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Harris, Loretta

Ex 118

From: Green, Rick
Sent: Wednesday, December 27, 2006 4:10 PM
To: [redacted] Herman Cain [redacted]; Irvine O. Hockaday Jr. [redacted] Nicholas Singer (Nick) [redacted] Patrick Lynch [redacted]; [redacted]
Cc: Armstrong, Beth; Empson, Jon; Morton, Leo; Bellville, Debbie; Debbie Hacket [redacted] Green, Rick; Harris, Loretta; [redacted] Karleen Mahn [redacted]; Reitz, Christopher [redacted]
Subject: Project 132 Update

Exhibit No. 118
Date 12-5-07 Case No. EM-2007-0374
Reporter PF

Dear Directors:

The purpose of this email is to provide the Board a further update on the discussions with Great Plains.

Last Thursday, December 21st, we received the Great Plains management presentation. Our advisors, Evercore, Blackstone and Lehman, were also present. The session was held at a hotel in Kansas City. Their CEO attended by phone and, as a result, the meeting was led by their CFO. We also received presentations from a number of other officers of Great Plains including the CEO of their KCP&L utility, the CEO of their unregulated subsidiary (Strategic Energy) and the leader of their regulatory group.

As described in more detail below, Great Plains actually received the results of their Missouri rate case filing during the meeting. At the meeting, Great Plains confirmed that we will also need to meet with the Kansas regulators before a merger agreement can be signed. Their rationale for meeting with the Kansas regulators is essentially the same as the need to meet with the Missouri regulators ahead of the signing. Great Plains believes that the most likely time to meet with the regulators is the week of January 8th.

While further diligence will be required in a number of areas, the written material in the management presentation seemed neither surprising nor alarming. However, we were surprised by a couple of comments made during the presentation.

First, we had been anticipating the receipt of consolidated financials from Great Plains. They mentioned that those will not be available until later this week. This information is an integral part of the reverse due diligence requirements. With this latest delay, it will be challenging to perform a quality assessment of the information by January 8th. You will recall that the information was originally to be provided before the December 8th board meeting and then it was to be provided when we signed the exclusivity agreement (also on December 8th).

Second, Great Plains is pushing for a significant change to the regulatory strategy in Missouri. Up to this point, the regulatory approval to be sought in Missouri was to be a generic approval of the merger. Great Plains' current thinking is that it will file its annual rate case application in February 2007; and we will jointly file the merger application in the March/April timeframe; and Aquila would file a rate case immediately upon conclusion of the current Aquila rate case in Missouri (our current rate case has rates effective June 1, 2007). A motion would then be filed to consolidate all three cases with a request for expedited approval by year-end 2007. Great Plains characterized the Aquila rate case filing as a requirement, not an option, for the successful completion of the transaction. You might recall at the last Board meeting our discussion about the legal difficulties of requesting a rate increase within a merger application. This new regulatory strategy reflects how Great Plains intends

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to overcome that legal barrier by incorporating the rate increase in the Aquila rate case application and then consolidating that case with the merger application. Great Plains indicated that this strategy will enable them to maintain their investment grade metrics.

As part of the Aquila rate case which would subsequently be merged into and referenced in the merger application, Great Plains wants the Missouri Public Service Commission (MPSC) to rule on synergy retention and Iatan II amortization for Aquila (the amortization would essentially have the same effect as accelerated depreciation). Great Plains' current model, which is being updated, shows that a significant amortization rate increase is needed in the Aquila rate case for the consolidated new entity to maintain investment grade metrics. The argument for approving this amortization and the merger is that, while in the short term rates would go up for Aquila customers upon consummation of the merger, the economic benefits of the merger will result in lower rates for Aquila customers over the long-term compared to the Aquila standalone rates. It is our understanding that if the MPSC does not rule favorably on the consolidated merger/Aquila rate case application where the retention of synergies and Iatan II amortization are specifically requested, then the transaction would be terminated. It should be noted that while Great Plains mentioned this change at the meeting, they have not yet incorporated it into the draft of the merger agreement. We, along with our advisors, will need to assess the impact that it has on the execution risk of the transaction.

During the course of the meeting with Great Plains management, we also received some additional detail on their plans for financing the transaction. They intend to issue $350 million of a hybrid facility. They believe the rating agencies would assign 50% of the value if this facility to equity. However, the hybrid does not convert to equity but would ultimately be replaced by another hybrid or equity. Also, they intend to retain our 2012 debt ($500 million which ratchets down to 11.875% upon return to investment grade). We anticipate receiving additional details when Great Plains supplies the consolidated financials later this week.

Those financials should incorporate the results of their rate case which resulted in $50 million of increased revenues (comprised of $28 million of the requested $56 million which applies towards earnings and $22 million of increased amortization). The MPSC based the increase upon Great Plains earning 11.25% ROE – which includes a 25 basis point adder for Iatan II construction risk. Equity represents 53.69% of Great Plains' capital structure.

In addition to gaining a better understanding of Great Plains' regulatory and financing plans, we need to dig a bit deeper into their unregulated business, Strategic Energy. This business supplies energy to retail customers in states that have embarked upon deregulation of the electric utility industry. Strategic Energy has revenues in excess of $1 billion and is responsible for approximately 15% of Great Plains' earnings.

We will plan on providing a more detailed update after we receive the consolidated financials from Great Plains and we gain more understanding about their regulatory strategy. In any event, we will plan on following up with you next week. On a related note, we are reviewing the availabilities that you have provided for the next telephonic and/or in-person meeting. We will circle back on the meeting date.

Rick