 10.194%.

2. On October 15 and 22, 2002, Aquila caused a Notice concerning the filing of these tariffs to be published in *The Denver Post* and in *The Rocky Mountain News*, newspapers of general circulation in Aquila's electric service area. On October 16 and 23, 2002, Aquila caused a Notice concerning the filing of these tariffs to be published in *The Pueblo Chieftain*, a newspaper of local circulation in Aquila's electric service area. An Affidavit of Publication of Notice was filed on December 20, 2002.

3. This docket was initiated on November 6, 2002, when the Commission issued its Order Suspending Effective Date of Tariffs and Notice of Hearing, scheduling a one-day hearing for March 7, 2003 and certain testimony filing dates. *See*, Decision No. C02-1268. By subsequent order the suspension period was extended to June 13, 2003. *See*, Decision No. C03-0241. At the request of the Parties, a new procedural schedule was adopted, including evidentiary hearings on April 15-18 and 21-23, 2003, and dates for filing rebuttal testimony and statements of position; a date for filing surrebuttal testimony was added later. *See*, Decision Nos. C03-0119, R03-0115-I, R03-0228-I and R03-0353-I. On April 1, 2003, the Commission held a hearing in Pueblo, Colorado, for the purpose of taking testimony from Aquila’s electric customers. The hearings set for April 15-18, 2003 were vacated by Decision No. R03-0383-I to allow the Parties time to prepare and to file the written Settlement Agreement.

4. Trial Staff, the OCC, the Public Intervenors, and the CC&V filed interventions or entries of appearance, as the case may be. During the prehearing phase of this docket, the Parties have actively engaged in prehearing investigation, including through audit requests, formal data requests, informal exchanges of information, informal discussions, and settlement negotiations.

5. On February 18, 2003, the Trial Staff, the OCC, the Public Intervenors, and the CC&V filed Answer Testimony and accompanying Exhibits. The proposals of these parties included the OCC's proposed revenue increase of \$9,834,378 and rate of return on equity of 9.78%; the Trial Staff's proposed revenue increase of \$14,189,205 and rate of return on equity of 10.8%; and the CC&V's positions that would have reduced the proposed revenue increase to about \$13,800,000 with a rate of return on equity of 10.0%. While the Public Intervenors did not present a comprehensive case on all revenue requirement issues, they did propose several downward adjustments of approximately \$7.6 million from the additional annual revenues requested by Aquila.

6. Aquila filed and served its Rebuttal Testimony and Exhibits on March 28, 2003.

7. Over the past several weeks, Aquila and the other parties have spent substantial time and efforts negotiating to settle this docket. On April 10, 2003, the Parties reached a settlement in principle resolving all contested issues in this Phase I docket. As a result of a joint motion filed by the Parties, the hearings set for April 15-18, 2003 were vacated by Decision No. R03-0383-I to allow the Parties time to prepare and to file this written Settlement Agreement. This Settlement Agreement memorializes the negotiated settlement and stipulations among the Parties. As a result of the settlement negotiations, all Parties agree, as set forth below, that all disputed issues in this Phase I docket have been resolved to the satisfaction of the Parties and that the Phase I revenue requirement and rate increases for all customer classes agreed to in this Settlement Agreement are just and reasonable.

## **II. THE SETTLEMENT**

1. **Revenue Requirement Increase.** As previously noted, Aquila requested \$23.4 million in additional annual revenues in this Phase I filing. As a result of the settlement, the Parties agree that the annual revenue requirement increase in Phase I of this docket will be \$16 million.

2. **Regulatory Principles Adopted in the Settlement.** For purposes of settlement, the \$16 million revenue requirement increase consists of the following specific regulatory principles and components. (Attachment A to this Settlement Agreement consists of spreadsheets that provide for the Commission's review of the details of the derivation of the \$16 million revenue requirement increase.)

- a) A fair and reasonable rate of return on equity for Aquila in this docket is 10.75%.
- b) Aquila's WPC divisional capital structure is adopted, consisting of 47.50% equity and 52.50% debt, and the Trial Staff's cost of debt of 7.55% is adopted, producing an overall cost of capital or rate of return on rate base of 9.07%. [Attachment A, Schedule 4.]
- c) Average rate base, instead of year-end rate base as proposed by Aquila, is adopted in the settlement. Under this method, the 13-month average of month-end balances is used for all rate base items. To the extent possible, *pro forma* adjustments and unusual items occurring during the test year are made using a 13-month average of month-end balances. In cases where the 13-month data is not available for *pro forma* adjustments the sum of the prior year-end balance and the test year-end balance divided by two is used. [Attachment A, Schedule 2.]

- d) The average rate base is adjusted to exclude the Centel acquisition premium proposed by Aquila and the deferred taxes associated with the acquisition premium, as proposed by the OCC. [This adjustment is shown in Attachment A, Schedule 2.]
- e) The Parties agree the \$16 million revenue requirement increase includes adjustments to Holcim revenue and capacity. [Attachment A, Schedule 3].
- f) The Parties agree that the overall \$16 million revenue requirement increase will be implemented by a uniform 15.60% Phase I increase for each customer class, as described below in Paragraph 7.
- g) The Parties further agree that the \$16 million revenue requirement increase includes the costs of certain out-of-period purchases of replacement capacity that Aquila currently has under contract. In its initial filing in this docket, Aquila requested \$6,091,800 in out-of-period capacity adjustments. For purposes of the Settlement Agreement, the Parties agree to include \$5,061,139 in out-of-period capacity costs and exclude \$1,030,661 in out-of-period capacity costs. [\$6,091,800 minus the agreed upon adjustment of \$1,030,661 in Attachment A, Schedule 3]. The excluded \$1,030,661 of costs corresponds to 11.4 MW of out-of-period capacity of the Aquila Networks-WPK displacement contract with Western Area Power Administration, and is 95% of the cost. The included \$5,061,139 corresponds to 33 MW of capacity purchased through Aquila's contract with Public Service Company of Colorado and 0.6 MW of capacity purchased through Aquila's contract with Aquila Networks-WPK.

- h) The Parties agree that the \$16 million revenue requirement increase excludes Aquila's proposed St. Joseph Light & Power acquisition savings adjustment. [Attachment A, Schedule 3.]
- i) The Parties agree that the depreciation associated with the Western Area Power Administration's Canon West Substation construction is 60 years as proposed by the Trial Staff. [Attachment A, Schedule 3.]
- j) The Parties agree that Aquila shall not be permitted to make its proposed depreciation changes. [Attachment A, Schedule 3.]
- k) The Parties agree that Aquila shall not be permitted to annualize property taxes. [Attachment A, Schedule 3.]
- l) The Parties agree that Aquila shall only use actual expenditures for any income statement adjustment related to homeland security. [Attachment A, Schedule 3.]
- m) The Parties agree that Aquila is authorized to earn on its proposed Pueblo Cooling Towers construction, less the \$105,000 reduction included in this docket. [Attachment A, Schedule 2.]

3. **Incentive Cost Adjustment ("ICA").** Currently, the ICA tariff contains a 50/50 sharing mechanism that permits Aquila to recover from or credit to customers 50% of fuel and purchased energy cost changes above or below its base energy rate, based upon a historical test year of September 1<sup>st</sup> through August 31<sup>st</sup>. The ICA tariff does not permit recovery of any purchased power demand costs. Instead purchased power demand costs are recovered through base rates. A revised ICA rider, to adjust rates to recover fuel and purchased energy costs, is filed each year on October 1<sup>st</sup> and the approved costs are recovered during the next year from November 1<sup>st</sup> through October 31<sup>st</sup>. (*See, Aquila's Colorado Electric Tariff, Sheets 89-91.*)

a) In this rate case, Aquila proposed, and the Parties agree as part of this Settlement Agreement, to adjust actual energy costs included in base energy rates from \$16.72 per MWH to \$21.54 per MWH.

b) The Parties further agree to permit Aquila to revise its ICA sharing mechanism prospectively to 75% customers/25% Aquila, in order to allow Aquila to recover from or credit to customers 75% of the fuel and purchased energy cost changes recovered in its ICA tariff. The parties agree that the 75%/25% ICA revision will be effective prospectively upon the effective date of the Commission's decision approving the rate changes stipulated in this Settlement Agreement. The Parties further agree that the ICA fuel and purchased energy costs incurred by Aquila up to the effective date of the rate changes proposed in this Settlement Agreement shall continue to be shared on a 50%/50% basis with Aquila's customers. The accounting for the prior (50%/50%) and new (75%/25%) cost sharing will be used for the appropriate time periods in the next regularly scheduled ICA reconciliation filing that Aquila submits to the Commission.

4. In all rate case filings that Aquila may make in the future, Aquila agrees to exclude from rate base construction work in progress ("CWIP") for plant that is not complete and in service at the end of the given test year.

5. As part of this Settlement Agreement, Aquila agrees to discuss collaboratively with the Trial Staff, the OCC, and any other parties that may be interested a quality of service plan for Aquila's electric operations in Colorado. The goal of this collaborative effort is to develop a quality of service plan tailored to Aquila. Aquila shall file an application with the Commission on or before January 31, 2004, for approval of its plan.

6. Aquila agrees to file a "limited rate case" using a test year subsequent to the test year in this case (i.e., no overlap of the test year). Aquila agrees that when such rate case is filed

it will not request any departure from the regulatory principles set forth in Paragraph II.2 above and the Commission's final decision in this docket. Such limited rate case filing will be pursuant to Colo. Rev. Stat. § 40-6-111 and applicable Commission rules.

(a) Subject to the foregoing, the Parties agree not to object or challenge by motion to dismiss Aquila's filing of a subsequent limited rate case on procedural or legal grounds. However, the other Parties in this docket reserve all of their rights to argue, present, and support positions on any issue, monetary amounts, data, regulatory principle, or numbers filed in or relevant to the limited rate case filing, even if different than those to which the Parties have agreed to in this Settlement Agreement.

(b) Aquila agrees to submit its limited rate case using as a test period the 12 months ending no earlier than August 31, 2003. Aquila will annualize the \$16 million revenue requirement increase resulting from this Settlement Agreement for the test year used in the limited rate case filing.

(c) Aquila agrees to file its limited rate case with the Commission no later than December 31, 2003. Aquila further agrees to provide each of the Parties with a complete copy of such filing, within a reasonable time after it is filed with the Commission.

7. The \$16 million revenue increase will be collected through a uniform revenue increase of 15.60% for all customer classes. The development of the uniform revenue increase is shown on Attachment B to this Settlement Agreement and is calculated in the following manner. First, the revenue increase for each class resulting from the roll-in to base energy rates of \$4.82 per MWH is determined. This roll-in corresponds to the increase in the ICA base from \$16.72 per MWH to \$21.54 per MWH and results in an increase of one-half of that amount, or \$2.41 per MWH, because the ICA presently recovers 50% of the ICA costs above the \$16.72 base. Second, the balance of the revenue increase to produce \$16 million overall to Aquila and to



produce a 15.60% Phase I increase for each customer class is determined. The GRSA factors applicable to base rates for each customer class are set forth on line 19 of Attachment B. These Phase I rate revisions are intended to be in effect only until the Phase II rates are in effect pursuant to the final Phase II decision.

8. As a result of the settlement in this case and the agreed method to allocate the revenue increase to the customer classes, typical residential electric customers using 579 KWH will see an increase of \$6.83 on their monthly bills, while typical small business electric customers using 5,520 KWH per month will see an increase of \$49.00 per month. Each of these monthly increases in the average residential and commercial bills is equal to an increase of 15.60%.

9. Aquila intends to file Phase II of this rate case by September 1, 2003, but in any event, absent Commission authorization, Aquila shall file Phase II of this rate case no later than October 31, 2003. Aquila agrees to work with the Trial Staff on the timing of the Aquila Phase II filing to minimize the burden on the Parties and counsel that will also be working on Public Service Company of Colorado's Phase II filing that is expected to be filed in October or November 2003.

10. The Parties agree that the uniform 15.60% Phase I increase for each customer class and the approval of this Settlement Agreement is just, reasonable and in the public interest.

11. If the Commission approves this Settlement Agreement, tariffs conforming to this Settlement Agreement and implementing the agreed upon Phase I rate revisions may be filed on one-day notice.

### **III. GENERAL TERMS AND CONDITIONS**

1. Through active prehearing investigation and negotiation, the Parties have reached the agreement set forth herein resolving all contested and disputed issues in this docket in a

manner which the Parties agree is just and reasonable and in the public interest. The Parties further agree that reaching agreement by means of negotiation and settlement rather than through litigation is in the public interest.

2. The Parties agree to present, to support, and to defend this Settlement Agreement before the Commission and the courts. The Parties further agree, if necessary, to present testimony and exhibits to the Commission to secure the approval of this Settlement Agreement.

3. The Parties hereby agree that all pre-filed testimony and exhibits shall be admitted into evidence in this docket without cross-examination. This Settlement Agreement reflects compromise and settlement of all issues raised or that could have been raised in this docket.

4. This Settlement Agreement shall not become effective until the issuance of a final Commission Order approving the Settlement Agreement, which Order does not contain any modification of the terms and conditions of this Settlement Agreement that is unacceptable to any of the Parties. In the event the Commission modifies this Settlement Agreement in a manner unacceptable to any Party, that Party shall have the right to withdraw from this Settlement Agreement and proceed to hearing on the issues that may be appropriately raised by that Party in this docket. The withdrawing Party shall notify the Commission and the Parties to this Settlement Agreement by e-mail within three (3) business days of the Commission modification that the Party is withdrawing from the Settlement Agreement and that the Party is ready to proceed to hearing; the e-mail notice shall designate the precise issue or issues on which the Party desires to proceed to hearing (the "Hearing Notice").

5. The withdrawal of a Party shall not automatically terminate this Settlement Agreement as to any other Party. However, within three (3) business days of the date of the Hearing Notice from the first withdrawing Party, all Parties shall confer to arrive at a

comprehensive list of issues that shall proceed to hearing and a list of issues that remain settled as a result of the first Party's withdrawal from this Settlement Agreement. Within five (5) business days of the date of the Hearing Notice, the Parties shall file with the Commission a formal notice containing the list of issues that shall proceed to hearing and those issues that remain settled. The Parties who proceed to hearing shall have and be entitled to exercise all rights with respect to the issues that are heard that they would have had in the absence of this Settlement Agreement.

6. Hearing shall be scheduled on all of the issues designated in the formal notice filed with the Commission as soon as practicable. In the event that this Settlement Agreement is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations or discussions undertaken in conjunction with the Settlement Agreement shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Settlement Agreement.

7. Approval by the Commission of this Settlement Agreement shall constitute a determination that the Settlement Agreement represents a just, equitable and reasonable resolution of all issues that were or could have been contested among the Parties in this proceeding.

8. All Parties specifically agree and understand that this Settlement Agreement represents a negotiated settlement in the public interest with respect to the various Aquila rate matters and terms and conditions of service for the sole purpose of the settlement of the matters agreed to in this Settlement Agreement. No Party or person shall be deemed to have approved, accepted, agreed to, or consented to any concept, theory or principle underlying or supposed to underlie any of the matters provided for in this Settlement Agreement, other than as specifically provided for herein. Notwithstanding the resolution of the issues set forth in this Settlement

Agreement, none of the methods or ratemaking principles herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding, except as otherwise provided in Paragraph No. II.6. of this Settlement Agreement. Nothing in this Settlement Agreement shall preclude Aquila from seeking prospective changes in its electric rates by an appropriate filing with the Commission. Nothing in this Settlement Agreement shall preclude any other party from filing a Complaint or seeking an Order to Show Cause to obtain prospective changes in Aquila's electric rates.

9. This Settlement Agreement may be executed in counterparts and by facsimile copies of signatures, all of which when taken together shall constitute the entire Settlement Agreement with respect to the issues addressed by this Settlement Agreement.

### **CONCLUSION**

For the reasons stated above, the Parties respectfully request that the Commission enter an order approving this Settlement Agreement with the finding that the Commission's approval of this Settlement Agreement represents a fair, just, and reasonable resolution of all disputed issues that have arisen, or which could have arisen, in this docket.

DATED this 18th day of April 2003.

AQUILA NETWORKS-WPC  
CALCULATION OF SETTLEMENT REVENUE REQUIREMENT  
12 months ending June 30, 2002

Settlement Agreement Attachment A  
Docket No. 02S-594E  
Schedule 1

Line

No.

|   |   |    |             |
|---|---|----|-------------|
| 1 | Net CPUC Jurisdictional rate base                                 | \$ | 109,960,901 |
| 2 | Return on Rate Base   |    | 9.07%       |
| 3 | Required earnings   | \$ | 9,975,186   |
| 4 | Net CPUC Jurisdiction Operating Earnings                          |    | 56,785      |
| 5 | Deficiency / (Excess)   |    | 9,918,400   |
| 6 | Factor to Gross   |    | 1.613163413 |
| 7 | Required Revenue Change   | \$ | 16,000,000  |
| 8 | Effect on Average Residential Customer<br>( @ 579 kWh per month)  | \$ | 6.83        |
| 9 | Effect on Average Commercial Customer<br>( @ 5,520 kWh per month) | \$ | 49.00       |

AQUILA NETWORKS-WPC  
SETTLEMENT JURISDICTIONAL RATE BASE-AVERAGE  
TEST YEAR ENDED JUNE 30, 2002

Settlement Agreement Attachment A  
Docket No. 02S-594E  
Schedule 2

| Line No. | (A)<br>DESCRIPTION                             | (B)<br>Company as Adjusted | Settlement Adjustments               |                              |                                      |                                  |  |                       | (I)<br>As Adjusted per Settlement |
|----------|--|----------------------------|--------------------------------------|------------------------------|--------------------------------------|----------------------------------|--|-----------------------|-----------------------------------|
|          |  |                            | (C)<br>Average Rate Base Adjustments | (D)<br>Pueblo Cooling Towers | (E)<br>Reclassify CW-WAPA Adjustment | (F)<br>Eliminate Plant Acq. Adj. | (G)<br>Eliminate Provision for Acq. Adj. | (H)<br>CWC Adjustment |                                   |
| 1        | PLANT IN SERVICE                               |                            |                                      |                              |                                      |                                  |  |                       |                                   |
| 2        | INTANGIBLE                                     | \$ 200,900                 |                                      |                              |                                      |                                  |  |                       | \$ 200,900                        |
| 3        | PRODUCTION                                     | 30,481,784                 | (2,633,782)                          | (105,000)                    |                                      |                                  |  |                       | 27,743,002                        |
| 4        | TRANSMISSION                                   | 42,004,380                 | (1,758,494)                          |                              | (2,800,000)                          |                                  |  |                       | 37,445,886                        |
| 5        | DISTRIBUTION                                   | 138,284,529                | (3,560,733)                          |                              |                                      |                                  |  |                       | 134,723,796                       |
| 6        | GENERAL  | 14,934,315                 | 1,377,843                            |                              |                                      |                                  |  |                       | 16,312,158                        |
| 7        | GENERAL - COMMON                               | 14,139,453                 | (584,840)                            |                              |                                      |                                  |  |                       | 13,554,613                        |
| 8        | <b>TOTAL PLANT IN SERVICE</b>                  | 240,045,361                | (7,160,006)                          | (105,000)                    | (2,800,000)                          | -                                | -  | -                     | 229,980,355                       |
| 9        | CONSTRUCTION WORK IN PROGRESS                  | 2,713,176                  | (199,538)                            |                              |                                      |                                  |  |                       | 2,513,638                         |
| 10       | ACQUISITION ADJUSTMENT                         | 5,765,983                  | -                                    |                              |                                      | (5,765,983)                      |  |                       |                                   |
| 11       | <b>TOTAL UTILITY PLANT</b>                     | 248,524,520                | (7,359,545)                          | (105,000)                    | (2,800,000)                          | (5,765,983)                      | -  | -                     | 232,493,992                       |
| 12       | LESS:  |                            |                                      |                              |                                      |                                  |  |                       |                                   |
| 13       | ACCUM. PROV. FOR DEPR & AMORT                  | 113,437,687                | (1,271,396)                          |                              |                                      |                                  |  |                       | 112,166,291                       |
| 14       | ACCUM AMORTIZATION & DEPLETION                 | 24,519                     | (2,885)                              |                              |                                      |                                  |  |                       | 21,634                            |
| 15       | ACCUM. PROV. FOR AMORT OF ACQ AS               | 3,874,281                  |                                      |                              |                                      |                                  | (3,874,281)                              |                       |                                   |
| 16       | <b>TOTAL ACCUM. PROV. FOR DEPR &amp; AMORT</b> | 117,336,487                | (1,274,281)                          | -                            | -                                    | -                                | (3,874,281)                              | -                     | 112,187,925                       |
| 17       | NET PLANT IN SERVICE                           | 131,188,033                | (6,085,264)                          | (105,000)                    | (2,800,000)                          | (5,765,983)                      | 3,874,281                                | -                     | 120,306,067                       |
| 18       | <b>OTHER RATE BASE ITEMS</b>                   |                            |                                      |                              |                                      |                                  |  |                       |                                   |
| 19       | DEFERRED LONG TERM ASSET (WAPA)                |                            |                                      |                              | 2,800,000                            |                                  |  |                       | 2,800,000                         |
| 20       | MATERIALS & SUPPLIES-FUEL                      | 610,887                    | 16,068                               |                              |                                      |                                  |  |                       | 626,955                           |
| 21       | MATERIALS & SUPPLIES-PLANT                     | 1,019,997                  | 143,290                              |                              |                                      |                                  |  |                       | 1,163,287                         |
| 22       | PREPAYMENTS - OTHER                            | 4,972,402                  | (21,118)                             |                              |                                      |                                  |  |                       | 4,951,284                         |
| 23       | CUSTOMER ADVANCES FOR CONSTR                   | (5,233,806)                | (142,134)                            |                              |                                      |                                  |  |                       | (5,375,940)                       |
| 24       | CASH WORKING CAPITAL                           | (459,268)                  |                                      |                              |                                      |                                  |  | 238,479               | (220,789)                         |
| 25       | ACCUMULATED DEFERRED INCOME                    | (9,807,398)                |                                      |                              |                                      | (4,260,812)                      |  |                       | (14,068,210)                      |
| 26       | CUSTOMER DEPOSITS                              | (240,399)                  | 18,645                               |                              |                                      |                                  |  |                       | (221,754)                         |
| 27       | <b>TOTAL OTHER RATE BASE ITEMS</b>             | (9,137,585)                | 14,752                               | -                            | 2,800,000                            | (4,260,812)                      | -  | 238,479               | (10,345,166)                      |
| 28       | <b>TOTAL RATE BASE</b>                         | \$ 122,050,448             | \$ (6,070,512)                       | \$ (105,000)                 | \$ -                                 | \$ (10,026,795)                  | \$ 3,874,281                             | \$ 238,479            | \$ 109,960,901                    |

AQUILA NETWORKS - WPC  
JURISDICTIONAL STATEMENT OF OPERATIONS /  
FOR THE YEAR ENDED JUNE 30, 2002

Settlement Agreement Attachment A  
Docket No. 02S-594E  
Schedule 3

|             |                             | Settlement Adjustments |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               |              |                |
|-------------|-----------------------------|------------------------|-------------------|-------------------------------|--------------------|--------------|------------------------|------------------------|-----------------|-----------------------|---------------------|--------------------------|---------------|--------------|----------------|
| (A)         |                             | (B)                    | (C)               | (D)                           | (E)                | (F)          | (G)                    | (H)                    | (I)             | (J)                   | (K)                 | (L)                      | (M)           | (N)          | (O)            |
|             |                             | COMPANY                | Holcim<br>Revenue | 2003 Capacity<br>Disallowance | Canon West<br>WAPA | Depreciation | Amort. Of<br>Acq. Adj. | Acquisition<br>Benefit | Property<br>Tax | Projected<br>Security | Wages &<br>Benefits | ICA Revenue<br>(Fly Ash) | Tax           | Subtotal     | As Adjusted    |
| <u>LINE</u> | <u>DESCRIPTION</u>          | AS ADJUSTED            | -                 |                               |                    |              |                        |                        |                 |                       |                     |                          |               |              |                |
| 1           | <b>OPERATING REVENUES</b>   |                        |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               |              |                |
| 2           | SALES OF ELECTRICITY        | \$ 107,030,527         | \$ (929,960)      |                               |                    |              |                        |                        |                 |                       |                     | \$ 151,907               |               | \$ (778,053) | \$ 106,252,474 |
| 3           | PROVISION FOR RATE REFUNDS  | -                      |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               |              |                |
| 4           | OTHER                       | 364,632                |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               |              | 364,632        |
| 5           | TOTAL OPERATING REVENUE     | 107,395,159            | (929,960)         | -                             | -                  | -            | -                      | -                      | -               | -                     | -                   | 151,907                  | -             | (778,053)    | 106,617,106    |
| 6           | <b>OPERATING EXPENSES</b>   |                        |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               |              |                |
| 7           | PRODUCTION                  | 74,574,698             | (589,373)         | (1,030,661)                   |                    |              |                        |                        |                 |                       | (37,090)            |                          |               | (1,657,124)  | 72,917,574     |
| 8           | TRANSMISSION                | 5,636,360              |                   |                               |                    |              |                        |                        |                 |                       | (4,556)             |                          |               | (4,556)      | 5,631,804      |
| 9           | DISTRIBUTION                | 5,918,588              |                   |                               |                    |              |                        |                        |                 |                       | (46,894)            |                          |               | (46,894)     | 5,871,694      |
| 10          | CUSTOMER ACCOUNTS           | 2,464,720              |                   |                               |                    |              |                        |                        |                 |                       | (16,742)            |                          |               | (16,742)     | 2,447,978      |
| 11          | CUSTOMER SERVICE            | 101,811                |                   |                               |                    |              |                        |                        |                 |                       | (1,885)             |                          |               | (1,885)      | 99,926         |
| 12          | SALES                       | 305,642                |                   |                               |                    |              |                        |                        |                 |                       | (1,163)             |                          |               | (1,163)      | 304,479        |
| 13          | ADMINISTRATIVE & GENERAL    | 11,631,146             |                   |                               |                    |              |                        | (546,809)              |                 | (300,000)             | (63,518)            |                          |               | (910,327)    | 10,720,819     |
| 14          | DEPRECIATION & AMORTIZATION | 10,270,674             |                   |                               | (100,701)          | (399,534)    | (1,042,549)            |                        |                 |                       |                     |                          |               | (1,542,784)  | 8,727,890      |
| 15          | TAXES OTHER THAN INCOME     | 2,755,108              |                   |                               |                    |              |                        |                        | (267,641)       |                       | (10,604)            |                          |               | (278,245)    | 2,476,863      |
| 16          | INCOME TAXES:               |                        |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               | -            |                |
| 17          | CURRENT                     | (2,708,256)            |                   |                               |                    |              |                        |                        |                 |                       |                     |                          | 1,551,246     | 1,551,246    | (1,157,010)    |
| 18          | DEFERRED                    | (1,481,696)            |                   |                               |                    |              |                        |                        |                 |                       |                     |                          |               | -            | (1,481,696)    |
| 19          | TOTAL OPERATING EXPENSES    | 109,468,795            | (589,373)         | (1,030,661)                   | (100,701)          | (399,534)    | (1,042,549)            | (546,809)              | (267,641)       | (300,000)             | (182,452)           | -                        | 1,551,246     | (2,908,474)  | 106,560,321    |
| 20          | NET OPERATING INCOME        | \$ (2,073,636)         | \$ (340,587)      | \$ 1,030,661                  | \$ 100,701         | \$ 399,534   | \$ 1,042,549           | \$ 546,809             | \$ 267,641      | \$ 300,000            | \$ 182,452          | \$ 151,907               | \$(1,551,246) | \$ 2,130,421 | \$ 56,785      |

Synopsis of Staff Adjustments

- (F) Change in amortization of Canon West - WAPA (Adj.#36) from Company proposed 19 years to Staff's proposed 60 years  
(G) Change in Depreciation Expenses: ( disallow adjustments # 33, #34, #35)

- (I) Change in Acquisition Benefit Sharing - reverses Company adjustment #29  
(J) Change in Amortization of Acquisition Adjustment - reverses balance in account 406  
Additional adjustments are shown on Page 5

|                            |                   |
|----------------------------|-------------------|
| Holcim adjustment true up: | <u>Difference</u> |
| Revenue                    | 929,960           |
| Energy                     | 589,373           |
| Gross marg.                | 340,587           |

Capacity disallowance from company request: (1,030,661)

AQUILA NETWORKS - WPC  
CAPITAL STRUCTURE and WEIGHTED AVERAGE COST OF CAPITAL  
FOR THE YEAR ENDED JUNE 30, 2002

Settlement Agreement Attachment A  
Docket No. 02S-594E  
Schedule 4

| <u>Description</u> | <u>6/30/2002<br/>Per Books</u> | <u>Aquila<br/>Hypothetical</u> | <u>Settlement<br/>Recommended</u> | <u>Ratio</u>   |
|--------------------|--------------------------------|--------------------------------|-----------------------------------|----------------|
| Long Term Debt     | \$ 65,234,000                  | \$ 62,662,268                  | \$ 62,662,268                     | 52.50%         |
| Common Equity      | 54,122,700                     | 56,694,433                     | 56,694,433                        | 47.50%         |
| Total              | <u>\$ 119,356,700</u>          | <u>\$ 119,356,701</u>          | <u>\$ 119,356,701</u>             | <u>100.00%</u> |

|                | <u>Ratio</u>   | <u>Cost</u> | <u>Weighted Cost</u> |
|----------------|----------------|-------------|----------------------|
| Long Term Debt | 52.50%         | 7.553%      | 3.97%                |
| Common Equity  | <u>47.50%</u>  | 10.75%      | <u>5.11%</u>         |
| Total          | <u>100.00%</u> |             | <u>9.07%</u>         |



Aquila Networks - WPC  
Calculation of GRSA Factors by Rate Class  
Settlement Methodology With Roll-in of New ICA Base

Settlement Agreement Attachment B  
Docket No. 02S-594E  
Page 1 of 1

|    |  |                         | (a)                | (b)               | (c)               | (d)             | (e)                  | (f)           |
|----|--|-------------------------|--------------------|-------------------|-------------------|-----------------|----------------------|---------------|
|    |  |                         | <u>Residential</u> | <u>Commercial</u> | <u>Industrial</u> | <u>Lighting</u> | <u>Water Pumping</u> | <u>Total</u>  |
| 1  | Unadjusted test year billed mWh                  | Aquila filing           | 522,712            | 746,597           | 222,779           | 22,322          | 31,874               | 1,546,284     |
| 2  | Holcim adjustment                                | Aquila rebuttal         |                    |                   | 181,463           |                 |                      | 181,463       |
| 3  | Adjusted test year billed mWh                    | line 1 + line 2         | 522,712            | 746,597           | 404,242           | 22,322          | 31,874               | 1,727,747     |
| 4  | Test year unadjusted revenue                     | Aquila filing           | \$ 39,503,226      | \$ 42,122,994     | \$ 10,280,544     | \$ 2,228,760    | \$ 1,710,203         | \$ 95,845,727 |
| 5  | Less: unadjusted ICA revenue                     | Response to CC&V 3-2    | 1,413,868          | 1,761,587         | 1,047,416         | -               | 247,434              | 4,470,305     |
| 6  | Unadjusted base rate revenue                     | line 4 - line 5         | 38,089,359         | 40,361,407        | 9,233,128         | 2,228,760       | 1,462,769            | 91,375,422    |
| 7  | Holcim base rate adjustment                      | Aquila rebuttal         |                    |                   | 6,254,105         |                 |                      | 6,254,105     |
| 8  | Adjusted test year base rate revenue             | line 6 + line 7         | 38,089,359         | 40,361,407        | 15,487,233        | 2,228,760       | 1,462,769            | 97,629,527    |
| 9  | ICA Revenue at TY accrual level                  | line 3 x \$2.85 per mWh | 1,489,729          | 2,127,801         | 1,152,090         | 63,618          | 90,841               | 4,924,079     |
| 10 | Total test year revenues                         | line 8 + line 9         | 39,579,088         | 42,489,208        | 16,639,323        | 2,292,378       | 1,553,610            | 102,553,606   |
| 11 | Roll-in of base ICA                              | line 3 x \$4.82 per mWh | 2,519,472          | 3,598,598         | 1,948,447         | 107,592         | 153,633              | 8,327,741     |
| 12 | Adjusted base rate revenue w/roll-in             | line 8 + line 11        | 40,608,830         | 43,960,004        | 17,435,680        | 2,336,352       | 1,616,401            | 105,957,268   |
| 13 | ICA Revenue after roll-in & sharing change       | line 3 x \$0.66 per mWh | 344,990            | 492,754           | 266,800           | 14,733          | 21,037               | 1,140,313     |
| 14 | Total test year revenues after roll-in & sharing | line 12 + line 13       | 40,953,820         | 44,452,758        | 17,702,480        | 2,351,085       | 1,637,438            | 107,097,581   |
| 15 | Net increase in total revenues                   | line 14 - line 10       | \$ 1,374,733       | \$ 1,963,550      | \$ 1,063,157      | \$ 58,707       | \$ 83,829            | \$ 4,543,975  |
| 16 | Increase at equal % on total revenues            | line 10 x 15.60%        | \$ 6,174,970       | \$ 6,628,995      | \$ 2,596,000      | \$ 357,648      | \$ 242,388           | \$ 16,000,000 |
| 17 | Less: increase from fuel roll-in                 | - line 15               | (1,374,733)        | (1,963,550)       | (1,063,157)       | (58,707)        | (83,829)             | (4,543,975)   |
| 18 | Adjusted rate increase for GRSA                  | line 16 + line 17       | \$ 4,800,237       | \$ 4,665,445      | \$ 1,532,843      | \$ 298,941      | \$ 158,559           | \$ 11,456,025 |
| 19 | GRSA factor to be applied to base rates          | line 18 / line 12       | 11.82%             | 10.61%            | 8.79%             | 12.80%          | 9.81%                | 10.81%        |
| 20 | Net rate increase from roll-in & sharing         | line 15                 | \$ 1,374,733       | \$ 1,963,550      | \$ 1,063,157      | \$ 58,707       | \$ 83,829            | \$ 4,543,975  |
| 21 | Rate increase from GRSA                          | line 18                 | 4,800,237          | 4,665,445         | 1,532,843         | 298,941         | 158,559              | 11,456,025    |
| 22 | Total rate increase                              | line 20 + line 21       | \$ 6,174,970       | \$ 6,628,995      | \$ 2,596,000      | \$ 357,648      | \$ 242,388           | \$ 16,000,000 |
| 23 | Percentage increase on total present revenue     | line 22 / line 10       | 15.60%             | 15.60%            | 15.60%            | 15.60%          | 15.60%               | 15.60%        |

**NOTES**

- (1) 50% of difference between test year net fuel & purchased power per mWh and existing ICA base ((22.42-16.72)\*0.50)  
(2) 75% of difference between test year net fuel & purchased power per mWh and new ICA base ((22.42 - 21.54)\*0.75)  
(3) \$16,000,000 divided by line 10, column f (Total test year revenues)