

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

JAN 28 2005

In the Matter of the Application of Aquila, Inc., d/b/a)
Aquila Networks - KGO, for Approval of an)
Accounting Order to Permit Aquila, Inc., d/b/a Aquila)
Networks - KGO to Recover Amounts Necessary to)
Expend in Order to Establish and Maintain a Gas)
Ceiling Price for the 2005-2006 Heating Season)

James Ziegler Docket
Room

Docket No. 05-AQLG- 616 -HED

APPLICATION

COMES NOW Aquila, Inc., d/b/a Aquila Networks - KGO ("Aquila"), and pursuant to K.S.A. 2002 Supp. 66-117, files this application with the Kansas Corporation Commission ("KCC") for an order approving its request for an accounting order to permit Aquila to recover such amounts of its funds as may be necessary to expend in order to establish and maintain a gas ceiling price for the 2005-2006 heating season under the Gas Hedge Program and for continuation of its "Gas Hedge Program" tariff. In support of its application, Aquila states as follows:

1. Aquila is a corporation duly organized under the laws of the State of Delaware, with a principal place of business at 20 West Ninth Street, Kansas City, Missouri 64105. Aquila is authorized to do business and is conducting business in the State of Kansas.
2. Aquila is engaged, generally, in transporting, distributing and selling natural gas in portions of Kansas. Aquila provides service to over 100,000 customers in Kansas. Aquila's Kansas operations are subject to the jurisdiction of the KCC.
3. Based upon meetings that Aquila has conducted with members of the KCC Staff, CURB and based upon discussions which took place during the formal roundtable discussions and the most recent focus group study held by the KCC, Aquila believes it is important that some type of price

protection should be afforded to its customers by establishing a ceiling price on a percentage of its projected sales volumes for the 2005-2006 heating season. In order to establish a ceiling price on a percentage of the sales volumes for the 2005-2006 heating season, it is likely that Aquila will have to spend approximately \$2,100,000.00. Aquila requests that the KCC authorize a cap on total spending to establish a ceiling price of up to \$2,100,000.00. Aquila is willing to invest such funds, as needed, to establish a ceiling price. However, Aquila will invest such funds to reach the target price cap expenditure only if the KCC authorizes the recovery of the funds expended through Aquila's purchase gas adjustment (PGA) tariffs. The \$2,100,000, or \$21 per year per customer, is the suggested budget that focus group respondents are willing to pay for hedging.

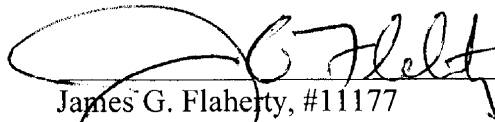
4. Aquila is requesting the KCC issue an accounting order authorizing Aquila to: 1) record those monies expended by Aquila in establishing a gas ceiling price for the 2005-2006 heating season in an account to accrue interest at the KCC-approved interest rate for customer deposits; 2) recover the program costs from all of its sales customers (except irrigation customers) on a volumetric basis through a separate line item on Aquila's monthly PGA filings during the months of April 1, 2005 through October 31, 2005, or as soon after the program is approved by the KCC; and 3) to make such report or reports deemed necessary by the KCC regarding such account.

5. Attached hereto and incorporated herein by reference is the testimony of Shawn L. Gillespie. Mr. Gillespie is a Director of Gas Supply Planning and Operations for the South Region for Aquila Networks and is testifying in support of Aquila's request for approval of an accounting order in this matter and continuation of Aquila's Gas Hedge Program tariff.

6. Also attached hereto and incorporated herein by reference is Aquila's proposed Gas Hedge Program tariff.

7. The authority requested by this application will allow Aquila to take actions, which are reasonably designed to mitigate the volatility of gas prices in the winter months. It is the goal of Aquila's Gas Hedge Program that these actions will mitigate price volatility, at a reasonable cost, relative to Aquila's traditional operations. Therefore, Aquila requests the KCC find the authority requested is in the public interest.

WHEREFORE, Aquila respectfully requests that the KCC issue an order granting Aquila's request for an accounting order to permit Aquila to recover such amounts of its funds as may be necessary to expend in order to establish and maintain a gas ceiling price for the 2005-2006 heating season under the Gas Hedge Program; for continuation of its Gas Hedge Program tariff; and for such other relief as the KCC may deem appropriate.

A handwritten signature in black ink, appearing to read "J. Flaherty", is written over a horizontal line.

James G. Flaherty, #11177

ANDERSON & BYRD, LLP

216 S. Hickory, P. O. Box 17

Ottawa, Kansas 66067

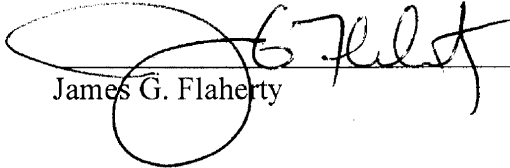
(785) 242-1234

Attorneys for Aquila, Inc., d/b/a Aquila Networks - KGO

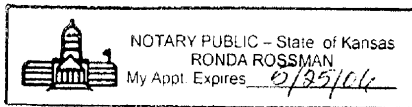
VERIFICATION

STATE OF KANSAS, FRANKLIN COUNTY, ss:

James G. Flaherty, of lawful age, being first duly sworn on oath, states: That he is an attorney for Aquila, Inc., d/b/a Aquila Networks - KGO; that he has read the above and foregoing Application, knows the contents thereof; and that the statements contained therein are true.


James G. Flaherty

SUBSCRIBED AND SWORN to before me this 27 day of January, 2005.




Ronda Rossman

Notary Public

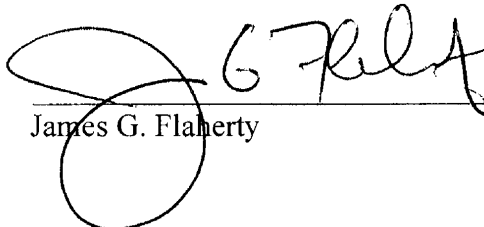
My Commission Expires:

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was hand delivered, this 27 day of January, 2005, addressed to:

Susan Cunningham
Acting General Counsel
Kansas Corporation Commission
1500 S. W. Arrowhead Road
Topeka, Kansas 66604

David R. Springe
Consumer Counsel
Citizens Utility Ratepayers Board
1500 S.W. Arrowhead Road
Topeka, Kansas 66604


James G. Flaherty

AQUILA, INC.
(Name of Issuing Utility)Schedule PGA-96, Fourth Revised

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KANSAS GAS OPERATIONS

Replacing Schedule PGA-96, 3rd Revised
Sheet 6 of 6, filed 4/30/04Deleted: 2nd

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No supplement or separate understanding
shall modify the tariff as shown hereon.

Sheet 6 of 6 sheets

REFUND PROVISION (continued)

The length of the refund period shall generally be twelve (12) months, except that each refund period may be lengthened or shortened by the Company to avoid a total refund materially above or below the refundable amount.

After the refunding period is completed, the difference between the refund(s) received from the Company's suppliers and the amount refunded to the respective Customer classes, shall be determined and said difference (debit of credit) retained in the refund account(s) until such time as a subsequent refund is received from such suppliers. The balance in said refund account(s) shall be added to any subsequent refund before computing a new refund adjustment.

LINE LOSS LIMITATIONS

In the event that the line loss (unaccounted for gas) statistic for the computation period exceeds the limit of 4% (utilizing total gas purchases, including receipts of gas transported for others, and sales, including deliveries of gas transported for others, made by the company in Kansas), the Company will compute the purchased gas adjustment using the limit value rather than the actual estimated operating statistic value.

GAS HEDGE PROGRAM

The Company shall operate its Gas Hedge Program pursuant to the Commission's order in Docket No. dated . Costs and revenues associated with any purchase of straight call options and other alternative risk management strategies, the balance of which shall not exceed \$2.1 million per year, shall be recovered as a separate cost component during the months of April 1, 2005 through October 31, 2005. Any over or under recovery, and any of the budget amount not used by the Company, shall be reflected in the Company's ACA filing for 2006. Costs and revenues generated from the exercise of all options shall be flowed back as a separate cost component during the months of November 2005 through March 2006. The Company shall also make such report or reports deemed necessary by the Commission regarding such costs and revenues.

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Commission File Number

Issued

Month Day Year

Effective

By

Month Day Year

Signature Title

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Aquila Networks - KGO, for Approval of an)
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Expend in Order to Establish and Maintain a Gas)
Ceiling Price for the 2005-2006 Heating Season)

PREFILED TESTIMONY OF SHAWN L. GILLESPIE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, EMPLOYER AND**
2 **POSITION.**

3 A. My name is Shawn L. Gillespie. My business address is 1815 Capitol Avenue, Omaha,
4 Nebraska 68102. I am employed by Aquila, Inc. ("Aquila") as a Director of Gas Supply
5 Planning and Operations for the South Region. Aquila is a local distribution company
6 ("LDC"), which serves nearly 900,000 gas customers in seven states. Aquila Networks is an
7 operating division of Aquila, which operates in Colorado, Iowa, Kansas, Michigan, Minnesota
8 Missouri, and Nebraska.

9 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

10 A. The primary responsibilities in this position are to: 1) develop supply portfolios on pipelines
11 including Colorado Interstate Gas (CIG), Kinder Morgan Interstate Gas Transmission
12 (KMIGT), Southern Star Central (SSC) (previously Williams Gas Pipelines Central), and
13 CenterPoint Energy (CPE) (previously Reliant) that affect the states of Kansas, Colorado,
14 Missouri and Nebraska; 2) support Regulatory Affairs on state activities in Kansas, Colorado,
15 Missouri and Nebraska; and 3) negotiate storage and transportation contracts on above stated

1 pipelines.

2 **Q. CAN YOU BRIEFLY DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE?**

3 A. I have a Bachelor of Science (BS) in Accounting and Master of Business Administration
4 (MBA) from Bellevue University, located in Bellevue, Nebraska. I joined Aquila and its
5 predecessor on April 13, 1994 working in the PGA group for the Peoples Natural Gas division.
6 I was responsible for the PGA filings and ACA filings for the State of Kansas. In June 1995,
7 I began dispatching natural gas for UtiliCorp Gas Supply Services. I was responsible for
8 dispatching, managing storage and balancing natural gas on various Local Distribution
9 Companies and pipelines for Aquila's retail division. In June 1996, I dispatched, managed
10 storage and balanced natural gas on Colorado Interstate Gas (CIG), Kinder Morgan Interstate
11 Gas Transmission (KMIGT), Southern Star Central (SSC) and CenterPoint Energy (CPE)
12 pipelines for Aquila Gas Supply regulated division. Beginning June 1997, I added the
13 responsibilities of Transportation & Exchange (T&E) and backup Buyer of natural gas to my
14 dispatching responsibilities for the same pipelines. Beginning in July 1999, I was promoted
15 to an Operations Lead where I was responsible for all operation issues on the same pipelines.
16 I had two dispatchers and one buyer reporting to me. Beginning September 1, 2000, I moved
17 into my current position, Director, Gas Supply Planning and Operations.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. The purpose of my testimony is to support Aquila's request for approval of an accounting order
20 to permit Aquila to recover amounts necessary to expend in order to establish and maintain
21 a gas ceiling price for the 2005-2006 heating season and continuation of Aquila's Gas Hedge
22 Program tariff.

1 **Q. CAN YOU SUMMARIZE AQUILA'S PROPOSED GAS HEDGE PROGRAM TARIFF**
2 **AND REQUEST FOR ACCOUNTING ORDER?**

3 A. Aquila's Gas Hedge Program tariff and request for accounting order include the following
4 proposal:

5 (1) The initial program budget for the 2005-2006 program year shall be a system
6 wide offering and shall not exceed \$2,100,000.00, which is equivalent to \$1.75 per month per
7 sales customer. This is an annual increase of \$900,000 or \$.75 per month per customer over
8 the budget amount that the Commission approved for Aquila's 2004-2005 Gas Hedge
9 Program. Aquila is asking for the increase based upon findings of the focus group meetings
10 held during the summer of 2004, which suggested customers are willing to pay \$21 annually
11 for hedging.

12 (2) At this time, the preferred risk management strategy for the 2005-2006 program
13 year shall be the purchase of straight call options for the purpose of establishing a "price cap".
14 Alternative risk management strategies, such as call spreads, "call collars" (such as the
15 purchase of a call and the sale of a put for the same period), or similar financial strategies, are
16 to be utilized for the 2005-2006 program only if market conditions develop in which the
17 implementation of such risk management strategies appears to be more reasonable than the
18 current preferred method of establishing price protection for Aquila's customers.

19 (3) For the 2005-2006 program year, Aquila plans to concentrate on managing the
20 price risk for the period between November and March. Aquila will attempt protecting
21 approximately fifty-five percent (55%) or more of the normal November through March
22 flowing volumes by the use of straight call option(s)(approximately 47%), and what are

1 referred to as participatory call options (approximately 8%). Because the participatory call
2 option allows capping prices without the outlay of a premium, Aquila plans to use the entire
3 \$2.1 million budget on the straight call options. Under the participatory call option, the
4 premium is embedded in the strike price. Then there is sharing of the savings when prices fall
5 below the strike price. For example, a 50% participatory call option with a strike price of
6 \$6.00 would cost \$.15. The \$.15 would be added to the \$6.00 strike price which makes the
7 strike price \$6.15. Settlement price is \$5.15, then the ratepayers under this example would
8 receive a benefit of \$.50 ($\$6.15 + \5.15 divided by 2). The above example was for illustration
9 purposes only. The number represented may not represent current market prices. Aquila seeks
10 permission to use these participatory call options as part of this docket. However, because
11 there is no outlay of premium in purchasing a participatory call option, Aquila would not plan
12 to use any of the \$2.1 million budget to purchase these types of call options. As mentioned
13 above, Aquila plans to use all of the \$2.1 million budget on straight call options.

14 (4) Aquila shall recover the program costs for the 2005-2006 Gas Hedge Program
15 from all of its sales customers except irrigation on a volumetric basis through a separate line
16 item on its monthly PGA filings, during the months of April 1, 2005 through October 31,
17 2005, or as soon after the program is approved by the KCC. Any over or under recovery shall
18 be reflected in KGO's ACA filing in 2006. The over or under recovery shall be the difference
19 between the program costs actually incurred, not to exceed the approved budget amount, less
20 amounts collected from customers.

21 (5) Aquila shall file a monthly report, in a format agreed to by Staff of the KCC
22 ("Staff"), for the purpose of detailing the status of the program.

1 **Q. DID AQUILA PARTICIPATE IN LAST YEAR'S FOCUS GROUP STUDY WITH THE**
2 **OTHER KANSAS GAS UTILITIES?**

3 A. Yes.

4 **Q. BASED UPON THE RESULTS OF THE FOCUS GROUP STUDY, HAS AQUILA**
5 **MADE ANY CHANGES TO ITS PROPOSED HEDGE PROGRAM?**

6 A. Yes. Based upon the results of the study, Aquila is proposing to increase the budget for its
7 Hedge Program from \$1.2 million per year, or about \$1.00 per month per sales customer, to
8 \$2.1 million per year or about \$1.75 per month per sales customer. This increase is consistent
9 with the results of the Focus Group Study. Moreover, given the increased volatility in the
10 natural gas market over the last several years, the cost for call options has increased
11 significantly. The proposed increase in the budget amount will allow Aquila to attempt to
12 maintain the level of the budgeted winter purchase volumes to be protected by a price cap.

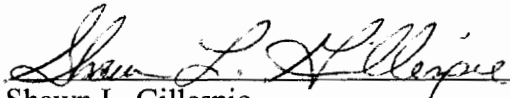
13 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

 A. Yes.

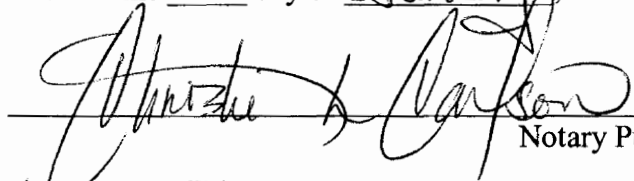
VERIFICATION OF SHAWN L. GILLESPIE

STATE OF Nebraska)
)ss:
COUNTY OF Douglas)

Shawn L. Gillespie, being first duly sworn, deposes and says that he is Shawn L. Gillespie referred to in the foregoing document entitled "Prefiled Testimony of Shawn L. Gillespie" 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.


Shawn L. Gillespie

SUBSCRIBED AND SWORN to before me this 25th day of January, 2005.


Notary Public

My Appointment Expires: 8-2-2008

