**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

07-AQLG-431-RTS

In the Matter of the Application of Aquila, Inc., d/b/a Aquila Networks-KGO, For Approval of the Commission to Make Certain Changes in its Rates For Natural Gas Service	))))	Docket No. ______________

Direct Testimony of Richard C. Loomis

Vice President, Kansas and Colorado Gas Operations
Aquila, Inc.

Policy

November 2006

I. Introduction

Q. Please state your name and business address.

A. My name is Richard C. (Chuck) Loomis. My business address is 110 E. 9th, Lawrence, Kansas 66044.

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

A. I am employed by Aquila, Inc. ("Aquila" or "Company") as Vice President, Kansas and Colorado Gas Operations.

Q. Briefly describe your educational background and employment history.

A. I have earned a Master of Business Administration degree from Bowling Green State University in Bowling Green, Ohio, and a Bachelor of Business Administration degree with a major in Accounting from the University of Toledo, Toledo, Ohio. In addition, I have completed courses related to rate regulation of natural gas utilities and natural gas distribution operations, sponsored by various industry organizations and associations. I joined Michigan Gas Utilities (MGU) in 1985 as General Accountant. From 1987 through 1994, I worked in positions of increasing responsibility in MGU's Rates and Regulatory Affairs function, becoming Manager in 1992. In 1989, Aquila (then UtiliCorp United) acquired MGU from Michigan Energy Resources Company and continued to operate MGU as a separate division.

From 1994-1997, I served as State Administrator in Michigan, and in July 1997, relocated to Omaha, Nebraska to become Asset Manager for Iowa and Nebraska. In this position, I was responsible for operational and financial performance of Aquila's gas distribution assets serving nearly 325,000 customers in these two states. I became Manager, Nebraska Business Operations as part of a corporate restructuring in 2002. I was named Vice President, Kansas and Colorado Gas Operations in February 2004.

Q. Would you please describe your responsibilities related to Kansas gas operations?

A. I am responsible for financial and operational performance of Aquila's gas distribution operations in the State of Kansas. I directly oversee state operating functions, including gas distribution network operations, maintenance, construction, customer service, customer relations and community relations. I am indirectly involved in the oversight of certain other functions that are centralized within Aquila and provide support to Kansas gas network operations. Examples of central functions include gas supply, regulatory and legislative affairs, and call center functions.

Q. Please describe the Kansas Gas Operations.

A. Aquila serves approximately 105,000 retail customers in 54 communities and areas in 35 counties. Operation Centers are located in the major cities and towns served by Aquila, which include Lawrence, Wichita, Garden City, Dodge City, Liberal and Goodland.

Q. Have you previously testified before any regulatory agencies?

A. Yes. I have testified before the Michigan Public Service Commission and the Nebraska Public Service Commission. I have also presented public testimony before the Nebraska Legislature Urban Affairs Committee and its Revenue Committee, as well as the Utilities Committee of the Kansas Senate, and filed testimony in KCC Docket Nos. 05-AQLG-367-RTS and 02-UTCG-701-GIG.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is generally 1) to explain why Aquila is seeking rate relief at this time; 2) to assure the Commission that Aquila's rates are based only on those costs incurred in providing gas utility service to Aquila's Kansas customers and that costs associated with Aquila's non-regulated business are being paid for only by Aquila's shareholders; 3) to explain how Aquila has reduced its central support function and corporate services costs to a level that is commensurate with the size of the utility after completion of the sale of some of its other utility properties; 4) to discuss the recent performance of the utility and confirm Aquila's commitment to providing quality and reliable service to its customers at reasonable rates; 5) to introduce other Company witnesses, and 6) to present testimony supporting recovery of costs associated with converting certain farm tap customers to alternate fuels due to a permanent discontinuation of natural gas supplies in early 2005.

II. Reasons For Rate Increase

Q. Please explain the reasons for Aquila's request for rate relief?

A. I recognize that there is no particularly good time to request an increase in rates. However, operating costs and utility plant investment have increased since the last Aquila rate increase (which was requested in November 2004 based on costs for 12 months ending June 30, 2004.) As such, current rates are not sufficient to allow Aquila to earn a fair and reasonable return on the investment in its Kansas gas business.

Q. What are the main drivers for the need to increase rates?

A. Since the last rate increase, margins have remained relatively flat. As such, the main drivers of the proposed rate increase for Kansas are (1) necessary capital investments made to continue providing safe and reliable service; (2) increased operating costs despite cost containment efforts by the Company; and (3) continued erosion of average consumption caused by conservation and technological improvements in gas furnaces and other gas appliances.

Q. What specific events are driving the need for this request?

A. Rate base, which is the total amount invested in plant, equipment, gas-in-storage, and working capital, has increased over 8% since the time of the last rate case filing. Operating and maintenance expenses for the test year period ending June 30,2006, including pro forma adjustments have increased over 14% from the level allowed in the most recent rate case. These cost increases are driven primarily by inflation in most areas of Aquila operations, but are also impacted by cost increases above inflation for items such as health care benefits for employees. Costs associated with central-based functions, including costs for billing and accounting systems, have also increased. Because of the lack of customer growth there is little opportunity for Aquila to increase the revenue necessary to make the capital expenditures related to maintaining a safe, reliable system and to cover the increase in costs to provide said service.

Q. Given the lack of increased revenues due to a lack of net customer growth, has Aquila done anything to contain costs and improve operating efficiencies?

A. Yes. Aquila has implemented a number of initiatives to contain costs and improve operating efficiencies. For example, central purchasing and contracting for goods and services, including pipe and related materials, allows for volumetric purchases from suppliers at competitive prices. A competitive bid process is also employed for engaging the services of third party construction and maintenance contractor crews. Examination and analysis of more efficient methods to operate continue to be examined and implemented. Aquila has successfully adopted a process improvement methodology commonly referred to as "Six Sigma" to continue to drive process efficiency and effectiveness. Company wide, these employee teams utilizing the Six Sigma methodologies have helped to deliver process efficiencies and financial savings since 2004, which are already included in the test period. In addition, staffing levels are consistently monitored and managed, with a focus on opportunities to implement more advanced uses of technology.

III. Only Costs Associated with Aquila's Kansas Gas Service Business are Included in this Rate Filing

Q. You indicated that the proposed rates in this case are based only on costs incurred in providing gas utility service to Aquila's Kansas customers and that costs associated with Aquila's non-regulated business are being paid for by Aquila's shareholders. Could you please explain this statement?

A. Yes. In its review of this filing, the Commission can be assured that Aquila's rates are based solely on costs incurred in providing gas utility service to Aquila's Kansas customers. While Aquila's overall financial condition has continued to improve with execution of the Company's repositioning plan, Aquila's credit ratings have not yet returned to investment grade. As in previous rate cases, all employees associated with the preparation of this rate request have been instructed to make sure that only those costs associated with providing gas utility service to Kansas customers be included in the determination of the regulated revenue requirement in this case and that any of Aquila's non-regulated business costs, debts or losses are paid for by Aquila's shareholders and not the customers.

Q. What are some examples of costs that have not been included in this rate case filing?

A. As in the last rate case, this application does not include the higher interest costs that may be incurred because of Aquila's debt rating. The costs associated with Aquila having a non-investment grade debt rating are being paid for by Aquila's shareholders. This application also does not include costs associated with the exiting or winding down by Aquila of its non-regulated businesses and investments. Those costs are also being paid for solely by Aquila's shareholders. Aquila has also excluded the cost, if any, associated with prepay arrangements in gas procurement. This includes any costs associated with any premium paid for gas purchases and any working capital impact. In addition, this Application does not include costs associated with executive bonuses and incentives, repositioning costs such as consultants, advisors, and associated transaction fees.

Q. How does Aquila ensure that only those debt costs associated with the regulated utility are included in rates and the cost of that debt is adjusted

to eliminate higher interest costs that may be incurred because of Aquila's non-investment grade debt rating?

A. Aquila instituted a capital assignment process shortly after its formation in the mid-1980s that was specifically designed to insulate each of its utility divisions from other operations of the Company. Aquila's regulated utility operating units receive capital based upon what a comparable utility would receive. This process has been presented to state commissions in every rate case since 1988, including this Commission. In the direct testimony of the Company's expert witness, Dr. Don Murry, he thoroughly discusses this capital assignment process and Aquila's intent not to assign debt to utility operations at a cost higher than what could be obtained by a utility that carried an investment grade credit rating.

IV. Reduction in Central Support Function and Corporate Service Costs

Q. Has Aquila taken steps to reduce its central support functions and corporate services costs as a result of selling some of its other utility operations?

A. Certain central support functions provide utility services for the entire Company, such as billing and call center services. Furthermore, corporate services are provided by the information technology department, the legal department, communications, human resources department, and accounting. As Aquila completes its repositioning plan, it has developed a comprehensive plan to eliminate the majority of costs previously allocated to other state utility operations that have now been sold. The plan is to achieve these cost reductions by January 1, 2007.

Q. What level of cost reductions is anticipated in this plan and how does that reduction compare to the costs that were previously allocated to the states being sold?

A. Aquila estimates that central support function costs and corporate service costs will be reduced by approximately $37.5 million as a result of its plan. The amount of said costs previously allocated to the states being sold was approximately $42.3 million. The difference between the two, or approximately $4.8 million, relates to fixed costs that cannot be ratably reduced with the reduction in customers, plant and employees. Examples of such costs include SEC reporting compliance costs, Sarbanes Oxley compliance, investments in billing and accounting systems, and Corporate Treasury functions.

Q. Have the estimated cost reductions been reflected in this rate filing?

A. Yes. The estimated cost reductions have been reflected in this rate case filing so that Aquila's Kansas gas utility customers are paying for only those central support functions and corporate services that are being used to provide service to Kansas customers. Moreover, as a result of the cost reduction plan, Aquila's total central support functions and corporate services costs have been reduced to a level that is commensurate with the size of the utility after completing the sale of some of Aquila's other utility properties. As discussed further in the testimony of the Company's expert witness Dr. Murry, that level of costs compares favorably to similarly sized utilities providing service to both gas and electric customers.

V. Commitment To Providing Quality and Reliable Utility Services at Reasonable Rates

Q. Have Aquila's non-regulated business losses had any impact on the level of service that Aquila has provided to any of its utility customers, including Kansas gas utility customers?

A. No. Aquila has developed internal service quality metrics that are monitored monthly and reported on a quarterly basis. Examples of these include measures related to the timeliness and accuracy of meter reading, safety measures including the frequency of employee injuries necessitating time lost away from work, vehicle accidents, response to emergency calls, and the number of firm service interruptions. For the Kansas gas utility operations, these metrics are reported to me monthly and I subsequently discuss service quality performance with each Operations Manager. Based upon my review of the results of the internal service quality metrics, the quality of service has not been impacted by Aquila's non-regulated business losses.

In addition to Aquila's internal service quality metrics, Aquila files a quarterly service quality report with this Commission in the 701 Docket. The results contained in those quarterly reports also indicate that the quality of service provided by Aquila has not been negatively impacted by Aquila's non-regulated business losses.

Q. Have Aquila's non-regulated business losses impacted Aquila's commitment to employee training?

A. No. Aquila continues to train and develop its employees to ensure a workforce that consistently meets guidelines established internally and by the industry. For example, the U.S. Department of Transportation, in conjunction with the National Transportation Safety Board and Office of Pipeline Safety required utility operators to complete Operator Qualification (OQ) by October 28, 2002, and maintain Operator Qualifications through completion of certain training modules on an ongoing basis. Affected employees in Kansas (approximately 136 gas employees statewide) completed training modules and passed qualification testing through programs developed by the Midwest Energy Association, which has been cited as the leader in natural gas industry Operator Qualification products. In addition to automated training, hands-on training and testing has been completed for twenty safety-sensitive tasks. Employees continue to be trained on additional business issues. Such issues include FERC Order 2004 and 2004-A, which require employees of combination electric and gas utilities such as Aquila to be familiar with the separation of power generation and transmission functions. Other examples include training related to internal controls resulting from Sarbanes Oxley legislation, as well as new Department of Transportation Pipeline Integrity Management rules and regulations.

Q. How does Aquila demonstrate its commitment to the communities and customers it serves?

A. As a community partner, Aquila remains active in numerous civic and community events through economic development initiatives, financial contributions, and the involvement of its dedicated employees. Aquila has been involved in a broad range of projects to improve its local communities, including education of youth through Junior Achievement programs, Habitat for Humanity projects, Big Brothers and Big Sisters, involvement in local United Way campaigns, and various other community initiatives. Further, Aquila demonstrated its commitment to communities and customers by way of its response to an immediate and permanent discontinuation of gas supplies to certain farm tap customers by a supplier in Southwest Kansas, which is addressed later in my testimony.

Q. Is Aquila doing anything to assist customers to counter the relatively high gas commodity prices that have been experienced over the last several years?

A. Aquila is proposing a Low-Income Weatherization Program to promote conservation to lower demand and ultimately lower prices. Company witness Mr. Matt Daunis explains the proposed program in his testimony. In this filing, Aquila seeks Commission approval of a program to provide further energy conservation measures, including home weatherization, replacement of older, less-efficient furnaces with newer, high-efficiency models, and gas water heater replacements. These programs are designed to work in conjunction with, and complementary to local Community Action Programs. In addition, Aquila is participating in the Commission's recently opened docket to address energy efficiency and other related issues (Docket No. 07-GIMX-247-GIV).

VI. Witnesses

Q. What witnesses will be used to sponsor the exhibits filed in this case?

A. Eight Company witnesses are sponsoring the exhibits that accompany the application; they are: 1) Richard G. Petersen, Director of Gas Regulatory Financial Services and Reporting, who is responsible for all Per Book Test Year numbers; i.e. unadjusted data that comes from the Company books and records for July 1, 2005 through June 30, 2006; Mr. Petersen is also sponsoring several accounting adjustments for known and measurable changes that have taken place since or during the test period; 2) Terry R. Thomas, Senior Financial Manager for Kansas and Colorado, who is sponsoring three pro forma adjustments; 3) Randy L. Dyer, Director, Kansas and Colorado Business

Operations, who is sponsoring certain tariff revisions; 4) Matthew E. Daunis, Manager of Energy Efficiency Programs, who is sponsoring a proposal to offer a Low-Income Weatherization Program for Kansas natural gas customers; 5) Phil Beyer, Director of Benefits and Human Resources Information Systems, who supports a pro forma adjustment to reflect the escalating costs of providing pension benefits; 6) Ruth Gustin, Manager of Employee Benefits, who supports a pro forma adjustment to reflect the escalating costs of providing health care benefits; 7) Harry Ono, Director of East Gas Supply Services, who sponsors the revised tariff sheets that deal with various transportation services; and 8) Tim Hess, Sr. Manager of External Affairs, who supports the pro forma adjustment to reflect the changes in volume and revenue associated with large volume customers.

Q. Has the Company employed any outside consultants to assist them in the preparation of this requested rate increase?

A. Yes, Aquila has hired outside consultants to assist the Company with very specific issues. Dr. Donald A. Murry, Ph.D., who is Vice President and economist of C.H. Guernsey & Company from Oklahoma City, has analyzed Aquila's cost of capital and has recommended an appropriate return-on-equity for retail natural gas distribution service in Kansas. Next, Mr. Thomas J. Sullivan, who is Vice President in the Enterprise Management Solutions Division for Black & Veatch Corporation from Overland Park, Kansas, along with Ms. Kimberley Winslow, Senior Consultant in the Enterprise Management Solutions

Division, used regression analysis on 30-year weather data to determine sales and purchase volumes of heat sensitive customers expected during normal weather, and 5-year weather data to normalize sales and purchase volumes of irrigation customers. Mr. Sullivan and Ms. Winslow also prepared a fully allocated class cost of service study based upon Kansas operations costs within the test year, and sponsor rate design. Kim Winslow with Black and Veatch is also providing testimony related to rate design issues. Finally, Mr. Paul H. Raab, who is an independent economic consultant from Bethesda, MD, is providing additional support for the proposed rate design.

Q. What rate design is the Company proposing in this case?

A. As Mr. Raab points out in his testimony, Aquila's experience with declining use per customer in Kansas mirrors the American Gas Association's findings of a nation-wide pattern of declining consumption. Over the last decade, Aquila's average annual residential use has declined over 20%. According to the report, the steady decline is due, in part to, more efficient gas appliances, namely high efficient furnaces, more energy efficient homes, and loss of market share to heat pumps. Since natural gas distribution is largely a fixed-cost business, very little cost is associated with consumption. To "decouple" the age-old connection between cost recovery and volumetric-related revenue, the Company is proposing a rate design that more closely aligns the revenue with the fixed costs. In its previous 2004 request for a rate increase, Aquila proposed a "two-tiered" rate design that attempted to recover more of the Company's fixed costs on a monthly basis without a dramatic change in the way customers have been billed in the past. The Company was not able to reach consensus with KCC Staff and CURB related to that rate design proposal in the last rate case. Since the time of Aquila's last rate case, discussions among regulators and utilities across the country have continued regarding appropriate ways to design natural gas local distribution companies' rates in order to combat the recent pressure on natural gas prices and promote or incent the efficient use of energy by customers. A primary issue has been the disincentive built into traditional rate design, which closely ties utilities' earnings to the amount of natural gas delivered to customers. Aquila suggests that it is time to decouple utility earnings from volumes delivered and its rate design proposals set forth in the testimony of Mr. Sullivan and Ms. Winslow serve to further that objective. In this case, Mr. Sullivan and Ms. Winslow propose a demand-based rate design that recognizes the various consumption patterns of residential, small commercial, and small and large volume (firm and transportation customers served at full tariff) customers. Aquila recognizes that the while the introduction of a demand-based rate will more appropriately provide for recovery of fixed utility costs than the existing, traditional rate design, such a proposal may also be difficult to clearly and sufficiently explain to customers. As such, Mr. Sullivan and Ms. Winslow also propose an alternative rate design to decouple revenues from volumes through implementation of a monthly fixed charge that would recover all delivery costs and a commodity charge, which would recover all commodity costs (i.e., PGA, ACA, Hedge Factor, Bad Debt Cost Factor.)

VII. Recovery of Converting Farm Tap Customers to Alternative Fuels

Q. Is Aquila seeking recovery of expenses associated with converting certain farm tap customers to alternate fuels in 2005 in this rate case?

A. Yes. On February 11, 2005, Aquila filed an application (Docket No. 05-AQLG-687-ACT) requesting the issuance of an accounting authority order (AAO) relating to its natural gas operations and seeking approval to defer and seek recovery of its actual costs incurred in response to an emergency situation due to hydrogen sulfide (H2S) levels in natural gas supplied to approximately 280 customers. The application was amended on February 17, 2005, and on June 1, 2005, the Commission Staff submitted its Report and Recommendation setting out the results of its investigation. On July 18, 2005, the Commission issued its Order Granting Accounting Authority and approving Aquila's application.

Q. Can you please provide additional background information related to this emergency situation?

A. Yes. In order to more fully frame the issue, I will provide a brief historical overview of this matter. As local gas wells were developed in Southwest Kansas in the early 1900s, natural gas gathering systems were installed to carry natural gas from the production point (wellhead) into processing plants and ultimately into interstate natural gas pipelines. In many instances, the company installing gathering lines provided a tap (commonly called a farm tap) on the gathering system line in exchange for a Right-of-Way across the landowner's property. These farm taps provided natural gas service to farm homes and served as a source of fuel for irrigation pumps for many years. In 1987, in response to certain changes occurring in the regulatory framework for pipelines, Northern Natural Gas Pipeline ("NNG"), at the time an owner of a gathering system in Southwest Kansas, entered into an agreement for services with Peoples Natural Gas. (Peoples Natural Gas was acquired by Aquila's predecessor UtiliCorp United in 1985.) Under the terms of the 1987 NNG agreement, Peoples Natural Gas (now Aquila-KGO) provides meter reading and billing services to certain farm tap customers in Southwest Kansas. Aquila purchased gas supplies for service to these customers from NNG. Subsequently, on April 1, 1997, NNG sold the gathering system to KN Energy ("KN"), and Aquila-KGO entered into a supply agreement with KN. More recently, on March 1, 2000, KN sold the gathering system in Southwest Kansas to ONEOK.

Q. Please continue.

A. Effective February 1, 2004, ONEOK, the successor in interest to KN, terminated the supply agreement between Aquila and KN and began negotiation of a new supply agreement. Aquila and ONEOK continued to negotiate terms and conditions of the supply agreement until February 3, 2005. At that time, citing contract language from the draft supply agreement, ONEOK provided Aquila notice of an immediate and permanent discontinuation of gas supplies due to safety concerns associated with the presence of H2S on its gathering system affecting nearly 280 customers spread over six Southwest Kansas counties. Given the cold winter conditions of early February 2005, Aquila was immediately concerned for the safety, health and well being of customers served from the ONEOK gathering system. Over the course of February 3rd and 4th, Aquila held a number of lengthy and at times intense discussions with ONEOK and the Commission Staff regarding the immediate danger present and the permanent nature of the supply shutoff. Despite attempts to determine the extent of the problem and repeated attempts to verify the scope of the H2S problem, ONEOK was unwilling to change its position of requiring an immediate and permanent discontinuation of supplies.

Q. What action did Aquila undertake to respond to this emergency situation?

A. Aquila was first and foremost concerned with the safety of the farm tap customers served off of the gathering system. With the caveat that Aquila was not acknowledging any liability for this situation on its part, on Friday, February 4, 2005, I immediately assembled a team including members from Aquila's customer service, field operations, customer relations, engineering, community relations, regulatory affairs, legislative affairs and communications departments. This group developed a comprehensive plan to address the concerns of the many stakeholders impacted by this emergency situation. Due to ONEOK's demand to immediately cease service, beginning that Friday evening, employee teams assembled in Garden City and Liberal to begin the process of personally contacting customers and coordinating the shutoff of natural gas service to their homes. Working throughout the weekend and into the following week, Aquila teams worked to arrange temporary heating equipment, such as electric space heaters, and provide options to customers for conversion to alternate fuels. In certain instances, Aquila provided temporary lodging for customers and families displaced from their homes due to a lack of heat.

Q. Please continue.

A. Over the course of approximately the next ten to twelve days, Aquila worked tirelessly to ensure the safety, health and well being of customers impacted by the discontinuance of supply. Because ONEOK stated that the disconnections were permanent, and after securing the initial wave of temporary heat sources for customers, Aquila then continued to work to permanently convert customers' appliances to alternate sources of fuel, typically propane. As a result of the actions taken by Aquila, there were no incidents, damages, or injuries to any customer or their property.

Q. Specifically, what provisions did Aquila offer to customers?

A. In most cases, Aquila provided the conversion of heating equipment to an alternate fuel (typically propane) as well as a propane tank and a temporary supply of propane. In certain instances, customers were within a relatively close proximity to Aquila's existing gas distribution system and customers were thereby connected to Aquila's system. In a few instances, Aquila converted customer heating equipment to electricity.

Q. What were the total costs incurred by Aquila and deferred under the Commission's Order Granting Accounting Authority dated July 18, 2005?

A. At the time of this filing total costs of $540,536.85 have been incurred to provide for the safety, health and well being of the customers who were impacted by the H2S problem. These costs have been accounted for in accordance with the provisions of the Commission's Order and the Staff's Report and Recommendation dated June 1, 2005. Aquila witness Terry Thomas is providing testimony addressing the pro forma adjustment to test year expenses seeking recovery of these costs.

Q. What additional action has Aquila taken related to these events of February 2005?

A. Aquila filed a Complaint Against ONEOK Field Services with this Commission on March 24, 2005 (Docket No. 05-CONS-222-CMSC) ("222 Docket") and through that docket sought to enjoin ONEOK from disconnecting additional customers. In the 222 Docket, Aquila has actively pursued additional information from ONEOK seeking to ascertain the data relied upon by ONEOK in making its decision to permanently discontinue gas supplies. Through that docket, Aquila has also sought to reach agreement with ONEOK regarding procedural steps and actions that will better serve the public should any similar issue arise in the future. Over the course of time, Aquila has submitted four series of data requests to ONEOK in the complaint docket. Aquila and ONEOK have kept the Commission apprised of the status of those discussions through a series of Joint Status Reports, filed on June 14, 2005, August 16, 2005, October 6, 2005, and December 6, 2005. Dissatisfied with the lack of progress being made in obtaining data from ONEOK related to its decision, on March 2, 2006, Aquila filed a separate status report and a Motion to Compel with the Commission seeking the Commission to direct ONEOK to provide responsive answers to certain data requests and to provide privileges logs addressing information which ONEOK claimed to be privileged and confidential.

Q. Has Aquila also sought to resolve the complaint case by seeking from ONEOK a reimbursement of costs incurred by Aquila in converting customers to alternate sources of energy.

A. Yes. On May 19, 2005, several representatives of Aquila and ONEOK met to discuss matters pertaining to the 222 Docket. At that time, ONEOK denied any obligation to pay any costs associated with the H2S situation and was unwilling to consider any contribution toward the costs incurred by Aquila. Again, on September 12, 2005, I personally contacted Roger Thorpe, Vice President of ONEOK Field Services and requested that Aquila and ONEOK resolve the complaint case through some form of payment or sharing of costs by ONEOK, and this offer of settlement was again rebuked. On October 2, 2006, representatives of Aquila held a conference call with Mr. Thorpe for the sole purpose of discussing settlement of the complaint proceeding. During this call, Mr. Thorpe again reiterated ONEOK's position, which has been that ONEOK is not responsible for any costs associated with the H2S issue and affirmed that its position remains unchanged.

Q. Is it Aquila's position that the conversion costs should be recovered in rates?

A. Yes. This unusual situation demanded immediate action to protect the safety, health and well being of customers. Aquila responded accordingly. Had no action been taken, the situation could easily have deteriorated into a nightmare of unwanted consequences such as illness, injury or loss of life. The cost to convert these customers to alternate fuels is a reasonable amount and a reasonable cost of doing business. Since maintaining service to these customers experiencing the H2S problem would have resulted in higher costs than the cost to convert these customers and because of the need to address an emergency situation, Aquila took the appropriate steps in addressing this matter, and should be allowed to recover these costs in this rate case pursuant to the Commission's accounting order.

Q. Has the Commission addressed this same issue in any other rate proceedings?

A. Yes. In its Order Approving Settlement in a recent Midwest Energy general rate case proceeding (Docket No. 06-MDWG-1027-RTS) the Commission specifically allowed Midwest to recover expenses associated with converting customers to alternate fuels over a 3-year amortization period.

Q. Are there any other situations in which a relevant precedent exists for allowing recovery of the cost of converting customers to an alternate fuel?

A. Yes. There have been several instances where natural gas distribution companies in Kansas have been unable to continue providing service to customers. In those situations, the Commission has required the distribution company to pay the customer an amount to assist the customer in converting appliances and heating equipment to an alternate fuel as a cost of doing business. While typically those situations have not involved the sudden discontinuation of supply and immediate need for conversion, the end result is similar in that customers no longer have a feasible source of natural gas supply available to them and must make arrangements for an alternate, permanent heating source. Relevant abandonment cases include Docket Nos. 02-AQLG-979-CCS, 02-KGSG-035-CCS, 02-KGSG-192-CCS, 03-KGSG-829-CCS, 04-ATMG-913-CCS, and 04-LCYG-832-CCS.

Q. Does this conclude your direct testimony?

A. Yes, it does.

VERIFICATION

STATE OF Kansas)
)ss:
COUNTY OF Douglas)

Richard C. Loomis, being first duly sworn, deposes and says that he is Richard C. Loomis, referred to in the foregoing document entitled "Direct Testimony of Richard C. Loomis" before the State Corporation Commission of the State of Kansas and the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

Richard C. Loomis
Richard C. Loomis

SUBSCRIBED AND SWORN to before me this 23rd day of October, 2006.

Gloria Eberle
Notary Public

My Appointment Expires:

GLORIA EBERLE
Notary Public - State of Kansas
My Appt. Expires 8-30-09