Exhibit No.:	
Issue:	*Capacity Planning*
Witness:	*Cary G. Featherstone*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
File No.:	*ER-2010-0356*
Date Testimony Prepared:	*December 15, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

Jefferson City, Missouri
December 15, 2010

** **Denotes Highly Confidential Information** **

NP

Staff Exhibit No. GMO-216
Date 1/18/11 Reporter LMB
File No. ER-2010-0356

TABLE OF CONTENTS OF

REBUTTAL TESTIMONY OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission ("Commission").

Q. Are you the same Cary G. Featherstone who filed direct testimony in this proceeding?

A. Yes, I am. I, with Curt Wells, filed direct testimony in this case on November 17, 2010 sponsoring Staff's Cost Of Service Report ("COS Report") for KCP&L Greater Missouri Operations Company's ("GMO" or "Company") rate case filed on June 4, 2010.

I also filed direct testimony on November 10, 2010 and rebuttal testimony on December 8, 2010 in the affiliated Kansas City Power & Light Company's ("KCPL") rate case filed by that company on June 4, 2010.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to address the inclusion of certain plant assets in the direct filing made by GMO for its MPS operating area. Specifically, this plant relates to generating units known as Crossroads Energy Center ("Crossroads").

Staff has not reflected in its case any of GMO's positions regarding Crossroads, but has instead included capacity for two combustion turbines identified as Prudent Turbines 4 and 5 at a site located in MPS's load center.

Specifically, I will provide the Commission the appropriate cost to GMO of acquiring the four 75 megawatt combustion turbines ("CTs") located at a site called Crossroads Energy Center near Clarksdale, Mississippi. While Staff is opposed to the inclusion of the costs of the Crossroads in GMO's rate base for MPS in this case, the Staff believes it is important for the Commission to be made aware of the actual cost at which Great Plains Energy Incorporated ("Great Plains" or "GPE"), the parent company of KCPL and GMO, acquired this generating asset.

Q. Is Staff opposed to including the Crossroads Energy Center in GMO's rate base in this case?

A. Yes. Staff's position is that GMO should have prudently addressed its capacity needs for MPS to replace the Aries purchased power agreement ("PPA") when it expired on May 31, 2005. MPS determined in its integrated resource planning that its least cost plan to replace the Aries capacity was to build the 5 combustion turbines in 2005. Instead, MPS decided to build only 3 combustion turbines and enter into purchased power agreements for the rest of the capacity it needed to meet 2005 system load requirements. Staff has maintained this decision was imprudent because it placed the short-term financial considerations of GMO over the long-run costs to MPS's customers. The rationale and support for the Staff's position is included in the direct testimonies of Staff witnesses Lena M. Mantle and Charles R. Hyneman. It is also included in the rebuttal testimony of Staff witnesses Mantle and here.

EXECUTIVE SUMMARY

Q. Please summarize your rebuttal testimony.

A. The Commission should reject GMO's proposed inclusion of Crossroads in rate base in this case. This facility is overvalued based on the investment Great Plains paid for this asset at the time of the acquisition of Aquila, Inc. ("Aquila") on July 14, 2008. Staff believes the Commission should not include the costs of Crossroads in GMO's rate base for MPS. Instead the costs of two turbines—Prudent Turbines 4 and 5—should be used as proxies, since they are what GMO should have built to meet the system load requirements of MPS. However, if the Commission decides to allow Crossroads in GMO's rate base, then the value of Crossroads for purposes of rate base in MPS should be the value of $51.6 million Great Plains put on it when it acquired Aquila, less accumulated depreciation from the time of the July 14, 2008 acquisition. This amount includes both production and transmission facilities.

GREAT PLAINS ENERGY ACQUISITION OF CROSSROADS ENERGY CENTER

Q. Please describe how Great Plains acquired Crossroads.

A. In February 2007, Great Plains entered into an agreement to acquire Aquila, Inc., (now referred to as GMO). The acquisition closed on July 14, 2008. Immediately prior to closing, Black Hills Corporation acquired Aquila's electric utility in Colorado and its gas utilities in Colorado, Kansas, Nebraska and Iowa plus associated liabilities. Following closing, Great Plains became the owner of Aquila with its remaining Missouri-based electric utilities which included MPS and L&P as well as Aquila's merchant service operations, which primarily consisted of the Crossroads Energy Center and residential natural gas contracts. Following the completion of the Black Hills Purchase, the Aquila corporate entity consisted of (i) Aquila's current Missouri electric operations, i.e., MPS and L&P and (ii) Aquila's St. Joseph Industrial Steam operations; and (iii) Aquila's nonregulated merchant services operations, which primarily consisted of the Crossroads Energy Center in Mississippi.

Q. Please provide a history of the ownership of the Crossroads.

A. Crossroads was built in Clarksdale Mississippi in 2002 by Aquila Merchant Services, then a non-regulated wholly-owned subsidiary of Aquila. The following is a timeline of Crossroads ownership and significant events related to Crossroads based in part on a memorandum received from Great Plains dated October 31, 2007 explaining the history of the Crossroads plant. This memorandum is attached as Schedule 1 to this testimony.

- October 2002 – Crossroads was moved from business unit MEP (Merchant Energy Partners Investment LLC) into business unit ACEC (Aquila Crossroads Energy Center). ACEC was a business unit under the non-regulated subsidiary of Aquila MEP.

- October 2002 to March 2007 – Crossroads remained on the books of Aquila's non-regulated Merchant Energy partners.

- February 2007 – Great Plains Energy announced an agreement to acquire Aquila, Inc.

- March 2007 – the regulated jurisdictional operations of Aquila, now known as GMO, issued a request for proposal (RFP) for a long-term supply option. Crossroads was bid into the RFP at net book value to satisfy the long-term supply option. Based on 2007 time frame Crossroads was selected as the least cost and preferred option for long-term supply.

- March 2007 – Crossroads was transferred from Aquila Merchant to Aquila, Inc., referred to as GMO, at net book value and recorded on the books of a non-regulated business unit CECAQ (Crossroads Energy

Center Aquila) where it resided when Great Plains Energy acquired Aquila (GMO).

- May 2007 – Great Plains Energy and Aquila filed a Joint Proxy Statement/Prospectus with the Securities and Exchange Commission. Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of Crossroads. Great Plains Energy estimated that this was the amount of proceeds it would receive from the sale of Crossroads to an unrelated party of similar capacity in the current market place.

- June 2007 – In a filing with the SEC, Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of Crossroads.

- August 2007 – In another filing with the SEC, Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of the Crossroads.

- May 2008 – Great Plains Energy concurred with Aquila's recommendation to use Crossroads as the least cost and preferred option in its utility resource planning process as a long-term supply option.

- July 2008 – Close of Great Plains Energy's acquisition of Aquila. Aquila, Inc began using the business name GMO then later changed its name to GMO. Crossroads was recorded on the books of GMO business unit NREG by Great Plains Energy.

- August 2008 – Crossroads was moved from the books of GMO's business unit NREG to GMO's regulated books for MPS.

- September 2008 – GMO filed a Missouri rate case seeking to include Crossroads in rate base for MPS at net book value of $117 million.

CROSSROADS VALUATION

Q. What is the current value of Crossroads?

A. The value of Crossroads on MPS's books at June 30, 2010 included in GMO's case is identified on Schedule 3 (page 2) of the Exhibit Modeling System ("EMS") run as production plant in service of $118,981,043 ($119 million) less accumulated depreciation reserve (reserve) (Schedule 6, page 2 of the EMS) of $29,660,009 ($29.7 million). The net book value at June 30, 2010 for the production plant of Crossroads is valued at $89,321,034 ($89.3 million). There is also transmission plant for Crossroads valued at June 30, 2010 at $21,901,183 ($21.9 million) less reserve of $4,106,472 ($4.1 million). Staff made adjustments to plant in service and the depreciation reserve to eliminate the value of the production and transmission plant of Crossroads in the direct filing replacing this generation with the values of Prudent Turbines 4 and 5.

Q. What was the book value of Crossroads when Great Plains acquired Aquila?

A. The following table identifies the booked amounts of Crossroads at September 30, 2010 which approximates the July 14, 2008 closing date of the Aquila acquisition compared with the current June 30, 2010 net plant:

Crossroads	**September 30, 2008**	**June 30, 2010**
Production Plant		
Plant	$118.8 million	$119 million
Less: Reserve	(21.2 million)	(29.7 million)
Net Production	$97.6 million	$89.3 million
Transmission Plant		
Plant	$21.9 million	$21.9 million
Less: Reserve	(3.1 million)	(4.1 million)
Net Transmission	$18.8 million	$17.8 million
Total Production and Transmission Plant		
Plant	$140.7 million	$140.9 million
Less: Reserve	(24.3 million)	(33.8 million)
Net Crossroads	**$116.4 million**	**$107.1 million**

[Source: EMS Schedule 3, pages 1 & 2 and Schedule 6, pages 1 & 2 in Case No. ER-2009-0090 and EMS Schedule 3, page 2 and Schedule 6, page 2 in Case No. ER-2010-0356]

Q. What value did GMO place on Crossroads in rate base for MPS in this case?

A. GMO's work papers reflect a net book value amount at June 30, 2010 of $107 million (Gross plant of $140.7 million less accumulated depreciation of $33.7 million).

Q. Does Staff agree that Crossroads should be valued at the book amounts identified on MPS's accounting records?

A. No. GMO has significantly overstated the amount of the Crossroads plant it is proposing to include in MPS' rate base by approximately $65 million.

Q. Why is the amount GMO has included in MPS's rate base for Crossroads overstated by $65 million, if Crossroads is included in that rate base?

A. Great Plains performed what is referred to as due diligence regarding the assets of Aquila it planned on purchasing as well as a review of the Missouri electric operations of both MPS and L&P in late 2006 and early 2007when it was negotiating the acquisition price of Aquila. During this phase of the acquisition process, Great Plains valued Crossroads at substantially less than what Aquila Merchant paid for Crossroads. Great Plains made a Security Exchange Commission ("SEC") filing in which it disclosed that it viewed Crossroads to have a market value of $51.6 million. In comparison the net book value of Crossroads at September 30, 2008, close to the time of closing of transaction, was $116.4 million. Note that the net book value amount was higher at the July 14, 2010 date when Great Plains closed its acquisition of Aquila.

The overstatement of Crossroads of $65 million is based on the following:

Net Plant	$116.4 million
Great Plains Valuation	51.6 million
Overvaluation	$64.8 million

Q. Why should Crossroads be valued at $51.6 million for rate base purposes?

A. When Great Plains offered to acquire Aquila in February 2007, its offer was based on a fair market valuation of Crossroads of $51.6 million. Since Aquila accepted Great Plains' offer, Great Plains acquired Aquila Merchant based on Great Plains' valuation of Crossroads at $51.6 million. Any attempt by Great Plains through GMO to place Crossroads in a regulated rate base in Missouri subsequent to its acquisition of Aquila and Aquila Merchant requires that the asset be placed in rate base at the price actually paid for the asset—the original cost.

The best evidence of the original cost of Crossroads is Great Plains disclosure to the Securities and Exchange Commission, its investors, and the public at large, by its SEC filing where identified the fair market value of Crossroads at the date of acquisition at $51.6 million.

By proposing to include Crossroads in MPS rate base at its non-regulated book value amount of $107 million [$140.9 million less reserve of $33.8 million], when Great Plains actually valued Crossroads at $51.6 million when it acquired the asset (by acquiring Aquila Merchant which had little of value other than Crossroads), Great Plains is asking the Commission to value Crossroads at nearly twice more than what Great Plains viewed itself that it paid to acquire Crossroads in 2007. This is tantamount to including an acquisition adjustment for Crossroads of approximately $65 million. The calculation of this proposed acquisition adjustment is based on Crossroads' net book value at time of the acquisition of $116 million, less the cost to Great Plains acquisition costs for this asset of $51.6 million.

Q. What is an acquisition adjustment?

A. An acquisition adjustment results when utility property is purchased or acquired for an amount either in excess of or below book value. Book value relates to the value placed on utility property and recorded on the Company's books and records at the time the utility property is first placed in public service, adjusted for depreciation and amortization. This assessment of value is commonly referred to as the property's "original cost." The acquisition adjustment is made up of two components, the merger premium and the transaction costs. The transaction costs are pre-merger costs to close or complete the merger.

Q. What is original cost?

A. The term "original cost," as defined by the Electric Plant Instruction Section of the FERC Uniform System of Accounts ("USOA"), relates to:

> All amounts included in the accounts for electric plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service. (Paragraph 15,052 of USOA).

Depreciation and amortization of the utility property from the previous owner must be deducted from the original cost, which results in a net original cost figure to be recorded on the purchaser's books and records. The acquired property is valued at the same value the seller placed on it, hence the "original cost when first devoted to public service," adjusted for depreciation and amortization, concept.

Q. Is use of net original cost for valuing rate base still the predominant form of regulation?

A. Yes. In the State of Missouri, the use of original cost less depreciation and amortization, i.e., net original cost, to set rates is not only the predominant form of regulation, but to my knowledge, the only form that has been employed by this Commission.

Q. How does an acquisition adjustment result?

A. Utility property is recorded on the company's books and records at net original cost. A utility must account for any difference between the acquisition cost or purchase price of property and the net original cost, i.e., the amount paid to the original owner (the seller) for utility property being first placed into service and the recorded net original cost amount. This difference in purchase price is recorded in USOA Account No. 114, Electric Plant Acquisition Adjustments. The amortization of the acquisition adjustment is made to Account 406, Amortization of Electric Plant Acquisition Adjustments, if authorization is granted to include the adjustment in cost of service for ratemaking purposes (above–the–line treatment). If no authorization is given to include an amortization for ratemaking purposes (i.e., below–the–line treatment occurs), then Account No. 425, Miscellaneous Amortization must be used.

Account 114 states:

> A. This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property.
>
> . . . .
>
> C. Debit amounts recorded in this account related to plant and land acquisition may be amortized to account 425, Miscellaneous Amortization, over a period not longer than the estimated remaining life of the properties to which such amounts relate. Amounts related to the acquisition of land only may be amortized to account 425 over a period of not more than 15 years. Should a utility wish to account for debit amounts in this account in any other manner, it shall petition the Commission for authority to do so. Credit amounts recorded in this account shall be accounted for as directed by the Commission.

Account No. 406 states:

> This account shall be debited or credited, as the case may be, with amounts includible in operating expenses, pursuant to approval or order of the Commission, for the purpose of providing for the extinguishment of the amount in account 114, Electric Plant Acquisition Adjustments.

Account No. 425 states:

> This account shall include amortization charges not includible in other accounts which are properly deductible in determining the income of the utility before interest charges. Charges includible herein, if significant in amount, must be in accordance with an orderly and systematic amortization program.
>
> ITEMS
>
> 1. Amortization of utility plant acquisition adjustments, or of intangibles included in utility plant in service when not authorized to be included in utility operating expenses by the Commission.
>
> 2. Other miscellaneous amortization charges allowed to be included in this account by the Commission.

Q. Did Great Plains' senior management perform a fair market valuation of Crossroads?

A. Yes. Great Plains made a "fair market valuation" of Crossroads in the February to May 2007 time frame. This valuation was an objective fair market valuation of a reasonable cost of Crossroads in early 2007. This valuation was released to the public on at least three occasions from May 2007 to August 2007 in successive Great Plains and Aquila's joint proxy statements and amendments filed with the SEC. Great Plains estimated that $51.6 million was the dollar amount of proceeds it would receive from the sale of Crossroads to an unrelated party in the then current market place. The following is a quote from the joint proxy statement and amendments:

> D - The pro forma adjustment represents the adjustment of the estimated fair value of certain Adjusted Aquila non-regulated tangible assets and reduction of depreciation expense associated with the decreased fair value. The adjustment was determined based on Great Plains Energy's estimates of fair value based on estimates of proceeds from sale of units to an unrelated party of similar capacity in the current market place. The preliminary internal analysis indicated a fair value estimate of Aquila's non-regulated Crossroads power generating facility of approximately $51.6 million. This analysis is significantly affected by assumptions regarding the current market for sales of units of similar capacity. The $66.3 million adjustment reflects the difference between the fair value of the combustion turbines at $51.6 million and the $117.9 million book value of the facility at March 31, 2007.
>
> Great Plains Energy management believes this to be an appropriate estimate of the fair value of the facility. The adjusted value will be depreciated over the estimated remaining useful lives of the underlying assets and could be materially affected by changes in fair value prior to the closing of the merger. An additional change in the fair value of the facility of $15 million would result in an additional change to annual depreciation expense of approximately $0.5 million.
>
> [Great Plains Energy & Aquila Joint Proxy Statement/Prospectus the SEC on May 8, 2007, page 175]

Aquila's, then owner of Crossroads in 2007, apparently also believed the value of Crossroads was $51.6 million since it was part of the Joint Proxy Statement/Prospectus filed with the SEC in May 2007.

Q. Did Great Plains make any pro forma adjustments to the value of Crossroads on its Pro Forma Balance Sheet that is included in the May 8, 2007 proxy statement?

A. Yes, it did. At page 170 of this proxy statement is Great Plains' Pro Forma Combined Balance Sheet as of December 31, 2006. This balance sheet shows in Pro Forma Adjustment D that Great Plains management estimated that it would have to write down the value of Aquila's Nonutility Plant by $67.25 million, with $66.3 million of this amount representing the estimated write down of the Crossroads Energy Center. The remaining approximately $1 million was for GMO's other non-regulated assets.

Q. Did Great Plains transfer this $66.3 million valuation write down of Crossroads from non-regulated plant?

A. Yes. On page 175 of the May 8, 2007 Proxy Statement in an explanation of Pro Forma Adjustment E to Goodwill, Great Plains made public that it expected that if the Aquila acquisition went forward Great Plains would have to transfer the $66.3 million Crossroads write down in Adjustment D from Non-utility plant to Goodwill. Clearly, Great Plains believed throughout the acquisition process that the Crossroads Energy Center could not be valued at its book value and would be valued at a substantial discount from book value.

Q. In addition to the recognition by Great Plains' management that the value of Crossroads is significantly less than its book value, are there other indications that the fair market value of Crossroads is less than its current book value?

A. Yes. According to GMO's response to Data Request 180 in Case No. ER-2009-0090, GMO's last rate case, ** ______________________________

____

______________________________________ **

Q. Did Great Plains purchase Crossroads with the intention of using it as a regulated Missouri generation plant?

A. No. In Form 425, filed with the SEC on February 8, 2007, Great Plains included a transcript of a joint webcast call by Great Plains Energy Incorporated, Aquila, Inc. and Black Hills Corporation that on February 7, 2007. Mr. Terry Bassham, Great Plains'

NP

Executive Vice-President and Chief Financial Officer stated that it was Great Plains' intention to "monetize" or sell Crossroads. The relevant portion of this transcript is reflected below:

> **Mike Chesser** Operator, we'd like to take one more question if we could because you all might expect we have quite a busy schedule ahead of us today.
> **Operator** Michael Lapides of Goldman Sachs.
> **Michael Lapides** Easy one. Mike, Terry, what are your thoughts on the peaking plant, the gas plant that Aquila owns?
> **Mike Chesser** At this stage as you know it is in litigation. And it has been appealed or it has been ruled on and appealed and it's being re-appealed. We have done quite a bit of due diligence around the potential outcomes on that and we have factored that impact into our purchase price.
> **Michael Lapides** I'm thinking not the regulated one but the merchant one.
> **Terry Bassham** Crossroads.
> **Michael Lapides** My apologies for not being --
> **Terry Bassham** That is okay, Michael. As Mike said we looked at (indiscernible) from a Crossroads perspective. We looked at the ability to utilize that or sell it. Our preference would be probably to get value through monetizing it. But if not we've looked at other options as well.

Q. What is the significance of the fact that Great Plains' preference was to sell Crossroads after acquiring Aquila?

A. The significance is because Great Plains intended to sell Crossroads, it included in the amount it paid Aquila's shareholders an amount that it expected to receive from the sale of this asset. The fact that Great Plains did not sell Crossroads, despite being its stated preference, means that like Aquila, it could not find a buyer, or it decided not to sell Crossroads for some other reason.

Q. Does the Commission require that assets acquired in a merger or acquisition be included in rate base at net original cost?

A. Yes. The Commission has consistently applied the net original cost standard when placing a value on assets for purposes of establishing a utility's rates.

Q. What did GPE believe was Crossroads' "cost" when it evaluated the purchase price to pay Aquila to acquire this asset?

A. The original cost to Great Plains to acquire the Crossroads asset would be the fair market value at which Great Plains placed on Crossroads on the date of acquisition. This amount was $51.6 million. Under the Commission's Affiliate Transactions Rule, 4 CSR 240-20.015 Affiliate Transactions, any transfer of Crossroads from non-regulated to regulated operations would have to be at or below the $51.6 million.

Q. Did Great Plains address any other asset it was purchasing from Aquila?

A. Yes. At the time of the Aquila acquisition, Aquila's South Harper three 105 megawatt combustion turbine generating station was in litigation regarding whether that station could remain operational at its near Peculiar, Missouri, location. During the due diligence phase acquiring Aquila, Great Plains identified there was an issue with South Harper, and indicated it considered this concern in its purchase price of the Aquila assets.

In the SEC filing made in Form 425 on February 8, 2007, Great Plains included a transcript of a joint webcast call by Great Plains, Aquila and Black Hills Corporation on February 7, 2007. Mr. Chester, the Chief Executive Officer of Great Plains, made the following statement:

> **Mike Chesser** At this stage as you know it is in litigation. And it has been appealed or it has been ruled on and appealed and it's being re-appealed. We have done quite a bit of due diligence around the potential outcomes on that and we have factored that impact into our purchase price.

Q. Has Staff made any adjustment to exclude costs for the South Harper station in this case?

A. No. While some costs were excluded in prior cases for the problems associated with South Harper, Staff has not reflected any adjustment relating to Great Plains paying a reduced price for this generating station because of the legal problems it had regarding that station. While South Harper could be considered overstated in value because of Great Plains concerns with this generating station, Staff continues to believe it is properly valued in MPS' rate base today, and therefore, has not made any adjustment to remove costs for the this facility for valuation purposes.

AFFILIATED TRANSACTION

Q. Is the transfer of the Crossroads combustion turbines from a non-regulated Aquila affiliate to Aquila's regulated operations a transaction subject to the Commission's Affiliate Transactions Rule?

A. Yes, it is. As noted below, in August 2008 Crossroads was moved from the books of Aquila's non-regulated business unit NREG to its regulated books for MPS. This transfer of assets is required to be accomplished in compliance with Commission Rule 4 CSR 240-20.015 Affiliate Transactions. The purpose or objective of this rule is to prevent regulated utilities from subsidizing their non-regulated operations. To accomplish this objective, the Commission has standards with which utilities are required to comply. The overriding goal of this rule, and its effective enforcement, will provide the public the assurance that their rates are not adversely impacted by the utilities' non-regulated activities.

Q. How does rule Commission Rule 4 CSR 240-20.015 define an affiliate transaction?

A. The rule states that affiliate transaction means "any transaction for the provision, purchase or sale of any information, asset, product or service, or portion of any product or service, between a regulated electrical corporation and an affiliated entity, and shall include all transactions carried out between any unregulated business operation of a regulated electrical corporation and the regulated business operations of a electrical corporation."

Q. What are the standards on affiliate transactions as defined by Commission Rule 4 CSR 240-20.015?

A. The primary standard to be met as it relates to the transfer of Crossroads from non-regulated to regulated operations is that the transfer be done at the lesser of the fair market price or the cost to the utility to provide the capacity provided by Crossroads for itself. Paragraph 2, Standards, states:

> (A) A regulated electrical corporation shall not provide a financial advantage to an affiliated entity. For the purposes of this rule, a regulated electrical corporation shall be deemed to provide a financial advantage to an affiliated entity if—
>
> 1. It compensates an affiliated entity for goods or services above the lesser of— A. The fair market price; or B. The fully distributed cost to the regulated electrical corporation to provide the goods or services for itself; or
>
> 2. It transfers information, assets, goods or services of any kind to an affiliated entity below the greater of— A. The fair market price; or B. The fully distributed cost to the regulated electrical corporation.
>
> (B) Except as necessary to provide corporate support functions, the regulated electrical corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time.

Q. Should GMO have requested the Commission to address its affiliate transaction to treat Crossroads as part of GMO's commission-regulated operations?

A. Yes. Just as Aquila did in 2005 when it sought Commission approval of the transfer of the three combustion turbines—the turbines used at the South Harper facility-- from the non-regulated operations of Aquila Merchant to its regulated MPS operations, Staff believes GMO should have sought Commission approval for transferring the Crossroads generating assets to the regulated MPS books at a value consistent with the lower of cost or market standard in the affiliated transaction rules.

Q. What was the outcome of the filing made by Aquila relating to South Harper?

A. Aquila was required to write-down the South Harper combustion turbines twice—once by an appraisal done by an independent party and a second based on an agreement Aquila made with the Office of Public Counsel and Staff to value the turbines at distressed values. This filing was designated as Case No. EO-2005-0156.

DEPRECIATION—General Plant

Q. What is the purpose of this portion of your rebuttal testimony?

A. I am addressing the GMO proposal regarding an amortization of its general plant along with Staff witness Arthur W. Rice. This proposal by GMO concerning the General Plant depreciation is discussed in the direct testimony of the Company's witnesses John P. Weisensee and John S. Spanos. I address here Staff's concerns with GMO's General Plant depreciation request relating to alleged intra-jurisdictional discrepancies, which I discuss below. Staff's deprecation positions are generally contained in Staff witness Rice's direct and rebuttal testimonies.

Q. Is Staff opposed to the Company's proposed treatment on the General Plant depreciation?

A. Yes. As discussed in Staff witness Rice's direct and rebuttal testimonies, Staff is opposed to GMO's requested cost recovery of the General Plant depreciation. Mr. Rice states in his rebuttal testimony that "GMO's requested change in method for certain General Plant accounts to an Amortization method is not supported by their direct filing. Staff's current recommendation is to leave the depreciation rates for these accounts at the current ordered rates until verification of plant in service is conducted to verify the amortization periods proposed or a revised depreciation rate assigned."

Q. What is GMO's General Plant depreciation request?

A. GMO is requesting an amortization relating to the General Plant over a period of 20 years. For MPS and L&P, GMO identifies the following in its work papers regarding this issue:

	MPS	**L&P**
Total Unrecovered Reserve Amount	$14,076,020	$4,744,481
Amortization Period	20 years	20 years
Amortization per year	$703,801	$237,224
Jurisdictional Factor	99.513%	100%
Missouri Jurisdictional Amount	$700,374	$237,224

[Source: MPS and L&P work papers CS – 122]

Q. Does Staff disagree with these amounts?

A. No. However, Staff is using a slightly higher Missouri jurisdictional factor for General Plant of 99.5450% which will result in an immaterial difference with GMO for MPS of $700,599 [$703,801 times 99.5450%] instead of the $700,374 amount shown above and in MPS work papers.

Q. What makes up the General Plant amounts GMO is seeking the amortizations?

A. GMO is requesting the amortization treatment because it alleges there were different depreciation rates authorized in the states Aquila operated in. GMO contends that because of the use of different depreciation rates by the various states Aquila operated in, the Company has unrecovered a portion of the General Plant accounts.

GMO has two types of General Plant (1) Plant relating to the regulated GMO operations and (2) General Plant relating to the former corporate offices of Aquila.

It is this latter category of General Plant which is the subject of the Company's proposed amortization of the former corporate office costs. These corporate costs were primarily at the former corporate office headquarters of Aquila known as 20 West Ninth. The corporate office costs were for furniture, office equipment, with majority of the costs identified as computer and computer related costs.

Q. In which states did Aquila formerly operate?

A. Besides Missouri, Aquila had regulated operations in Colorado, Kansas, Iowa, Michigan, and Nebraska. Aquila also had vast non-regulated operations in its Aquila Merchant company operating in many states, a regulated electric utility in Canada, and substantial overseas operations in the United Kingdom, New Zealand, as well as other countries. All these entities—regulated and non-regulated alike—had a portion of the Aquila corporate costs assigned to them.

Q. Did the other jurisdictions use different depreciation rates?

A. Yes, to my knowledge they did.

Q. Has Staff included the effect of the General Plant costs in its case?

A. Yes. While these amounts were not initially included in Staff's direct filing made on November 17, 2010, Staff has included the General Plant costs as a negative depreciation reserve which is the exact treatment GMO gave them. Once it was pointed out to Staff by the Company that the amounts in the Accumulated Depreciation Reserve referred to as the "UCU Common General Plant" were not included in Staff's direct filing as was done in previous cases, Staff revised its cost of service run (the Exhibit Modeling System or the EMS) for both MPS and L&P. The section of Depreciation Reserve is identified as Schedule 6 (page 4 of 4) of the EMS run. The Staff revised EMS runs for MPS and L&P are filed as schedule attachments to the rebuttal testimony of GMO witness Weisensee.

Q. Why is Staff opposed to the proposed amortization treatment of the General Plant presented by GMO witnesses Weisensee and Spanos?

A. As indicated by Mr. Rice, Staff believes there is insufficient evidence at this time to warrant any such additional cost increases for this plant.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service	))))	File No. ER-2010-0356

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 21 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone

Subscribed and sworn to before me this 15th day of December, 2010.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Nikki Senn
Notary Public

To: **Files**

From: Ron Klote, Senior Manager Regulatory Accounting

CC: Darrin Ives

Date: October 31, 2008

Subject: Crossroads Energy Center Transfer to the KCP&L Greater Missouri Operations Company Regulated Jurisdiction's MOPUB Business Unit

Purpose:
To document the reason for and the timing of the property accounting move of the Crossroads Energy Center to the books and records of KCP&L Greater Missouri Operations Company's ("GMO") MOPUB business unit. In addition, documenting the recording of the Crossroads Energy Center as a capital lease and how the accumulated deferred income taxes ("ADIT") should be treated associated with the plant.

Relevant Guidance Researched:
Code of Federal Regulations Title 18 Part 101

Background:
The Crossroads Energy Center is an approximately 300MW combustion turbine power plant consisting of four General Electric 7EA units. It was built in 2002 by a non-regulated subsidiary of Aquila, Inc. titled Aquila Merchant Services. It is located in Mississippi and is owned by the City of Clarksdale for property tax abatement purposes. GMO holds a purchase option that provides the opportunity for GMO to purchase the plant from the City of Clarksdale at any time for $1,000. This purchase would eliminate the property tax abatement treatment of the plant. The Crossroads Energy Center is controlled by GMO through a long-term tolling agreement. The plant is recorded as a capital lease on the books and records of MOPUB.

The placement of the Crossroads Energy Center on the books and records of Aquila, Inc. was as follows. In October 2002, the Crossroads Energy Center was moved from business unit MEP (Merchant Energy Partners Investment LLC) CWIP account into business unit ACEC (Crossroads Energy Center) plant accounts. ACEC was a business unit under the non-regulated subsidiary of MEP. In March 2007, due to the wind down of Aquila's Merchant operations and their inability to effectively dispatch power from the Crossroads Energy Center, there was a negotiation of the rights and obligations of the plant to Aquila, Inc. This transfer was governed by a Master Transfer Agreement dated March 31, 2007. Aquila, Inc. paid $117.9 million to Aquila Merchant which was equivalent to the net book value of Crossroads at this time. Rather than pay a cash purchase price, the purchase price took the form of a credit that reduced the amount of indebtedness owed by Aquila Merchant to Aquila parent. On March 31, 2007, Crossroads Energy Center was recorded at Net Book Value to a nonregulated business unit CECAQ (Crossroads Energy Center Aquila) where it resided at the time of the acquisition of Aquila, Inc. by Great Plains Energy (GPE).

On March 19, 2007, the regulated jurisdictional operations of GMO issued a request for proposal for a long-term supply option. The Crossroads Energy Center was bid into the request for proposal at net book value to satisfy the long-term supply option. The candidates submitting bids for the long-term supply option were evaluated and the Crossroads Energy Center was selected as the least cost and preferred option for long-term supply. The evaluation process and selection of the Crossroads Energy Center as the preferred option was presented to the Missouri Public Service Commission Staff on October 31, 2007.

On approximately May 14, 2008 Aquila's management presented a review of the IRP process presented to Staff in October 2007 with GPE management. During this presentation, the Request for Proposal process was discussed with GPE management and Aquila's decision to select Crossroads as the least cost and preferred option was reviewed. At this meeting, GPE concurred with Aquila's recommendation to use Crossroads as a long-term supply option. (Added by Tim Rush on 1/6/09: Attendees, Todd Kobayashi, Kevin Bryant, Tim Rush, Scott Heidtbrink, Davis Rooney, Gail Allen, Gary Clemens, Denny Williams, Jeremy Morgan. As a note, in the initial evaluation of the acquisition of Aquila, GPE had not made a decision on how it would address the Crossroads facility.)

On August 31, 2008 the Crossroads Energy Center was moved from GMO's business unit NREG, where it was recorded after the acquisition of Aquila, Inc. by Great Plains Energy on July 14, 2008, to MOPUB's books and records. MOPUB is the regulated business unit which previously served the territory known as Missouri Public Service. On September 5, 2008 GMO regulated jurisdictions filed a rate case including the Crossroads Energy Center in MPS's rate base at net book value.

Conclusion:

The following actions regarding the accounting of the Crossroads Energy Center are appropriate:

1. The Crossroads Energy Center should be recorded at net book value on the books and records of KCP&L Greater Missouri Operations Company's MOPUB business unit.
2. August 2008 was the appropriate time to move the Crossroads Energy Center to the MOPUB business unit.
3. The Crossroads Energy Center is appropriately recorded as a capital lease as part of the continuing property records.
4. The ADIT associated with the time period that the Crossroads Energy Center was recorded on the non-regulated subsidiary of Aquila, Inc. should be recorded on the non-regulated business unit AQP (GMO's non-regulated subisidiary). The ADIT balances from March 2007 when the Crossroads Energy Center was moved to a business unit under Aquila, Inc. parents books and records until the present should be recorded on the business unit MOPUB.

Support of Conclusion:

Recorded at Net Book Value on MOPUB's Books and Records

The support for the decision by GPE's management to record the Crossroads Energy Center at net book value can be directly linked to the Request for Proposal process by GMO. As discussed in the background section above, on March 19, 2007 the regulated jurisdictional operations of GMO sent out a Request for Proposal to evaluate and choose a long-term supply option. Aquila, Inc. bid the Crossroads Energy Center into the Request for Proposal process at net book value. All bids were accumulated and evaluated. The Crossroads Energy Center was selected as the least cost and most preferred option. This was presented to Missouri Public Service Commission Staff on October 31, 2007.

Additionally, with the acquisition of Aquila, Inc. by Great Plains Energy, PricewaterhouseCoopers was engaged to complete a Purchase Accounting Valuation. As part of this analysis, there was an assessment of the fair market value of the Crossroads Energy Center. This evaluation resulted in an amount that was in excess of the Net Book Value that was offered into the Request for Proposal process initiated by Aquila Inc. GPE's management made the decision to not record a fair market value adjustment on the Crossroads Energy Center, but instead record the plant at net book value and include the property as part of GMO's regulated jurisdiction. This amount is being requested to be part of rate base at net book value in GMO's current rate case filing, case number ER-2009-0090.

Recorded at August 2008 on Business Unit MOPUB

The support to move the Crossroads Energy Center to MOPUB's business unit in August 2008 can be linked to a series of events ultimately concluding in GPE management's decision to include the Crossroads Energy Center in the GMO's regulated jurisdiction rate base calculation in the September 5, 2008 rate case filing (ER-2009-0090). The series of events as discussed in the background section of this whitepaper are detailed below:

- On March 31, 2007, the non-regulated subsidiary Merchant Energy Partners negotiated an assignment of the rights and obligations of the Crossroads Energy Center to the Parent company Aquila, Inc.
- Subsequently, Aquila, Inc. bid the Crossroads Energy Center into a Request for Proposal by GMO's regulated jurisdiction for a long-term supply option.
- GMO's evaluation of the bids offered concluded that the Crossroads Energy Center was the least cost and preferred option for the long-term supply option.
- On October 31, 2007, a presentation was made to the Missouri Public Service Commission Staff communicating the results of the Request for Proposal process.
- Approximately May 14, 2008 Aquila's management reviewed the results of the IRP process and the results of the Request for Proposal process with GPE's management. GPE's management concurred with the decision that Crossroads was the least cost and preferred long-term supply option.
- On July 14, 2008 Great Plains Energy completed their acquisition of Aquila, Inc.
- August 2008, GPE's management decided to include the Crossroads Energy Center in rate base in its GMO regulated jurisdiction.
- On August 25, 2008, GPE's management met with Missouri Public Service Commission Staff and discussed GPE's decision to move the Crossroads Energy Center onto the books and records of GMO's regulated jurisdiction and include the net book value of the plant in rate base in the upcoming rate case filing.
- August 31, 2008 Crossroads Energy Center was transferred to GMO's regulated jurisdiction.
- September 5, 2008, GMO filed a rate case under the docket number ER-2009-0090 including the Crossroads Energy Center in rate base at net book value.

Recorded as a Capital Lease

The "General Instructions" number 19 of 18 CFR part 101 states the following:

> *If at the inception a lease meets one or more of the following criteria, the lease shall be classified as a capital lease. Otherwise, it shall be classified as an operating lease.*
> 1. *The lease transfers ownership of the property to the lessee by the end of the lease term.*
> 2. *The lease contains a bargain purchase option.*
> 3. *The lease term is equal to 75 percent or more of the estimated economic life of the leased property.*
> 4. *The present value at the beginning of the lease term of the minimum lese payments, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes to be paid by the lessor, including any profit theron, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.*

The Crossroads Energy Center has been recorded on the books and records since October 2002 as a capital lease. This is supported by the following:

- Criteria number 3 states that the lease term is equal to 75 percent or more of the estimated economic life of the leased property. The Crossroads Energy Center meets this criteria. The lease term agreed to with the City of Clarksdale was for an original term of 30 years and two 5 year extension options. The economic life of the plant is estimated at 40 years. This equates to 75 percent of the economic life when considering the original terms and 100 percent of the economic if the two 5 year extension periods are exercised. Both meet or exceed the 75 percent criteria discussed above.
- In addition, criteria number 2 states that the lease must contain a bargain purchase option. Effective March 28, 2008 GMO finalized a purchase option that allows it to purchase the Crossroads Energy Center from the City of Clarksdale at any time for $1,000. $1,000 would be considered a bargain purchase option as it is significantly less than the fair market value of the plant. Crossroads would meet this requirement.

Recording of ADIT Balances
ADIT balances to date associated with the Crossroads Energy Center can be grouped into two separate categories as follows:

- ADIT accumulated from original in service date during 2002 to the date the plant was transferred to Aquila, Inc.'s parents books CECAQ in March 2007.
- ADIT accumulated on Aquila, Inc.'s parents books from March 2007 to present.

The ADIT in the first grouping when the Crossroads Energy Center was recorded on Aquila's non-regulated subsidiary Merchant Energy Partner's with a business unit titled ACEC is attributable to the deferred intercompany gain from when the Plant was transferred to Aquila, Inc.'s parents books. The transfer of these ADIT balances to Parent would not be appropriate as the Parent or the future GMO jurisdiction has not received any benefits of the accelerated depreciation that was recognized on the non-regulated subsidiary books. As such, the ADIT associated with this time period is recorded presently on the non-regulated business unit AQP.

The ADIT associated with the time period of when the plant was recorded on Aquila Inc.'s parents books to the present is attributable to the tax effected difference between book and tax depreciation. Due to tax normalization rules, these amounts are required to follow the plant as it gets transferred to the GMO regulated jurisdiction of MOPUB. These ADIT amounts will be used as rate base offsets to the plants net book value that will be included in GMO's rate case filings.