

18-Oct-06

AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS

SECTION 11
SCHEDULE 1
PAGE 1 OF 2

ADJUSTED INCOME TAXES & TAXES OTHER THAN INCOME
FOR YEAR ENDED 6/30/2006

<u>LNE NO.</u>		<u>REFERENCE</u>	<u>PER BOOKS 06/30/06 (COL.1)</u>	<u>ADJUSTMENTS (COL.2)</u>	<u>ADJUSTED 06/30/06 (COL.3)</u>
001	STATE INCOME TAXES	11-4-1-1	317,485	(228,445)	89,040
<u>002</u>	<u>FEDERAL INCOME TAXES</u>	11-4-1-2	<u>1,400,823</u>	<u>(1,007,958)</u>	<u>392,865</u>
003	TOTAL INCOME TAXES		1,718,308	(1,236,403)	481,905
004	AD VALOREM TAXES		2,480,159	77,857	2,558,016
005	FRANCHISE TAXES		0	0	0
006	MISCELLANEOUS TAXES		68,757	0	68,757
007	FEDERAL & STATE UNEMPLOYMENT TAXES	11-1-2	29,042	(2,040)	27,002
<u>008</u>	<u>FICA TAXES</u>	11-1-2	<u>866,001</u>	<u>(48,927)</u>	<u>817,074</u>
009	TOTAL TAXES OTHER THAN INCOME		3,443,959	26,890	3,470,849

2006.11.01 11:54:05
Kansas Corporation Commission
/s/ Susan K. Duffy

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AQUILA NETWORKS - KANSAS GAS OPERATIONS

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UNEMPLOYMENT AND FICA TAXES
FOR YEAR ENDED 6/30/2006

<u>LNE</u> <u>NO.</u>	<u>FEDERAL AND STATE UNEMPLOYMENT TAXES</u>	
001	UNEMPLOYMENT TAXES (PER BOOK)	29,042
<u>002</u>	PLUS: ADJ. TO TEST PERIOD BASE & RATE	<u>(2,040)</u>
003	UNEMPLOYMENT TAXES - ADJUSTED	27,002
	<u>FICA TAXES</u>	
004	FICA TAXES - PER BOOK	866,001
<u>005</u>	PLUS: ADJ. TO TEST PERIOD BASE & RATE	<u>(48,927)</u>
006	FICA TAXES - ADJUSTED	817,074

AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS

COMPUTATION OF TAXABLE INCOME
FOR YEAR ENDED 6/30/2006

LINE NO.	REFERENCE	RESTATED TEST PERIOD AT END OF TEST PERIOD RATES (COL.1)	PRO FORMA ADJUSTMENTS (COL.2)	TOTAL AFTER ADJUSTMENTS (COL.3)
001	9-1-1-3	130,149,783	12,286,522	142,436,305
002	9-1-1-4	91,251,398	13,412,670	104,664,068
003	9-1-1-5	22,866,576	1,322,860	24,189,436
004	9-1-1-7	5,313,774	607,699	5,921,473
005	9-1-1-8	3,443,959	26,890	3,470,849
006	9-1-1-9	<u>42,145</u>	<u>0</u>	<u>42,145</u>
007		7,231,931	(3,083,597)	4,148,334
008	7-3-1-2	2,912,401	24,508	2,936,910
009		4,319,530	(3,108,105)	1,211,424

FOR METHOD OF COMPUTATION SEE SECTION 9, SCHEDULE 1, PAGE 1
FOR NARRATIVE DESCRIPTION OF ADJUSTMENTS SEE SECTION 9, SCHEDULE 2, PAGES 1-4

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AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS

SECTION 11
SCHEDULE 4
PAGE 1 OF 1

COMPUTATION OF INCOME TAXES
FOR YEAR ENDED 6/30/2006

<u>LNE NO.</u>	<u>REFERENCE</u>	<u>RESTATED TEST PERIOD AT END OF TEST PERIOD RATES (COL.1)</u>	<u>PRO FORMA ADJUSTMENTS (COL.2)</u>	<u>TOTAL AFTER ADJUSTMENTS (COL.3)</u>
001	INCOME TAXES - STATE	317,485	(228,445)	89,040
<u>002</u>	INCOME TAXES - FEDERAL	<u>1,400,823</u>	<u>(1,007,958)</u>	<u>392,865</u>
003	TOTAL INCOME TAXES	1,718,308	(1,236,403)	481,905
004	LESS: PROV. FOR DEFERRED INCOME TAX	11-6-1-11 3,314,236	0	3,314,236
<u>005</u>	PLUS: INVESTMENT TAX CREDIT	<u>11-5-1-11 (9,416)</u>	<u>0</u>	<u>(9,416)</u>
006	CURRENT INCOME TAXES PAYABLE	(1,605,344)	(1,236,403)	(2,841,747)

AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS

DEFERRED INCOME TAXES RELATED TO ITC

LNE NO.	12/31/97	BEGINNING BALANCE (COL.1)	NET CHANGE (COL.2)	ENDING BALANCE (COL.3)
001		0	(21,644)	111,791
002	12/31/98	111,791	(19,842)	91,949
003	12/31/99	91,949	17,026	108,975
004	12/31/00	108,975	(17,484)	91,491
005	12/31/01	91,491	(16,662)	74,829
006	12/31/02	74,829	(15,605)	59,224
007	12/31/03	59,224	(14,280)	44,944
008	12/31/04	44,944	(11,683)	33,261
009	12/31/05	33,261	(10,358)	22,903
010	06/30/05	39,105	(11,024)	28,081
011	06/30/06	28,081	(9,416)	18,665

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SECTION 11
SCHEDULE 6
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DEFERRED INCOME TAXES ARISING FROM ACCELERATED DEPRECIATION

<u>LNE NO.</u>		<u>BEGINNING BALANCE</u> (COL.1)	<u>NET CHANGE</u> (COL.2)	<u>ADJUSTED BALANCE</u> (COL.3)
001	12/31/97	0	1,711,737	11,418,681
002	12/31/98	11,418,681	1,219,100	12,637,781
003	12/31/99	12,637,781	530,754	13,168,535
004	12/31/00	13,168,535	(622,228)	12,546,307
005	12/31/01	12,546,307	(78,935)	12,467,372
006	12/31/02	12,467,372	1,128,756	13,596,128
007	12/31/03	13,596,128	1,864,805	15,460,933
008	12/31/04	15,460,933	(431,417)	15,029,516
009	12/31/05	15,029,516	281,096	15,310,612
010	06/30/05	16,129,257	(842,796)	15,286,461
011	06/30/06	15,286,461	3,314,236	18,600,697

AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS
BASIS FOR ALLOCATIONS
FOR YEAR ENDED 06/30/2006

SECTION 12
SCHEDULE 1
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LINE NO.	DESCRIPTION	TOTAL ALLOCATION BASIS	TOTAL KANSAS	TOTAL OTHER STATES
001	BASIS #1 - Enterprise Support Function (ESF) (Various as Noted Below)			
002	Enterprise Support departments support the Aquila business units, centralizing some of the company's			
003	operations. The majority of these costs are from three sites - Aquila's headquarters in Kansas City, MO, and			
004	offices in Raytown, MO and Omaha, NE.			
005	This basis is used for allocating Enterprise Support Function gross plant, accumulated depreciation and			
006	amortization, depreciation and amortization expense, prepayments, O&M, and taxes other than income.			
007	To the States:			
008	Whenever possible, costs are directly assigned to a business unit; otherwise, they are allocated based on a specific			
009	cost driver or allocated on a "General Allocator".			
010	When the cost driver has a direct cause and effect relationship to the cost incurred, a specific driver is used to			
011	assign the cost to a business unit. The allocation of Accounting Services Payroll, department 4179, is a good			
012	example. All of the costs for payroll processing are accumulated first in the department and then allocated to the			
013	business unit receiving the service based upon the pro rata number of paychecks issued to the employees of each			
014	business unit.			
015	Costs drivers are based upon the "General Allocator", Paychecks Issued, Employee Headcount, Accounts Payable			
016	Vouchers, Gross Property, Customer Weighted Square Footage, Customers, Premium Allocation Percents,			
017	Weighted Gross Revenue, Journal Line Count, Weighted Net Assets, Journal Line Weighted, Machines Supported			
018	and Allocated Budgeted Payroll. The "General Allocator", consists of the arithmetic average of gross margin,			
019	payroll, and net plant of the applicable business units.			
020	BASIS #2 - Intra-Business Unit (IBU) (Various as Noted Below)			
021	Aquila's regulated electric and gas transmission and distribution functions were centralized into the UED/NETCO			
022	business unit to increase the efficiency of those operations. Similar to ESF, UED/NETCO established support			
023	departments ("Intra-Business Unit") which provide service to multiple regulatory jurisdictions. Examples of IBU			
024	functions include Engineering Services, Network Operations, Community Services and Economic Development.			
025	This basis is used for allocating Intra-Business Unit gross plant, accumulated depreciation and amortization,			
026	depreciation and amortization expense, prepayments, O&M, M&S, and taxes other than income.			
027	To the States:			
028	Whenever possible, costs are directly assigned to a business unit; otherwise, costs are allocated based on a specific			
029	cost driver or allocated based on a "General Allocator".			
030	Cost drivers utilized by Intra-Business Unit include the "General Allocator", Customers, Accounts Payable			
031	Vouchers, Premium Allocation Percents, Service Contracts, Weighted Meters by State, Customer Weighted			
032	Square Footage, Employee Headcount, Machines Supported, Support Case Counts, Customer/Journal Line			
033	Weighted, No. of Vehicles and Allocated Budgeted Payroll.			
034	BASIS #3 - Small and Large Volume Meters			
035	Number of customers in Kansas to total number of customers.			
036	Customers	559,046	114,781	444,265
037	Allocation Basis	100.0%	20.5%	79.5%

AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS
BASIS FOR ALLOCATIONS
FOR YEAR ENDED 06/30/2006

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SCHEDULE 1
PAGE 2 OF 3

LINE

NO. ALLOCATION OF INCOME STATEMENT ITEMS

001 ALLOCATION BASIS #1 PER SCHEDULE 1, USED TO ALLOCATE

- 002 Enterprise Support Function (ESF)
- 003 Depreciation Expense
- 004 Structures and Improvements
- 005 Leasehold Improvements
- 006 Office Furniture and Computer Equipment
- 007 Tools and Work Equipment
- 008 Laboratory Equipment
- 009 Communication Equipment
- 010 Miscellaneous Equipment
- 011 Operation and Maintenance Expense
- 012 Payroll and Miscellaneous Taxes
- 013 Property Tax on Furniture and Fixtures
- 014 Prepayments

015 ALLOCATION BASIS #2 PER SCHEDULE 1, USED TO ALLOCATE

- 016 Intra-Business Unit (IBU)
- 017 Depreciation Expense
- 018 Structures and Improvements
- 019 Distribution Plant
- 020 Office Furniture and Computer Equipment
- 021 Tools and Work Equipment
- 022 Lab Equipment
- 023 Communications Equipment
- 024 Operation and Maintenance Expense
- 025 Materials and Supplies
- 026 Property Tax
- 027 Payroll and Miscellaneous Taxes

028 ALLOCATION BASIS #3 PER SCHEDULE 1, USED TO ALLOCATE

- 029 Small and Large Volume Meters
- 030 Depreciation Expense

AQUILA, INC.
AQUILA NETWORKS - KANSAS GAS OPERATIONS
BASIS FOR ALLOCATIONS
FOR YEAR ENDED 06/30/2006

SECTION 12
SCHEDULE 1
PAGE 3 OF 3

LINE NO.	<u>ALLOCATION OF BALANCE SHEET ITEMS</u>
001	ALLOCATION BASIS #1 PER SCHEDULE 1, USED TO ALLOCATE
002	Enterprise Support Function (ESF)
003	Plant
004	Land & Land Rights
005	Structures and Improvements
006	Leasehold Improvements
007	Office Furniture and Computer Equipment
008	Tools, Shop, and Garage Equipment
009	Laboratory Equipment
010	Communication Equipment
011	Miscellaneous Equipment
012	Accumulated Depreciation and Amortization
013	Structures and Improvements
014	Leasehold Improvements
015	Office Furniture and Computer Equipment
016	Transportation Equipment
017	Tools, Shop, and Garage Equipment
018	Laboratory Equipment
019	Communication Equipment
020	Miscellaneous Equipment
021	ALLOCATION BASIS #2 PER SCHEDULE 1, USED TO ALLOCATE
022	Intra-Business Unit (IBU)
023	Plant
024	Organizational Costs
025	Structures and Improvements
026	Distribution Plant
027	Office Furniture and Computer Equipment
028	Tools, Shop, and Garage Equipment
029	Laboratory Equipment
030	Communication Equipment
031	Accumulated Depreciation and Amortization
032	Organizational Costs
033	Structures and Improvements
034	Distribution Plant
035	Office Furniture and Computer Equipment
036	Tools, Shop, and Garage Equipment
037	Laboratory Equipment
038	Communication Equipment
039	ALLOCATION BASIS #3 PER SCHEDULE 1, USED TO ALLOCATE
040	Small and Large Volume Meters
041	Accumulated Depreciation on Small and Large Volume Meters

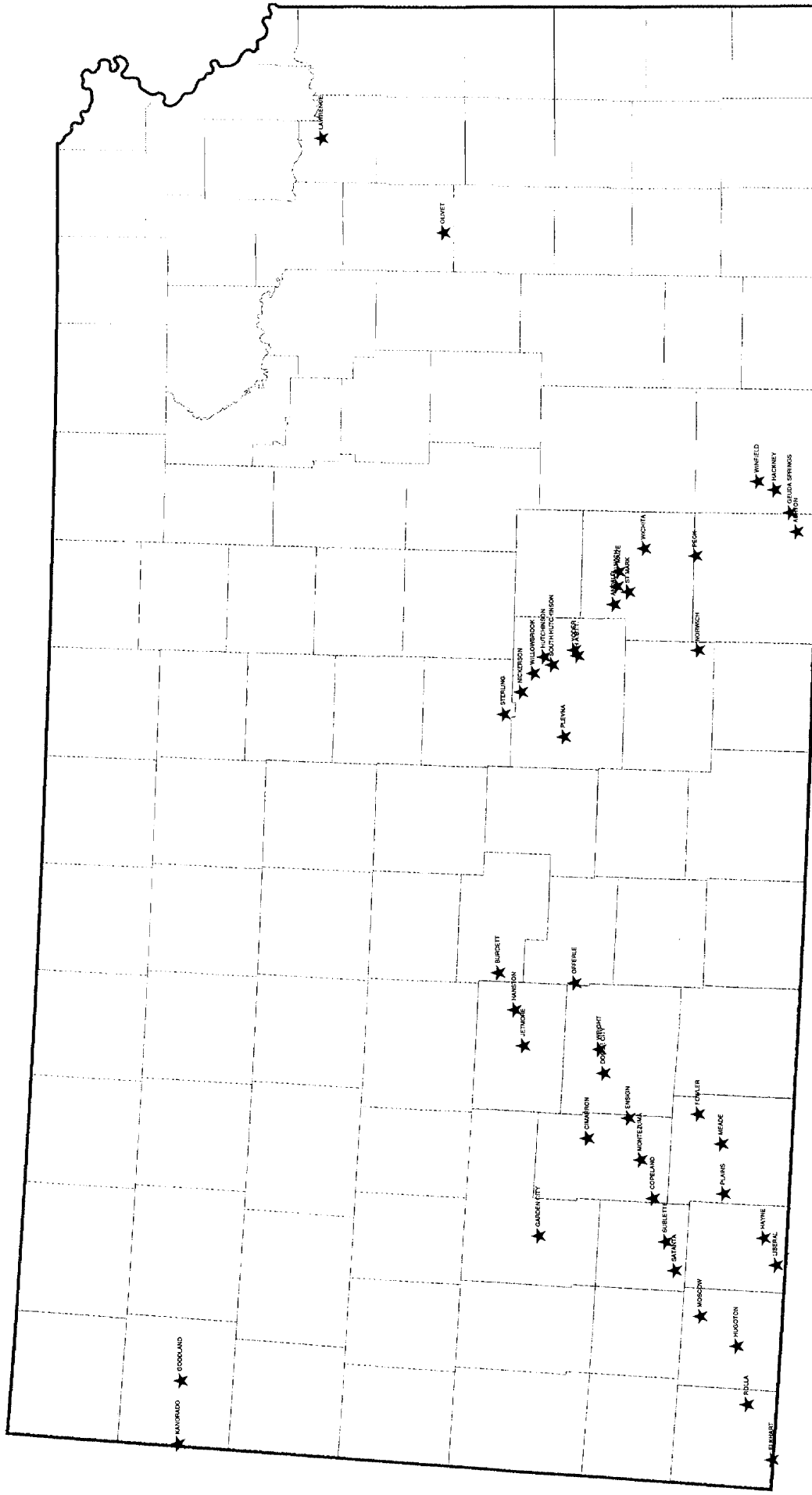
Section 13
Aquila
2005 Annual Report

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Aquila

KANSAS



Service Area



Gas



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Telephone 816 802 5200
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Internet www.us.kpmg.com

April 13, 2006

Mr. Richard G. Petersen
Director of Regulatory Accounting Services
Peoples Natural Gas Company
1815 Capital Avenue
Omaha, NE 68102

Dear Mr. Petersen:

It is my understanding that the Kansas Corporation Commission requests that Aquila, Inc. (Aquila) provide them copies of audited financial statements for Aquila's Kansas gas operations, including the report of the independent public accountants on those financial statements. KPMG LLP has been engaged as the independent public accountants for Aquila. Our testing of the financial records of Aquila is performed to obtain reasonable assurance about whether the financial statements of Aquila are presented fairly. Had we been requested to perform an audit of Kansas gas operations, our audit scopes would have been significantly less. Further, financial statements for the individual states in which Aquila operates have not been audited. Consequently, Aquila is not able to furnish audited financial statements to the Kansas Corporation Commission.

If you have any questions regarding this matter, please feel free to contact me at 816/802-5938.

Very truly yours,

KPMG LLP

Steven L. Rathjen
Partner

:nbk

Aquila, Inc. - KGO
Revenue Summary under Company Proposed Demand Rate Design
(For the Twelve Months Ended June 30, 2006)

Line Number	Rate Schedule	Average Number of Customers	Sales Revenue Under Existing Rates				Sales Revenue Under Proposed Rates				Difference		
			Sales	Margin Revenues	Average Cost of Gas	Total Revenues	Unit Revenues	Margin Revenues	Average Cost of Gas	Total Revenues	Unit Revenues	Amount	Percent of Total Revenues
			thems	\$	\$	\$	\$/them	\$	\$	\$	\$/them	\$	%
1	Residential	94,010	69,063,161	23,971,502	60,805,065	84,776,568	1.2275	29,072,449	60,805,065	89,877,514	1.3014	5,100,946	6.02%
2	Small Commercial	8,225	12,812,972	3,613,684	11,280,885	14,894,569	1.1625	4,807,426	11,280,885	16,088,311	1.2556	1,193,742	8.01%
3	SVF	1,175	12,072,293	1,811,314	10,628,771	12,440,085	1.0305	2,439,317	10,628,771	13,068,088	1.0825	628,003	5.05%
4	SVI	65	765,130	111,390	673,641	785,031	1.0260	113,199	673,641	786,840	1.0284	1,809	0.23%
5	SV Transportation	526	5,891,281	866,081	0	866,081	0.1470	1,098,743	0	1,098,743	0.1865	232,662	26.86%
6	LVF	33	2,383,617	230,633	2,098,601	2,329,234	0.9772	251,977	2,098,601	2,350,578	0.9861	21,344	0.92%
7	LVI	12	1,328,030	110,754	1,169,233	1,279,987	0.9638	80,662	1,169,233	1,249,895	0.9412	(30,092)	-2.35%
8	LV Transportation (1)	134	28,811,355	2,059,537	0	2,059,537	0.0715	2,139,122	0	2,139,122	0.0742	79,585	3.86%
9	Subtotal	104,180	133,127,838	32,774,894	86,656,197	119,431,091	0.8971	40,002,894	86,656,197	126,659,091	0.9514	7,228,000	6.05%
10	Irrigation Service	1,026	19,323,677	1,293,308	17,013,085	18,306,393	0.9474	1,293,308	17,013,085	18,306,393	0.9474	0	0.00%
11	Irrigation Transportation	707	12,250,010	836,876	0	836,876	0.0683	836,876	0	836,876	0.0683	0	0.00%
12	Other Sales and Transportation (2)	41	74,502,970	20,189,726	994,786	21,184,511	0.2843	20,202,026	994,786	21,196,811	0.2845	12,300	0.06%
13	Total Sales and Transportation	105,954	239,204,498	55,094,803	104,664,068	159,758,871	0.6679	62,335,103	104,664,068	166,999,170	0.6981	7,240,300	4.53%

(1) Only includes transportation at full tariffed margin.

(2) Includes large volume transportation at less than full tariffed margin and Wholesale service.