

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

<p>IN RE:</p> <p>AQUILA, INC., d/b/a AQUILA NETWORKS, BLACK HILLS CORPORATION, AND BLACK HILLS/IOWA GAS UTILITY COMPANY, LLC</p>	<p>DOCKET NO. SPU-07-12</p>
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ORDER REQUESTING ADDITIONAL INFORMATION

(Issued June 29, 2007)

On April 4, 2007, Aquila, Inc., d/b/a Aquila Networks (Aquila), Black Hills Corporation (Black Hills), and Black Hills/Iowa Gas Utility Company, LLC (BH Iowa Gas), filed a joint proposal for reorganization pursuant to Iowa Code §§ 476.76 and 476.77 (2007) and 199 IAC 32, along with an application for permission for Aquila to discontinue providing utility service in Iowa pursuant to Iowa Code § 476.20(1) and 199 IAC 7.1(6). The filing is the result of the Asset Purchase Agreement dated February 6, 2007, entered into by and among Aquila, Black Hills, Great Plains Energy Incorporated, and Gregory Acquisition Corporation. On April 12, 2007, the Utilities Board (Board) issued an order docketing the proposal for reorganization and application to discontinue service and establishing a procedural schedule.

On June 22, 2007, Aquila, Black Hills, BH Iowa Gas, and the Consumer Advocate Division of the Department of Justice (Settling Parties) filed a Settlement Agreement purporting to resolve all of the issues related to the proposal for

reorganization. On June 25, 2007, the Board issued an order canceling the June 27, 2007, hearing and scheduling a tentative hearing on the Settlement Agreement for July 25, 2007. In the June 25, 2007, order, the Board indicated that it would issue an order with questions for the Settling Parties about the Settlement Agreement and the proposal for reorganization.

The Board has reviewed the Settlement Agreement and has the following questions:

1. Article VIII of the Settlement Agreement provides that BH Iowa Gas will be authorized to keep its books and records at its corporate offices in Rapid City, North Dakota, and to make such books and records available for examination by the Board. The Board is concerned that this authorization includes gas pipeline safety records that Aquila currently keeps at the local offices in Iowa or makes available in Omaha, Nebraska.

Question: Will Black Hills commit to retaining gas pipeline safety records at the local offices in Iowa or making them available in Omaha, Nebraska, upon request?

2. The Settlement Agreement does not specifically address whether BH Iowa Gas will adopt Aquila's Operation and Maintenance Manual.

Question: Will BH Iowa Gas adopt the current Aquila Operation and Maintenance Manual? If not, please provide a copy of the Operation and Maintenance Manual that will be used by BH Iowa Gas.

3. In Docket No. SPU-03-7, Aquila assured the Board that it had taken certain actions to reduce the number of leak response calls with response times greater than

60 minutes. Those actions included implementation of a comprehensive training program for its service call response employees. Aquila also entered into an agreement with MidAmerican Energy Company for a shared leak call response program designed to minimize first-response times. Aquila further stated it would continue to collect safety data and pursue additional agreements with other local distribution companies.

Question: Will Black Hills maintain Aquila's agreement and continue the activities designed to reduce leak call response times? Please explain.

4. In past discussions with Board staff, Aquila has indicated it has taken steps to mitigate the effects of its aging workforce to minimize the impact the retirement of experienced employees will have on Aquila's ability to provide safe, reasonable, and adequate service.

Question: Will Black Hills continue with the activities Aquila has in place to mitigate the effects of an aging workforce? Please explain.

5. Article VI, Section 2(e) of the Settlement Agreement indicates that Black Hills will make no material changes in the management and employee levels at BH Iowa Gas.

Question: Please indicate whether the managers and employees currently working in Aquila's regulatory, gas supply and load monitoring, gas engineering, large volume billing, and information technology departments will be retained, and describe where they will be located in the Black Hills corporate structure.

6. Board rules at 199 IAC 10.19 requires that no transfer of pipeline permits will be allowed without prior written approval of the Board.

Question: Which Black Hills company will hold ownership of the pipeline permits currently held by Aquila? Provide a list of the pipeline permits that will be transferred to the Black Hills company that will hold ownership of the permits.

7. Article VI, Section 2(g) of the Settlement Agreement indicates that Black Hills will maintain a reliable gas supply portfolio for BH Iowa Gas.

Question A: Will gas be supplied to BH Iowa Gas from Enserco Energy, Inc., or some other Black Hills subsidiary?

Question B: If the answer to Question 7.A is yes, describe what procedures Black Hills has in place to ensure that there is no cross-subsidization between the gas supplied to BH Iowa Gas and non-regulated purchasers.

Question C: If the answer to Question 7.A is no, how will Black Hills fulfill this commitment?

8. In the response to the Board's questions in the order issued on May 10, 2007, Black Hills indicates that it had four options for stand-alone call center support for the Aquila utilities.

Question: Has Black Hills made any decisions concerning which option it will pursue?

9. Article VI, Section 1(j) of the Settlement Agreement states that "[I]f BH Iowa Gas issues debt and unless authorized otherwise by the Board, BH Iowa Gas will not make any dividend payments to BHUH (Black Hills Utility Holding) or BHC (Black Hills Corporation) if the payment of such dividends would reduce BH Iowa Gas' stand-alone equity level below 40% of its total long-term capitalization."

Question: Is the commitment in Article VI, Section 1(j) in addition to the commitment made by Black Hills in the prefiled rebuttal testimony of Mark T. Thies, page 10, item "j," that "BH Iowa Gas will not make any dividend

payments to Black Hills if the payment of such dividends would reduce BH Utility Holding's equity level below 40 percent of its total capitalization."

10. Article VI, Section 2(a) of the Settlement Agreement states that debt as may be necessary to finance the Aquila assets or utilities will be issued at BHUH or Black Hills.

Question A: Will BH Iowa Gas have its own debt or will it only be allocated debt from its parent companies?

Question B: If BHUH and Black Hills are the entities that actually issue debt that is used to finance BH Iowa Gas, what limitations, if any, upon dividend payouts from BHUH are operative under the Settlement Agreement and any other commitments to the Board?

11. Article VI, Section 2(b) of the Settlement Agreement states that Black Hills will endeavor to maintain an investment grade credit rating.

Question A: What commitments, if any, does Black Hills make for seeking a higher credit rating for BHUH and BH Iowa Gas (if BH Iowa Gas issues long-term debt) than the credit rating that is maintained for Black Hills?

Question B: Will the commitments made by Black Hills in the Settlement Agreement justify and support a higher credit rating for BHUH and BH Iowa Gas (if BH Iowa Gas issues long-term debt) than the rating that will be maintained for Black Hills?

12. Moody's Feb. 7, 2007, Rating Action filed in Tab 31 to the Application states with respect to Black Hills' purchase of Aquila's non-Missouri utility properties as follows: "It is Moody's opinion that there is little margin for error because at the current rating levels, there is little cushion for the regulated businesses to fall short of Moody's expectations or if the more volatile unregulated businesses become a larger proportion of the overall enterprise through additional investment by the company."

Question: What limitations, if any, upon investment into "volatile unregulated businesses" does Black Hills envision in order to assure maintenance of an investment grade credit rating, as stated in Article VI, Section 2(b) of the Settlement Agreement?

13. There appears to be no commitment in the Settlement Agreement that would insulate BHUH or BH Iowa Gas from consolidation with other Black Hills companies in a bankruptcy proceeding.

Question: What insulation, if any, reduces the likelihood of a bankruptcy court consolidating BHUH and BH Iowa Gas assets with other Black Hills companies in a bankruptcy proceeding?

IT IS THEREFORE ORDERED:

Aquila, Inc., d/b/a Aquila Networks, Black Hills Corporation, and Black Hills/Iowa Gas Utility Company, LLC, and the Consumer Advocate Division of the Department of Justice shall file responses to the questions in this Order on or before July 9, 2007.

UTILITIES BOARD

/s/ John R. Norris

/s/ Curtis W. Stamp

ATTEST:

/s/ Sharon Mayer
Executive Secretary, Assistant to

/s/ Krista K. Tanner

Dated at Des Moines, Iowa, this 29th day of June, 2007.