

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of AQUILA, INC.,)	
d/b/a AQUILA NETWORKS – MGU, for a gas)	
cost recovery reconciliation proceeding for the)	Case No. U-13900-R
3-month transition period ended March 31, 2004.)	
_____)	

In the matter of the application of AQUILA, INC.,)	
d/b/a AQUILA NETWORKS – MGU, for a gas)	
cost recovery reconciliation proceeding for the)	Case No. U-13990-R
15-month transition period ended March 31, 2005.)	
_____)	

At the April 13, 2006 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman
Hon. Laura Chappelle, Commissioner
Hon. Monica Martinez, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On June 30, 2004, Aquila, Inc., d/b/a/Aquila Networks – MGU (Aquila), filed an application, with supporting testimony and exhibits, requesting approval of its gas cost recovery (GCR) reconciliation for the period from January 1, 2004 through March 31, 2004 in Case No. U-13900-R. The application noted that in Case No. U-13550, the Commission authorized Aquila to make a transition from a calendar-year GCR period to an April through March GCR year.

Pursuant to due notice, a prehearing conference was held on August 25, 2004 before Administrative Law Judge Barbara A. Stump (ALJ). The ALJ suspended the schedule pending the filing of Aquila’s GCR reconciliation for April 1, 2004 through March 31, 2005.

On June 29, 2005, Aquila filed its application and supporting testimony and exhibits requesting approval of its GCR reconciliation for the period from April 1, 2004 through March 31, 2005 in Case No. U-13990-R.

On August 30, 2005, the ALJ held a second prehearing conference and consolidated the two GCR reconciliation dockets. The ALJ granted leave to intervene to Attorney General Michael A. Cox and to the Residential Ratepayer Consortium. The Commission Staff also participated in the proceedings. Subsequently, the parties submitted a settlement agreement resolving all issues in this case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that: (1) during the 15-month GCR periods ended March 31, 2005, Aquila overrecovered a net total of \$15,669,739; (2) Aquila is authorized to credit the overrecovery plus accrued interest of \$3,641,698 to all GCR rate classes and to include this net overrecovered amount as a credit to its total cost of gas sold for 2006-2007; (3) in the future, Aquila will use its best efforts to monitor GCR customer usage and adjust its supply plan if warranted; (4) Aquila will provide the parties to its 2006-2007 GCR plan case information regarding the results of its mid-2006 regression analysis of system requirements and documentation on the basis for its decision whether to make adjustments using the results of the analysis; (5) Aquila will provide testimony in its 2005-2006 GCR plan case (Case No. U-14400-R) addressing its implementation during the 2005-2006 plan year of the Quartile Dollar-Cost-Averaging Target Mechanism relating to Aquila's portfolio of fixed price gas supply contracts; and (6) Aquila will present testimony in its 2006-2007 GCR plan case (Case No. U-14715) that addresses its projected implementation of the Quartile Dollar-Cost-Averaging Target Mechanism.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 *et seq.*; 1919 PA 419, as amended, MCL 460.51 *et seq.*; 1939 PA 3, as amended, MCL 460.1 *et seq.*; 1982 PA 304, as amended, MCL 460.6h *et seq.*; 1969 PA 306, as amended, MCL 24.201 *et seq.*; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 *et seq.*
- b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. Aquila, Inc., d/b/a/Aquila Networks – MGU, is authorized to credit the net overrecovery of \$15,669,739 plus accrued interest of \$3,641,698 to all GCR rate classes and to include this net overrecovered amount as a credit to its total cost of gas sold for 2006-2007.
- C. In the future Aquila, Inc., d/b/a/Aquila Networks – MGU, shall use its best efforts to monitor gas cost recovery customer usage and adjust its supply plan if warranted.
- D. Aquila, Inc., d/b/a/Aquila Networks – MGU, shall provide the information described in the settlement agreement in its 2005-2006 and 2006-2007 gas cost recovery plan and reconciliation cases.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark
Chairman

(S E A L)

/s/ Laura Chappelle
Commissioner

/s/ Monica Martinez
Commissioner

By its action of April 13, 2006.

/s/ Mary Jo Kunkle
Its Executive Secretary

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of April 13, 2006.

Its Executive Secretary

Exhibit A

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of AQUILA)
NETWORKS – MGU for a gas cost recovery)
reconciliation proceeding for the three-month) Case No. U-13900-R
transition period ended March 31, 2004)
_____)

In the matter of the application of AQUILA)
NETWORKS - MGU for a gas cost recovery)
reconciliation proceeding for the fifteen-month) Case No. U-13990-R
transition period ended March 31, 2005.)
_____)

SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 333 of the Rules of Practice and Procedure before the Michigan Public Service Commission (Commission), Aquila, Inc. d/b/a Aquila Networks-MGU (Aquila or the Company), the Commission Staff (Staff), Michigan Attorney General Michael A. Cox (Attorney General), and the Residential Ratepayer Consortium (RRC) agree as follows:

1. On June 30, 2004, Aquila filed an application and prefiled testimony and exhibits requesting the Commission to reconcile its gas cost recovery expenses and revenues for the period from January 1, 2004 through March 31, 2004. That application noted that in MPSC Case No. U-13550 the Commission authorized Aquila to make a transition from a calendar GCR year to an April through March GCR year. Aquila's application stated, "Aquila over-recovered its GCR costs by a total of \$7,907,373. Netting this with the cumulative under-recovered balance of \$13,211,230 from 2003 results in a net cumulative under-recovered balance of \$5,303,857 as of March 31, 2004."

2. On August 25, 2004, ALJ Barabara A. Stump conducted a prehearing conference in U-13900-R and suspended the schedule in that case pending the filing of the following year's GCR reconciliation for Aquila.

3. On June 29, 2005, Aquila filed its Application and prefiled direct testimonies of Harry F. Ono and David J. Tyler in Case No. U-13990-R. They supported an over recovery of \$15,669,739 for the fifteen month period ended March 31, 2005. Netting this over-recovery with the cumulative under-recovered balance of \$11,953,083 from the 2003 GCR plan year resulted in a net cumulative over-recovered balance of \$3,716,656 as of March 31, 2005. In its Application, Aquila proposed to credit the net cumulative GCR over-recovered balance plus calculated accrued interest, totaling \$3,641,698 to all GCR rate classes.

4. At the prehearing conference held on August 30, 2005, the Staff entered its appearance, and the ALJ authorized the Attorney General and RRC to intervene. The ALJ also consolidated Case Nos. U-13900-R and U-13990-R (1 T 2-3).

5. On December 9, 2005, the Attorney General and RRC submitted testimony and exhibits in these cases.

6. In order to expeditiously and fully resolve these cases, the parties stipulate and agree to the following:

a. Aquila incurred an over-recovery of its GCR costs of \$15,669,739 during the fifteen month period ended March 31, 2005. No party contests the reasonableness and prudence of the GCR expenses incurred by Aquila during this period, and the parties agree that the Commission should find that those expenses were reasonably and prudently incurred.

b. Aquila is authorized to credit the net cumulative GCR over-recovered balance plus calculated accrued interest, totaling \$3,641,698, to all GCR rate classes, and to

include this net cumulative over-recovered amount as a credit to its total cost of gas sold during 2006-2007.

c. Aquila acknowledges that its GCR customer supply requirements for the period from November 2004 through March 2005 were lower than initially estimated in the Company's 2004-2005 GCR Plan for normal weather, which was approved by the Commission in its Order Approving Settlement Agreement dated February 12, 2004 in Case No. U-13900 and its Order dated May 17, 2005 in Case No. U-13990.

d. In the future, the Company will use its best efforts to monitor GCR customer usage on a continuing basis and to consider adjusting its supply planning, if warranted, in light of reasonable supply and storage alternatives that may be available to the Company.

e. The Company agrees that in its 2006-2007 GCR plan year and before the start of the 2006-2007 winter heating season commencing November, 2006, it will provide the parties to the 2006-2007 GCR plan case with the following information:

(1) the results of the Company's mid-2006 regression analysis of system requirements, and

(2) documentation as to the basis for the Company's decision of whether or not to make any adjustments using the results of the regression analysis.

f. Aquila will present testimony in its 2005-2006 GCR reconciliation case No. U-14400-R addressing the Company's implementation during the 2005-2006 GCR year of the Quartile, Dollar-Cost-Averaging Target Mechanism relating to the Company's portfolio of fixed price gas supply contracts, and an explanation of how the Company "locked-in" its fixed price contracts using various sources of information..

g: Aquila will present testimony in its 2006-2007 GCR plan case No. U-14715 that addresses Aquila's projected implementation during the 2006-2007 GCR year of the Quartile, Dollar-Cost-Averaging Target Mechanism.

7. This Settlement Agreement has been made for the sole and express purpose of reaching compromise among the positions of the parties. All offers of settlement and discussions relating to this Settlement Agreement are and shall be considered privileged as provided in MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall make any reference to or use this Settlement Agreement or the Order approving it as a reason, authority, rationale or example for taking any action or position or making any subsequent decision in any other cases or proceeding; provided however, such reference or use may be made to enforce the Settlement Agreement and Order approving it.

8. This settlement agreement is based on the facts and circumstances of this case and is intended for final disposition of this case. So long as the Commission approves this settlement agreement without any modification, the parties agree not to appeal, challenge, or otherwise contest the Commission order approving this Settlement. Except for the matters specifically referenced in this settlement agreement, the parties agree and understand that this settlement agreement does not limit any party's right to take new or different positions on similar issues in other administrative proceedings or appeals related thereto.


9. The parties agree to waive Section 81 of the Administrative Procedures Act of 1969 (MCL 24.281), as it applies to this proceeding, if the Commission approves this Settlement Agreement without modification.

10. The Staff certifies that this Settlement Agreement is reasonable, will promote the public interest, will aid the expeditious conclusion of these cases, and will minimize the time and

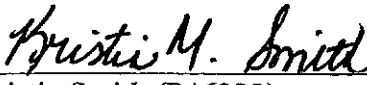
expense that the Commission and the parties would otherwise be required to devote to these cases.

11. This Settlement Agreement is not severable. Each provision of the Settlement Agreement is dependent upon all other provisions of the Settlement Agreement. Failure to comply with any provision of the Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of the Settlement Agreement, the Settlement Agreement shall be withdrawn and shall not constitute any part of the record of this proceeding or be used for any other purpose.

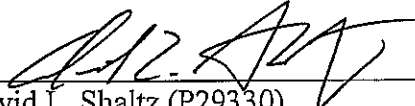
Aquila, Inc.
d/b/a Aquila Networks-MGU

By: 
Albert Ernst (P24059)
Stewart A. Binke (P47149)
Dykema Gossett PLLC
124 W. Allegan, Suite 800
Lansing, MI 48933

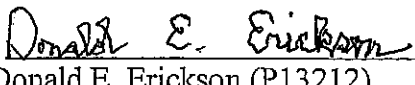
Michigan Public Service Commission
Staff

By: 
Kristin Smith (P46323)
Assistant Attorney General
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, MI 48911

Residential Ratepayer Consortium

By: 
David L. Shaltz (P29330)
2379 Woodlake Drive
Suite 480-B
Okemos, MI 48864

Attorney General Michael A. Cox

By: 
Donald E. Erickson (P13212)
Assistant Attorney General
Tobacco & Special Litigation Division
Seventh Floor Williams Bldg.
P.O. Box 30212
Lansing, MI 48909