BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 03A-272G

IN THE MATTER OF THE APPLICATION OF AQUILA, INC., DOING BUSINESS AS AQUILA NETWORKS-PNG, FOR AN ORDER AUTHORIZING THE CREATION OF A MECHANISM TO ALLOW SHARING OF CAPACITY RELEASE CREDITS AND ASSET OPTIMIZATION MARGINS.

SETTLEMENT AGREEMENT

Aquila, Inc., doing business as Aquila Networks--PNG ("Aquila"), the Colorado Office of Consumer Counsel (the "OCC"), and the Trial Staff of the Commission (the "Staff") (jointly referred to as the "Parties"), enter into this Settlement Agreement (the "Agreement") to stipulate and to settle all disputed issues regarding Aquila's Verified Application for an order authorizing the creation of a mechanism to allow sharing of asset optimization margins. The Parties respectfully submit that this Agreement is just and reasonable, that it results in a fair disposition of the issues in this docket, and that, therefore, the Agreement should be approved by the Commission without hearing.

INTRODUCTION

1. Aquila, a Delaware corporation, operates, among other things, a utility subject to the jurisdiction of this Commission and is engaged, inter alia, in the purchase, transmission, distribution, and sale of natural gas for domestic, mechanical, or public uses to approximately 52,000 residential, commercial, and industrial customers in the Central and Northeast rate areas of Colorado.

2. On June 25, 2003, Aquila filed a Verified Application with the Commission seeking an order authorizing the creation of a mechanism to allow sharing of capacity release

credits and asset optimization margins, which is the subject of this docket. On June 27, 2003, the Commission issued its Notice (and errata) that the application had been filed.

3. On July 28 and August 22, 2003, the OCC and Staff timely intervened, respectively. Aquila, the OCC and Staff are the only parties to this docket.

4. Since the date of the filing, the OCC and Staff have conducted a thorough review and investigation of the filing and the supporting testimony and exhibits. Aquila had also provided additional information and documents through formal and informal discovery. The Parties have also conducted extensive discussions and settlement negotiations.

5. At the September 2, 2003 prehearing conference, a procedural schedule was adopted. The ALJ subsequently issued interim orders, Decision Nos. R03-1000-I and R03-1181-I, which essentially, at the request of the Parties, moved back the dates to file answer and rebuttal testimony and reset the hearing dates. Notably, Aquila had agreed to waive the provisions of C.R.S. § 40-6-109.5(1) establishing a statutory deadline for the Commission to render its decision in this docket. See Aquila's 10/10/03 Unopposed Motion to Continue the Hearing Date and Procedural Schedule and for Waiver of Response Time, ¶ 6.

6. After the prehearing conference, the Parties agreed informally to resolve the disputed issues in this docket by reaching a settlement. On September 25, 2003, the Parties reached an agreement in principle settling all disputed issues in this docket.

7. As a result of these negotiations, the Parties have agreed on a complete settlement of all issues relating to the Verified Application. Their agreement is set forth in this Agreement and is described more fully below.

BACKGROUND

8. Aquila purchases firm capacity (or contract demand) from its interconnecting upstream pipeline supplier, Colorado Interstate Gas (CIG) Company, based on Aquila's annual design peak day usage. Aquila must purchase sufficient pipeline capacity to serve the annual design peak day demand of its gas sales customers. However, not all the peak capacity purchased is needed on a daily basis, so excess capacity may be released on CIG's electronic bulletin board (EBB) at a capacity release rate up to the maximum tariff rate at approximately $.3172[1] per Dekatherm (Dth).

9. Most of Aquila's CIG firm capacity has delivery points to Castle Rock and Hugo, Colorado. However, Aquila also has firm capacity on CIG with delivery rights to Forgan, Oklahoma, which interconnects with Natural Gas Pipeline of America. Since the value of the capacity release is determined upon the receipt and delivery path of the firm capacity being released, to the extent that the value of the capacity release is higher than CIG's maximum tariff rate, such difference cannot be captured in the capacity release rate and is lost in the capacity release process on CIG's EBB.

10. Currently, there is a large basis differential in gas cost per Dth between the Rocky Mountain and Mid-Continent pipelines. Due to a differential in gas cost between the Rocky Mountain and Mid-Continent regions, an opportunity exists to extract additional value above the allowable capacity release credits.[2] Aquila believes the only means to extract this additional value is by the use of the proposed Asset Optimization mechanism or Asset Optimization Plan

[1] Based on conversion of maximum reservation charge into a pro forma maximum tariff rate or $9.6477 per Dth divided by 30.4 (365 days/12 months) on a one hundred percent (100%) load factor basis. Until recently, the Federal Energy Regulatory Commission (FERC) allowed negotiated rates on capacity release to be higher than the maximum tariff rates.

[2] For example, if the Rocky Mountain index is $2.50 and the Mid-Continent index is $3.3172, there exists a basis differential of $.8172. After subtracting the cost of firm transportation of $.3172 (assuming the variable cost of

(AOP) in this docket whereby Aquila purchases supply, transports the supply using the otherwise releasable capacity, and sells the supply to another party as a bundled sale in the Mid-Continent market. This mechanism generates a margin between the sale price and cost of gas (which includes the cost to deliver the resale gas). Aquila anticipates a substantial increase in the gas cost differential between the Rocky Mountain and Mid-Continent indices that exceed the allowable maximum capacity release rate via traditional CIG EBB releases.

11. Currently, when capacity is released on CIG's EBB, CIG credits the revenue associated with capacity release back to Aquila. Capacity release revenues appear on CIG's invoices to Aquila as credits reducing the transportation demand costs.

12. Prudently incurred interconnecting upstream pipeline contract demand, or capacity reservation costs, are an element of Aquila's Colorado Gas Cost Adjustment (GCA) tariff rider. Hence, Colorado ratepayers subject to the GCA clause pay for contract demand costs. Aquila passes onto Colorado ratepayers 100 per cent (100%) of capacity release credits received via traditional CIG EBB releases through the annual GCA filing. Under the Asset Optimization mechanism, Colorado ratepayers will continue to receive 100 per cent (100%) of capacity release credits (1) via traditional CIG EBB releases and (2) via Asset Optimization bundled sales consistent with the terms and conditions herein. The Parties expect Customers will receive a dollar amount of capacity release credits no less than they had received prior to the implementation of the AOP.

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transportation is close to zero), there is an "additional value" of $.50 that can be captured if the direct bundled sale is made with the released capacity.

THE SETTLEMENT

13. The Parties agree that the Application should be granted consistent with the terms and conditions to which the parties agree herein. They also agree that the approval of this Agreement is just, reasonable and not contrary to the public interest.

14. The Parties agree that the terms of this Agreement should be included in the Commission's decision granting this Application as terms and conditions of approval of the Application and the relief requested therein.

15. The Parties agree, as a matter of regulatory principle, it is important that Aquila's captive Colorado ratepayers (Customers) shall be no worse off than they were before the AOP:

a. The scope of the AOP is limited to 10,000 Dth/day firm CIG capacity with delivery rights to Forgan (out of a total of 41,943 Dth/day of firm CIG capacity). The Parties recognize Aquila may have to acquire additional capacity to accommodate growth on its system to serve its Customers. If these increments in additional capacity have a delivery point at Forgan (acquired on a cost-neutral basis compared to other delivery points), the Parties agree to include those in addition to the 10,000 Dth/day in the AOP as well.

b. The AOP only covers bundled gas sales by Aquila outside Colorado using capacity reserved for use by Customers; bundled gas sales for consumption in Colorado is not part of the AOP. Aquila expects that bundled gas sales outside Colorado be made on a month-to-month basis in the summer and on a day-to-day basis in the winter, unless operational considerations require otherwise.

c. Sharing under the AOP will be limited to Aquila's value-added contribution, i.e., gas sales capitalizing on the basis differential between the Rocky Mountain and Mid-Continent Regions with 10,000 Dth/day of delivery capacity to Forgan at a price higher than the capacity release credits. Put another way, sharing under the AOP is only for gas sales and does not include sharing on capacity release credits.

d. The Parties agree to the concept: "No value added, no sharing." There shall be no sharing of asset optimization credits if Aquila has not added any value.

e. Notwithstanding the AOP, Aquila shall continue to release any excess capacity on CIG's EBB that cannot be utilized in the AOP transactions(s).

f. Aquila's obligation to serve in no way shall be affected by the AOP. Capacity released may be called back for use by Customers whenever needed, regardless if the result is non-performance of a gas sales agreement in the Mid-Continent Region.

g. The AOP will not in any way affect the reliability of delivery of gas to Customers. Should the Staff or OCC believe that reliability of delivery of gas to Colorado customers has been affected by operations of the AOP, the Staff or OCC may raise these reliability issues via the prudence review process under the Commission's GCA Rules, including seeking customer refunds. Although the GCA Rules do not specifically provide for said customer refunds, Aquila agrees to make such refunds if ordered by a final decision of the Commission. In addition, Aquila agrees that it will not challenge as beyond the scope of a prudence review issues concerning reliability of its service to Customers.

h. The Customers will continue to receive 100% of maximum rate capacity release credits from the release of capacity on the EBB.

i. Prior to the start of calculating sharing of AOP margins, the Customers will continue to receive 100% of maximum rate capacity release credits as if such capacity release revenues were secured from capacity releases on the EBB. Aquila will credit the Account No. 191 in an amount determined by the monthly AOP bundled sales volume by the per unit pro forma reservation capacity cost, which is the CIG maximum TF-1 reservation rate ($/Dth) divided by 30.4 (365 days/12 months).

j. The Parties acknowledge these settlement principles provide the basis for this stipulation, but still leave open adding details relating to, for example, data Aquila is to provide relating to gas reliability quality of service and additional GPP and GPR reporting requirements relating to the AOP.

16. As a matter of regulatory principle, Aquila agrees that the AOP shall be completely independent of the GCA clause:

a. Customers will not share in any losses in gas commodity sales from the AOP.

b. Any penalty associated with non-delivery of gas sold under the AOP will be borne by Aquila, i.e., damages due to higher cost gas purchases from third-party suppliers by customers under the AOP, costs associated with unsold commodity of gas, etc.

c. Any imbalance penalty attributable solely to the AOP will be borne by Aquila. Aquila represents that any imbalance penalty can be separately tracked by delivery points, e.g., Forgan versus Castle Rock.

d. All AOP capacity release revenues will be recorded. Any non-collection of revenues under the AOP shall be borne by Aquila, provided however that: (1)

Customers shall receive maximum rate capacity release credits on all AOP transactions and (2) Customers and Aquila shall share the AOP margins actually collected by Aquila in equal amounts; any uncollected AOP margins subsequently received by Aquila will be shared with Customers using the formula in Paragraph 18.c. of this Agreement.

e. Aquila agrees to separate the AOP gas portfolio from the GCA mechanism/general system gas portfolio in the sense that Aquila will identify separate gas pools dedicated to the AOP and to the general system. Aquila will separately identify gas trading for the AOP and the general system and will separately account for costs and revenues for the AOP and the general system.

17. The Parties agree Aquila shall implement formal accounting procedures for the AOP as follows:

a. Expenses and revenues associated with the AOP will be itemized and recorded in appropriate FERC sub-accounts separate from expenses and revenues associated with providing service to Customers.

b. AOP transactions will be readily and directly traceable to specific gas contracts, invoices for gas purchases, and bills for gas sales to enable the Staff in an audit to confirm that Aquila has appropriately assigned gas packages into separate AOP and general system pools. Aquila will put together documentation tracing representative types of actual AOP transactions through the accounting process from (1) an existing program (attached as **Attachment A1** to this Agreement) and (2) this proposed program (attached hereto as **Attachment A2** as an illustration; the final spreadsheet format with partial actual data will be submitted to the Staff and OCC at least 90 days prior to the submission of the 2003-2004 GPR). As an attachment to its GPR report, Aquila shall include that portion of its general ledger transactions for the AOP revenues/expenses for the period under review.

c. AOP margins shall be defined by and referenced to FERC accounts.

d. Aquila shall provide to the Staff and OCC a written description of the allocation principles involved in making allocation of purchases from an invoice to different state jurisdictions. In addition, Aquila shall indicate in the description which AOP expenses or revenues are the result of an allocation and explain the allocation principles involved. This documentation shall be submitted to the Staff and OCC within 90 days of a final Commission decision approving the AOP.

18. The Parties agree to a sharing mechanism structured as follows:

a. On a monthly basis, in months in which the AOP sharing occurs, Aquila will credit the Account No. 191 in an amount determined by the formula set forth in Paragraph 18.c. of this Agreement.

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b. Customers and Aquila will share 50/50 of the asset optimization margins under the AOP.

c. AOP margins will be recorded "on a deal-specific basis." Only positive AOP margins will be shared. There shall be no netting of positive and negative AOP margins. AOP margins will be determined using the following methodology:

Revenue from a bundled gas sale contract to the Mid-Continent Region
less Commodity Gas Cost[1]
less Pipeline Capacity Reservation Cost[2]
less Variable Transportation Cost[3]
less Incremental Administrative Cost[4]
less Variable Cost[5]
AOP margin to be shared 50/50[6]

[1]Commodity Gas Cost is the cost associated with the purchase of gas commodity to make bundled sales under a specific transaction or contract. Mathematically, Commodity Gas Cost = Deal-specific Volume (Dth or MMBtu @ standard pipeline pressure base) x unit price of purchase gas per Dth or MMBtu. Commodity Gas Cost may include separate, but specifically identifiable, hedging costs, if applicable.

[2]Pipeline Capacity Reservation Cost is the pro-forma cost associated with the use of otherwise releasable capacity to provide firm transportation for the bundled sale under a specific transaction or contract. Mathematically, Pipeline Capacity Reservation Costs = Deal-specific Volume (Dth or MMBtu @ standard pipeline pressure base) x pro-forma unit price of maximum tariff rate (the then currently effective CIG maximum TF-1 reservation rate ($/Dth) divided by 30.4 (365 days/12 months)).

[3]Variable Transportation Cost is the per Dth transportation charge under CIG tariff for the delivery of gas commodity. Mathematically, Variable Transportation Cost = Deal-specific Volume (Dth or MMBtu @ standard pipeline pressure base) x unit rate for gas transportation on CIG's tariff.

[4]Incremental Administrative Cost is the additional administrative cost for the AOP that are not duplicative of any cost that has been recovered in a rate case. Currently, Aquila does not anticipate it will incur any incremental administrative costs in connection with the AOP. Aquila agrees to limit incremental costs to the items identified in Attachment B. (**Attachment B** is audit questions and responses relating to incremental administrative costs for the AOP.) If Aquila includes Incremental Administrative Cost in the AOP, Aquila agrees that it will have the burden of proof to justify that the Incremental Administrative Cost is reasonable and was prudently incurred.

[5]Variable Cost may include costs associated with fuel, loss and unaccounted for ("F, L&U") as revised from time to time on CIG's tariff.

[6]No sharing for a deal/transaction where the AOP margin to be shared is less than zero, i.e., negative AOP margin will not be added to the sharing amount on a cumulative basis.

19. The Parties have reached the following agreements relating to miscellaneous matters:

a. If the Commission authorizes the sharing of revenues from the AOP, the Commission assumes no obligation to assist Aquila in defending legal actions (separate and distinct from this docket) regarding the validity of the AOP. Aquila will defend any such separate legal actions and Aquila would not initiate any attempt to require the Commission to defend such legal actions. Whether to participate as a party in such legal actions will be within the discretion of the Commission.

b. If the legality of the AOP is challenged subsequent to this docket, Aquila will defend the legal action and abide by the final decision of courts of competent jurisdiction. Aquila will ensure that Customers will bear no negative monetary impact if the AOP were to be subsequently determined by a court of competent jurisdiction to be invalid. The AOP mechanism contains no automatic refund or recovery provisions. Hence, if required by a final court order, Aquila would file an appropriate pleading with the Commission to seek approval of any relief ordered by a court that requires recovery of AOP sharing dollars received by Customers.

c. Aquila agrees to notify the Staff and OCC within 30 days if there is a change in FERC rule(s) or if FERC issues an order which: (1) permits capacity release credits to exceed the maximum tariff rates or (2) may affect the AOP in any other way. Any modification to the AOP based on the FERC rule change or order shall be made in a manner consistent with this Agreement and Commission decision in this docket. If the parties cannot reach agreement on whether the FERC actions require modification or termination of the AOP, Aquila shall make an appropriate filing with the Commission to terminate the AOP.

d. The AOP will terminate after the completion of two (2) full heating seasons (November through March) after entry of a final Commission decision approving this Agreement in this docket, which the parties agree would be as of June 30, 2006. After termination of the AOP on June 30, 2006, Aquila has the right to apply for to reinstate the AOP, or to implement a modified AOP, by filing an appropriate pleading with the Commission.

e. The Parties agree that transportation costs for the AOP will be determined based upon a spread sheet provided by Aquila to the Staff and OCC that shows how to tally transportation costs for the AOP. The spreadsheet referenced above is attached hereto as **Attachment A2**.

f. The Parties agree not to impose an arbitrary cap on prudently incurred AOP administrative costs similar to the amount Aquila identified in **Attachment B**. The Parties agree that only incremental AOP administrative costs will be allowed in the mechanism.

g. Aquila agrees to file the attached tariffs **(Attachment C)**, on no less than one day's notice pursuant to the provisions of the Public Utilities Law, to implement the AOP within thirty (30) days after the effective date of the Commission's final order approving this Agreement in this docket.

20. Aquila agrees to the following information or reporting requirements:

a. Aquila shall report to the Commission on the AOP via a section in the annual Gas Purchase Plan (GPP) and Gas Purchase Report (GPR) filings, which will include all of the direct costs associated in performing the AOP transactions. Aquila shall calculate AOP margins for each transaction using the foregoing methodology and report this information in its annual GPP and GPR. Aquila will not only report capacity release revenues in the GPR for the Gas Purchase Year under review period but also for the preceding two years. Aquila will describe and explain the allocation of gas purchases, revenues and expenses. Aquila will provide workpapers under separate cover on specific gas contracts, invoices for gas purchases, and bills for gas sales, etc. In addition, Aquila will describe and explain any affiliate transactions or unique or unusual circumstances. Furthermore, Aquila shall report in Colorado PUC Docket No. 03A-177SEG data relating to gas quality of service as agreed to in the Stipulation and Settlement Agreement in Colorado PUC Docket No. 03A-177SEG. Aquila shall also report in the GPP and GPR data regarding gas supply reliability of service.

b. The Parties agree to negotiate, within 90 days of the final commission order approving this Agreement, the additional items to be included in the GPR as a result of the AOP (to the extent not all of the additional items have been included in the tariffs attached as **Attachment C**), since the GCA Rules, 4 CCR 723-8, do not contain such reporting requirements.

c. Aquila agrees to provide to the Staff and OCC any additional information beyond information already provided through audit or data responses it may have relating to the administration of the AOP.

GENERAL STIPULATIONS

21. Through active pre-hearing 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.

22. The Parties further agree that reaching agreement by means of negotiation and settlement rather than through litigation is in the public interest and expressly request that the Commission approve this Agreement.

23. The Parties agree to present, to support, and to defend this 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 Agreement.

24. The Parties agree that all matters that were raised or that could have been raised in this docket have been resolved by this Agreement.

25. This Agreement has been entered into solely for the purpose of resolving disputed issues in this proceeding involving the Parties to this Agreement. Notwithstanding the resolution of the issues set forth in this Agreement, no methodology or principle contained herein shall be deemed or construed as a settled practice or precedent in any future proceeding. No Party shall be deemed or construed to have agreed to any principle or methodology by entering this Agreement, other than for the purpose of settling this docket without further litigation. Except as otherwise provided herein, the Parties reserve the right to advocate positions different from those stated in this Agreement in the future. Nothing herein shall constitute a waiver by any Party with respect to any matter not specifically addressed in this Agreement. The Parties do agree to a waiver of any Commission rule or regulation, if any, to the extent necessary to implement or to effectuate this Agreement.

26. The Parties jointly request that the Commission approve this Agreement without material change or amendment. If this Agreement is not approved in its entirety, or is approved with conditions which are unacceptable to any Party, that Party may withdraw from this Agreement by serving written notice of such withdrawal on the Commission and the other Party within ten (10) days of the effective date of such written decision by the Commission.

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

CONCLUSION

For the reasons stated above, the Parties respectfully request that the Commission enter an order approving this Agreement, finding and concluding that the Commission's approval of this Agreement represents a fair, just, and reasonable resolution of all disputed issues and all issues that could have been raised in this Docket.

DATED this 30th day of December 2003.

Accepted on behalf of
AQUILA, INC., DOING BUSINESS
AQUILA NETWORKS—PNG:

By: ______________________
Glenn Dee
1815 Capitol Avenue
Omaha, NE 68102

Accepted on behalf of
TRIAL STAFF:

By: ______________________
Billy Kwan
1580 Logan Street, Office Level 2
Denver, CO 80203

Approved as to form:

ABEL, BAND, RUSSELL, COLLIER,
PITCHFORD & GORDON, CHARTERED

By: Steven H. Denman
Steven H. Denman, CO Reg. #7857
240 South Pineapple Avenue
Post Office Box 49948
Sarasota, FL 34230-6948
(941) 366-6660
(941) 366-3999 facsimile
(303) 623-6660 Denver number

Attorneys for Aquila, Inc., doing business as Aquila Networks—PNG

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: ______________________
Michael Santisi, Reg. No. 29673
Assistant Attorney General
Business and Licensing Section
1525 Sherman Street, 5th Floor
Denver, Colorado 80203
303-866-5135
303-866-5395 facsimile

Attorneys for the Trial Staff of the Commission

DATED this 30th day of December 2003.

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AQUILA, INC., DOING BUSINESS
AQUILA NETWORKS—PNG:

By: ______________________
Glenn W. Dee
1815 Capitol Avenue
Omaha, NE 68102

Accepted on behalf of
TRIAL STAFF:

By: ______________________
Billy Kwan
1580 Logan Street, Office Level 2
Denver, CO 80203

Approved as to form:

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Sarasota, FL 34230-6948
(941) 366-6660
(941) 366-3999 facsimile
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Denver, Colorado 80203
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1815 Capitol Avenue
Omaha, NE 68102

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Billy Kwan
1580 Logan Street, Office Level 2
Denver, CO 80203

Approved as to form:

ABEL, BAND, RUSSELL, COLLIER,
PITCHFORD & GORDON, CHARTERED

By: ______________________
Steven H. Denman, CO Reg. #7857
240 South Pineapple Avenue
Post Office Box 49948
Sarasota, FL 34230-6948
(941) 366-6660
(941) 366-3999 facsimile
(303) 623-6660 Denver number

Attorneys for Aquila, Inc., doing business as Aquila Networks—PNG

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: ______________________
Michael Santisi, Reg. No. 29673
Assistant Attorney General
Business and Licensing Section
1525 Sherman Street, 5th Floor
Denver, Colorado 80203
303-866-5135
303-866-5395 facsimile

Attorneys for the Trial Staff of the Commission

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Accepted on behalf of
COLORADO OFFICE OF CONSUMER COUNSEL

By: ______________________
James Greenwood
1580 Logan Street, Suite 710
Denver, CO 80203

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: ______________________
Harris Adams, Reg. No. 19668
Assistant Attorney General
State Services Section
1525 Sherman Street, 5th Floor
Denver, Colorado 80203
303-866-5441
303-866-5342 facsimile

Attorneys for the Colorado Office of Consumer Counsel

ATTACHMENT A1

CAPACITY RELEASE ACCUMULATED BALANCE

SHEET ECR-2
File Monthly

UTILITY: KANSAS GAS OPERATIONS

REPORTING DATE: 12/30/2003 EFFECTIVE DATE: 12/1/99

YEAR ENDED 09/30/02 SHOWN BELOW

A	B	C	D	E
MONTH	ACTUAL CAPACITY RELEASE $ RECEIVED (CREDIT)	50% OF ACTUAL CAPACITY RELEASE $ RECEIVED (50% x B)	ACTUAL SALES VOLUME (MCF)	ACCUMULATED BALANCE $
Prior Balance				12,631.47
OCTOBER '01	2,459.84	1,229.92	298,716.0	13,861.39
NOVEMBER '01	4,705.94	2,352.97	459,404.9	16,214.36
DECEMBER '01	12,676.38	6,338.19	990,396.5	22,552.55
JANUARY '02	17,301.96	8,650.98	1,823,108.7	31,203.53
FEBRUARY '02	13,500.67	6,750.34	1,686,326.4	37,953.86
MARCH '02	15,304.34	7,652.17	1,541,138.5	45,606.03
APRIL '02	13,235.22	6,617.61	1,100,095.1	52,223.64
MAY '02	10,014.03	5,007.02	487,938.2	57,230.65
JUNE '02	23,295.51	11,647.76	327,705.5	68,878.40
JULY '02	117,807.57	58,903.79	241,015.3	127,782.18
AUGUST '02	28,272.24	14,136.12	237,460.3	141,918.30
SEPTEMBER '02	22,412.22	11,206.11	237,685.1	153,124.41
TOTAL	280,985.92	140,492.98	9,430,990.5	140,492.94

ACCUMULATED CAPACITY RELEASE FACTOR = $\frac{\text{ACCUMULATED BALANCE (COLUMN E)}}{\text{TOTAL SALES (COLUMN D) * 10}}$ = $\frac{140{,}492.98}{94{,}309{,}905}$ 0.00149 /Therms

KS Capacity Release 01-02

	Total Capacity Release	50% to Refund to Customers
Oct-01	($2,459.84)	($1,229.92)
Nov-01	($4,705.94)	($2,352.97)
Dec-01	($12,676.38)	($6,338.19)
Jan-02	($17,301.96)	($8,650.98)
Feb-02	($13,500.67)	($6,750.34)
Mar-02	($15,304.34)	($7,652.17)
Apr-02	($13,235.22)	($6,617.61)
May-02	($10,014.03)	($5,007.02)
Jun-02	($23,295.51)	($11,647.76)
Jul-02	($117,807.57)	($58,903.79)
Aug-02	($28,272.24)	($14,136.12)
Sep-02	($22,412.22)	($11,206.11)
	($280,985.92)	($140,492.96)

CAPACITY RELEASE DISBURSEMENT MECHANISM

SHEET TCR-1

UTILITY: KANSAS GAS OPERATIONS TARIFF:

FOR TEMPORARY USE ONLY

REPORTING DATE: 12/30/2003 EFFECTIVE DATE: 9/1/2001 (Filed Monthly)

YEAR ENDED 09/30/02 SHOWN BELOW

A	B	C	D	E	F	G
MONTH	NEW CAPACITY RELEASE REVENUES ($)	REVENUES TO BE REFUNDED (B * 50%)	ACTUAL SALES GS/LGS (MCF)	ACCUMULATED CAPACITY RELEASE FACTOR * ($ / MCF)	CAPACITY RELEASE REVENUES REFUNDED (D x E)	ACCUMULATED BALANCE (G + C - F)
Prior Balance						82,971.28
OCTOBER		0.00	298,716.0	0.0123	3,674.21	79,297.07
NOVEMBER		0.00	459,404.9	0.0073	3,353.66	75,943.42
DECEMBER		0.00	990,396.5	0.0073	7,229.89	68,713.52
JANUARY		0.00	1,823,108.7	0.0073	13,308.69	55,404.83
FEBRUARY		0.00	1,686,326.4	0.0073	12,310.18	43,094.65
MARCH		0.00	1,541,138.5	0.0073	11,250.31	31,844.34
APRIL		0.00	1,100,095.1	0.0073	8,030.69	23,813.64
MAY		0.00	487,938.2	0.0073	3,561.95	20,251.69
JUNE		0.00	327,705.5	0.0073	2,392.25	17,859.44
JULY		0.00	241,015.3	0.0073	1,759.41	16,100.03
AUGUST		0.00	237,460.3	0.0073	1,733.46	14,366.57
SEPTEMBER		0.00	237,685.1	0.0073	1,735.10	12,631.47
TOTAL	0.00	0.00			70,339.81	

CIG Fuel%: 2.17%

A	B	C	D	E=B*C	F	G	H=F+G	I	J=F+I	K=J-H	L=((fuel%)/(1-fuel%))*H	M	N	O=L+M+N	P=IF(J-H)>0,(J-H-O),0	Q=IF(P>0),(P*E),0	R=IF(P>0),(E*N),0	S=Q*.50	T=R+S	U=Q*.50	V=T+U
	Days In Month	Daily Volume	Monthly Receipt Volume	Monthly Deliverd Volume	12/08/03 NYMEX Future	Nov - Mar 12/08/03 CIG Basis	CIG Index/ Projected Index	Nov - Mar 07/25/03 NGPL Basis	NGPL Index/ Projected Index	Variance CIG Index to NGPL Index	Cost of Fuel	Variable Commodity Charges	Demand Charges	CIG Transport Cost	Margin Per Unit On Transaction	Total Asset Opt Margin Credit	General System Capacity Release Credits Up To Max. Rates	50% Sharing General System	Total Credits General System	50% Sharing Aquila	Total
Jan-04	31	10,000	316,876	310,000	$6.6400	$(0.6850)	$ 5.9550	$(0.3250)	$6.3150	$ 0.3600	$ 0.1321	$ 0.0190	$0.3172	$ 0.4683	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Feb-04	29	10,000	296,433	290,000	$6.6850	$(0.6850)	$ 6.0000	$(0.3250)	$6.3600	$ 0.3600	$ 0.1331	$ 0.0190	$0.3172	$ 0.4693	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mar-04	31	10,000	316,876	310,000	$6.4300	$(0.6850)	$ 5.7450	$(0.3250)	$6.1050	$ 0.3600	$ 0.1274	$ 0.0190	$0.3172	$ 0.4636	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Apr-04	30	10,000	306,654	300,000	$5.2600	$(0.7350)	$ 4.5250	$(0.2900)	$4.9700	$ 0.4450	$ 0.1004	$ 0.0190	$0.3172	$ 0.4366	$ 0.0084	$ 2,533	$ 95,155	$ 1,267	$ 96,422	$ 1,267	$ 97,6[illegible]
May-04	31	10,000	316,876	310,000	$5.0000	$(0.7350)	$ 4.2650	$(0.2900)	$4.7100	$ 0.4450	$ 0.0946	$ 0.0190	$0.3172	$ 0.4308	$ 0.0142	$ 4,406	$ 98,327	$ 2,203	$100,530	$ 2,203	$102,[illegible]
Jun-04	30	10,000	306,654	300,000	$4.9800	$(0.7350)	$ 4.2450	$(0.2900)	$4.6900	$ 0.4450	$ 0.0942	$ 0.0190	$0.3172	$ 0.4303	$ 0.0147	$ 4,397	$ 95,155	$ 2,198	$ 97,354	$ 2,198	$ 99,552
Jul-04	31	10,000	316,876	310,000	$4.9800	$(0.7350)	$ 4.2450	$(0.2900)	$4.6900	$ 0.4450	$ 0.0942	$ 0.0190	$0.3172	$ 0.4303	$ 0.0147	$ 4,543	$ 98,327	$ 2,272	$100,599	$ 2,272	$102,870
Total																$ 15,879	$ 386,965	$ 7,940	$394,905	$ 7,940	$402,844
																FERC 417.000	191.540	191.540		417.100	

ATTACHMENT B

AUDIT RELATING TO INCREMENTAL ADMINISTRATIVE COSTS FOR THE AOP

Question: PUC1-13
"Aquila will incur additional administrative costs to purchase the gas, to find a party to sell the gas to in the Mid-Continent, to nominate the gas, and for confirmations, accounting and billing the customer(s)." (Para. 13 of Aquila's Application in Docket 03A-272G.)

a. Please provide an estimate for the costs to perform each of the above referenced functions.
b. Please confirm that these costs will be borne 100% by Aquila in its sharing percentage. In other word, these costs are not deducted first before sharing is applied.
c. Please explain who will perform each of the above referenced function.
d. Please explain whether these personnel are currently employed at Aquila.

Response: PUC1-13
a. Estimated cost per month would be approximately $4,580.
b. Aquila's proposal is presently not specific as to the treatment of these costs. A reasonable alternative would be to share the costs in the same percentage as the revenue.
c. Lori Mill will handle the nominations and confirmations. Alan Pederson will handle purchasing the gas and selling the gas. Patti Schneider will handle the accounting of the transaction and reporting in the GCA Tracker. Shawn Gillespie will handle the reporting of the transaction to the Colorado PSC and any questions related to the transaction. Frank Fong will handle the appropriate reporting of the transaction through the GCA Tracker and reports related to the transaction. Glenn Dee will handle any regulatory matters that are related to the transaction. Jodi Chittenden will handle the billing of the transaction. Initially after the approval of the tariff these employees will perform these additional duties. As these duties are an additional burden to these employees, Aquila has plans to add additional full time staff.
d. All of the personnel named in response to PUC1-13.c., are currently employed by Aquila. The identities of the new personnel required by the Colorado Asset Optimization plan are unknown at this time.

Question: PUC1-21
"Under Asset Optimization, Aquila is required to: 1) purchase the gas, 2) find a party to whom to sell the gas, 3) nominate the gas from receipt point to delivery point, 4) confirm that gas is being delivered as nominated, 5) pay for the gas purchased, 6) bill the party to whom the gas is sold, and 7) ensure proper crediting of the Asset Optimization margin back to the GCA Clause. (Gillespie Dir. Test. at 10, ll. 5-9, in Docket 03A-272G.)

a. Please explain whether each of the above referenced functions is currently performed by Aquila. If not, why not.
b. Please explain, for each of the above referenced functions, the incremental duties required for the Asset Optimization mechanism.

Response: PUC1-21
a. All of the above referenced functions are performed by Aquila personnel. However, the incremental duties required by the Colorado Asset Optimization plan will place an additional burden on the current duties of existing Aquila personnel. See response to PUC1-13.c.
b. The incremental duties required for the Colorado Asset Optimization mechanism are the following: 1) Purchase the gas – requires the gas trader to purchase a package(s) of gas for the Asset Optimization transaction; 2) Find a party to whom to sell the gas – requires the gas trader to find a party(s) to sell a package(s) of gas for the Asset Optimization transaction; 3) Nominate the gas from receipt point to delivery point – requires the Gas Volume Analyst to have to make additional nomination(s) for the Asset Optimization transaction; 4) Confirm that gas is being delivered as nominated – requires the Gas Volume Analyst to confirm with Colorado Interstate Gas (CIG) that the gas nominated in step 3, is being confirmed by the pipeline to ensure gas is delivered as specified in the Asset Optimization transaction; 5) Pay for the gas purchased – requires the Gas Accountant to pay for the additional gas purchased as required by the Asset Optimization transaction and to ensure proper allocation of the gas cost against the Asset Optimization transaction; 6) Bill the party to whom the gas is sold – requires that the proper party(s) are billed in accordance with the terms specified in the Asset Optimization transaction and monitor the Accounts Receivable to ensure payment of the Asset Optimization transaction; 7) Ensure proper crediting of the Asset Optimization margin back to the GCA Clause – requires the Gas Accountant to ensure accounting for the Asset Optimization transaction via the GCA Tracker and proper reporting of the Asset Optimization transaction to ensure proper crediting. There will also be reports created to indicate the amount of capacity release and/or Asset Optimization margin generated, the calculated amounts to be credited back through the GCA Tracker and Aquila's share of the capacity release and/or Asset Optimization margin.

ATTACHMENT C
ASSET OPTIMIZATION PLAN TARIFF

To the extent the basis differential in gas cost per Dth between the Rocky Mountain and Mid-Continent indices exceeds the allowable capacity release rate via traditional Colorado Interstate Gas (CIG) Company electronic bulletin board (EBB) releases, Company shall extract this additional value by the use the of an Asset Optimization mechanism or Asset Optimization Plan (AOP) whereby Company purchases supply, transports the supply using the otherwise releasable capacity, and sells the supply to another party as a bundled sales in the Mid-Continent market. This mechanism generates a margin between the sale price and cost of gas (plus the cost to deliver the resale gas) that can be shared.

Sharing under the AOP shall be limited to 10,000 Dth/day firm CIG capacity with delivery rights to Forgan, Oklahoma, which interconnects with Natural Gas Pipeline of America to serve the Mid-Continent Market. Bundled gas sales outside Colorado shall be made on a month-to-month basis in the summer and on a day-to-day basis in the winter. Sharing under the AOP shall be limited to Company's value-added contribution, i.e., gas sales capitalizing on the basis differential between the Rocky Mountain and Mid-Continent Regions with 10,000 Dth/day of delivery capacity to Forgan at a price higher than the capacity release credits. Notwithstanding the AOP, Company shall continue to release any excess capacity on CIG's EBB that cannot be utilized in the AOP transactions(s). Under the AOP, Colorado ratepayers shall continue to receive 100 per cent (100%) of capacity release credits (1) via traditional CIG EBB releases on any excess capacity and (2) on a pro-forma basis via Asset Optimization bundled sales.

Colorado ratepayers shall not share in any losses in gas commodity sales from the AOP. Any penalty associated with non-delivery of gas sold under the AOP shall be borne by Company. Any imbalance penalty attributable solely to the AOP shall be borne by Company. All AOP capacity release revenues will be recorded. Any non-collection of revenues under the AOP shall be borne by Aquila, provided however that: (1) any uncollectible on capacity release will be borne by Aquila and Customers shall receive maximum rate capacity release credits on all AOP transactions and (2) any uncollected AOP margins subsequently received by Aquila will be shared with Customers in equal amounts and in accordance with the formula below.

The AOP shall operate independently of the Gas Cost Adjustment (GCA) clause. Company shall separately identify gas trading for the AOP and the general system, and shall separately account for costs and revenues for the AOP and the general system. Expenses and revenues associated with the AOP shall be itemized and recorded in appropriate FERC sub-accounts separate from expenses and revenues associated with providing service to Colorado ratepayers. AOP transactions shall be readily and directly traceable to specific gas contracts, invoices for gas purchases, and bills for gas sales.

Company's obligation to serve in no way shall be affected by the AOP. Should the Commission find, after hearing, that reliability of delivery of gas to Colorado customers has been affected by operations of the AOP and that customer refunds relating to reliability of service are required, Aquila shall make such refunds if ordered by a final decision of the Commission.

The AOP sharing mechanism shall be structured as follows:

a. On a monthly basis, in months when AOP transactions occur, Company shall credit the Account No. 191 for an amount that represents the maximum rate credit for the release of pipeline capacity used in the AOP transaction..

b. Colorado ratepayers and Company shall share 50/50 of the asset optimization margins under the AOP.

c. AOP margins shall be recorded "on a deal-specific basis." Only positive AOP margins will be shared. There shall be no netting of positive and negative AOP margins. AOP margins shall be determined using the following formula:

Revenue from a bundled gas sale contract to the Mid-Continent Region
less Commodity Gas Cost[1]
less Pipeline Capacity Reservation Cost[2]
less Variable Transportation Cost[3]
less Incremental Administrative Cost[4]
less Variable Cost[5]
AOP margin to be shared 50/50[6]

[1]Commodity Gas Cost = Deal-specific Volume (Dth or MMBtu @ standard pipeline pressure base) x unit price of purchase gas per Dth or MMBtu. Commodity Gas Cost may include separate, but specifically identifiable, hedging costs, if applicable.

[2]Pipeline Capacity Reservation Costs = Deal-specific Volume (Dth or MMBtu @ standard pipeline pressure base) x pro-forma unit price of maximum tariff rate (the then currently effective CIG maximum TF-1 reservation rate ($/Dth) divided by 30.4 (365 days/12 months)).

[3]Variable Transportation Cost = Deal-specific Volume (Dth or MMBtu @ standard pipeline pressure base) x unit rate for gas transportation on CIG's tariff.

[4]Incremental Administrative Cost is the additional administrative cost for the AOP that are not duplicative of any cost recovered in a rate case.

[5]Variable Cost may include costs associated with fuel, loss and unaccounted for ("F,L&U") as revised from time to time on CIG's tariff.

[6]No sharing for a deal/transaction where the AOP margin to be shared is less than zero.

Company shall calculate AOP margins for each transaction using the foregoing formula and report this information in its annual Gas Purchase Report and Gas Purchase Plan. Company shall describe and explain the allocation of gas purchases, revenues and expenses. Company shall provide workpapers under separate cover on specific gas contracts, invoices for gas purchases, and bills for gas sales, etc. In addition, Company shall describe and explain any affiliate transactions or unique or unusual circumstances.

Implementation of Sharing: On a monthly basis, in months in which AOP sharing occurs, all revenues and costs associated with using the AOP shall be booked in FERC Accounts 417.00, 417.100, and 191.540. Customers and Aquila shall share AOP margins in equal amounts. Notwithstanding the AOP, Aquila shall continue to release any excess capacity on CIG's EBB that cannot be utilized in the AOP transactions(s) with all associated revenues being booked in FERC Account 191.540.

Term of AOP: Sales under the AOP shall terminate on June 30, 2006.

Effective Date: March 1, 2004

24. GAS COST ADJUSTMENT – UNIFORM PROCEDURE (continued)

Upstream Services:
Include all transmission, gathering, compression, balancing, treating, processing, storage and like services performed by others under contract with the utility for the purpose effectuating delivery of gas commodity to the utility's jurisdictional natural gas facilities.

GCA Effective Period:
The 12-month period of time beginning October 1 that the GCA rate change is intended to be in effect.

Deferred Gas Cost:
The rate component of the GCA, expressed in mils ($0.001) per Mcf, designed to amortize over the GCA Effective Period the under-or over-recovered gas costs reflected in the Company's Account 191 or other appropriate costs for a defined Gas Purchase Year.

The deferred gas cost will be calculated monthly by subtracting Recovered Gas Cost from Actual Gas Cost, and applying AOP credits as set forth in Colo. PUC No. *2, Sheet No.____ and capacity release credits*. The resulting amount, whether negative or positive, will be accumulated for the twelve-month period ending June 30 of each year. In addition, interest at a rate equal to the Commission authorized customer deposit rate for gas utilities will be applied to the deferred gas costs on an average monthly basis and will be accumulated for the same twelve-month period ending June of each ear. Deferred Gas Cost, plus interest if net interest is negative, will be divided by estimated sales volumes for the twelve-month period during which the Deferred Gas Cost is to be effective. If net interest is positive, it will be excluded from the calculation of the Deferred Gas Cost.

A revised Deferred Gas Cost will be effective beginning October 1 of each year. The revised Deferred Gas Cost will replace the previous Deferred Cost included in the Company's GCA.

Base Gas Cost:
A rate component, expressed in mils ($0.001) per Mcf, used in the calculation of the GCA which reflects the cost of gas commodity and Upstream services included in the Company's Gas Rates for sales gas and gas transportation service. Base Gas Cost is determined at the time of a rate case application.

Recovered Gas Cost:
The amount calculated by multiplying the volumes sold during a month by the currently effective rate for purchased gas.

Actual Gas Cost:
All costs properly included in FERC Accounts 800, 801, 802, 803, 804, 805, 806, 808, 809, land 823.

Risk Management Cost:
All costs and income associated with using various approved risk management tools. FERC Account 805.200. N

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of December 2003, a true and correct copy of the foregoing **SETTLEMENT AGREEMENT** was served via hand delivery or placed in the United States mail, first class postage prepaid, addressed to the following:

Steven H. Denman, Esq.
ABEL, BAND, RUSSELL, COLLIER,
PITCHFORD & GORDON, CHARTERED
240 South Pineapple Avenue
Post Office Box 49948
Sarasota, FL 34230-6948

Mr. Steven M. Jurek
Vice President, Regulatory Affairs
Aquila, Inc.
1815 Capital Avenue
Omaha, NE 68102

G. Harris Adams, Esq.
Assistant Attorney General
1525 Sherman St., 5th Fl.
Denver, CO 80203

James Greenwood
Rate/Financial Analyst
Office of Consumer Counsel
1580 Logan Street, Suite 740
Denver, CO 80203

**Billy Kwan
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

**Sandra Johnson Jones
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

**Bridget McGee-Stiles
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

**Gary Schmitz
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

**Geri Santos-Rach
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

Robert Bergman
Advisory Staff
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

Frank Shafer
Advisory Staff
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203
BY INTERDEPARTMENTAL MAIL

Janet Nuckles