

Exhibit No.: **Gmo-25**
Issue: Transition Costs Amortization;
Synergy Savings Tracking Model; and
Crossroads valuation
Witness: Darrin R. Ives
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: January 12, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
January 2011**

KCP&L Exhibit No. GMO25
Date 2/3/11 Reporter LMB
File No. ER-2010-0356

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2010-0356

1 **Q: Please state your name and business address.**

2 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri,
3 64105.

4 **Q: Are you the same Darrin R. Ives who prefiled direct and rebuttal testimony in this**
5 **matter?**

6 A: Yes.

7 **Q: What is the purpose of your surrebuttal testimony?**

8 A: I will respond to the rebuttal testimony provided by Missouri Public Service Commission
9 Staff ("Staff") witness Keith A. Majors under the heading "Transition Cost Recovery"
10 and the rebuttal testimony provided by Staff witness Cary G. Featherstone regarding the
11 valuation of Crossroads Energy Center as a result of Great Plains Energy's acquisition of
12 Aquila, Inc.

13 **Transition Cost Recovery**

14 **Q: Can you please summarize Staff witness Majors' rebuttal testimony in regards to**
15 **transition cost recovery?**

16 A: Yes. Consistent with Staff's position in its direct filing in this case, Mr. Majors testifies
17 that he believes Kansas City Power & Light Company ("KCP&L") and KCP&L Greater
18 Missouri Operations Company ("GMO" or "the Company"), collectively referred to as
19 "companies", have already recovered all of the transition costs associated with the

1 acquisition of Aquila through regulatory lag. Therefore, Staff has not included any
2 amount of amortized transition costs in its cost of service for the companies. While I will
3 not repeat my rebuttal testimony in this case herein, Mr. Majors makes several points in
4 his rebuttal testimony that I will address more fully in this surrebuttal testimony.

5 However, his main points continue to reflect significant revisionist history regarding Case
6 No. EM-2007-0374 (the "Merger case") and his testimony and positions disregard the
7 facts of the Merger case as well as much of the content of the Commission's Report and
8 Order in that case.

9 **Q: On page 3 of Staff witness Majors' testimony, he cites footnote 930 on page 241 as**
10 **the Commission's discussion of recovery of transition costs in its Report and Order**
11 **in the Merger case. Is that the primary discussion by the Commission of transition**
12 **cost recovery?**

13 **A:** No, it is not. The primary discussion in the Commission's Report and Order regarding
14 this topic, to which the footnote applies, is as follows:

15 **3. Final Conclusions Regarding Transaction and Transition Cost Recovery**

16 Substantial and competent evidence in the record as a
17 whole supports the conclusions that: (1) the Applicants'
18 calculation of transaction and transition costs are accurate
19 and reasonable; (2) in this instance, establishing a
20 mechanism to allow recovery of the transaction costs of the
21 merger would have the same effect of artificially inflating rate
22 base in the same way as allowing recovery of an acquisition
23 premium; and (3) the uncontested recovery of transition
24 costs is appropriate and justified. The Commission further
25 concludes that it is not a detriment to the public interest to
26 deny recovery of the transaction costs associated with the
27 merger and not a detriment to the public interest to allow
28 recovery of transition costs of the merger. **If the**
29 **Commission determines that it will approve the merger**
30 **when it performs its balancing test (in a later section in**
31 **this Report and Order), the Commission will authorize**
32 **KCPL and Aquila to defer transition costs to be**

1 **amortized over five years. (Emphasis added)**

2 As indicated by the emphasized sentence, the Commission authorized the companies to
3 defer transition costs to be amortized over five years subject to the conditions provided in
4 footnote 930 referenced by Mr. Majors.

5 **Q: Can you describe the conditions provided in footnote 930 and the companies’
6 position on its ability to meet the conditions?**

7 A: The first condition in footnote 930 is that the Commission would give consideration to
8 the recovery of transition costs in future rate cases by making an evaluation as to their
9 reasonableness and prudence. That evaluation is being addressed for the first time in
10 these current cases. As referenced by Mr. Majors on page 2 of his rebuttal testimony, the
11 companies’ total transition costs at June 30, 2010, were \$58.0 million. As provided in
12 my rebuttal testimony in this case, projected through December 31, 2010 (the true-up
13 date in this case), the companies are requesting total transition cost recovery of \$51.8
14 million (\$41.8 million Missouri jurisdictional) from customers over a five-year period.
15 These amounts are less than the companies’ estimates provided in the Merger case of
16 \$58.9 million (\$42.8 million Missouri jurisdictional) supporting the Commission’s
17 conclusion (1) from page 241 of the Merger Report and Order that the Applicants’
18 calculation of transaction and transition costs are accurate and reasonable. This also
19 supports the Commission’s conclusion (3) on the same page that the uncontested
20 recovery of transition costs is appropriate and justified and that it is not a detriment to the
21 public interest to allow recovery of transition costs of the merger.

22 The second condition in footnote 930 is that at the time of evaluation of the
23 reasonableness and prudence of transition costs (being addressed in these current cases)
24 the Commission will expect that the companies demonstrate that the synergy savings

1 exceed the level of the amortized transition costs included in the test year costs of service
2 expenses in future rate cases. As demonstrated in my direct and rebuttal testimonies, and
3 referred to on multiple occasions by Mr. Majors in the Staff's direct case and his rebuttal
4 testimony, the companies have maintained and supplied to Staff a synergy savings
5 tracking mechanism as ordered by the Commission in the Merger Report and Order. As
6 ordered, the tracking mechanism compares 2009 (test year in the current cases) non-fuel
7 operations and maintenance ("NFOM") expense to the adjusted 2006 baseline NFOM,
8 the same methodology as more fully described in the body of the Merger Report and
9 Order. The companies' synergy savings tracking mechanism reflects savings of \$48.5
10 million, clearly demonstrating savings in excess of the level of annualized transition cost
11 recovery requested from customers of \$10.4 million (\$8.4 million Missouri jurisdictional)
12 over five years in the current cases.

13 **Q: Are the transition costs provided above the final costs for consideration in these**
14 **current cases?**

15 A: The costs provided are representative of the expected final costs. However, as indicated
16 in my direct testimony in this case, we intend to utilize actual transition costs through
17 December 31, 2010 (the true-up date for the current cases), as the basis for determining
18 the annual amortization to be included in the current cases.

19 **Q: Please address the testimony offered by Staff witness Majors on pages 4 through 7**
20 **of his rebuttal testimony regarding regulatory lag.**

21 A: Mr. Majors presents several tables depicting regulatory lag and describing its effects;
22 however, there is no new data in his testimony for the Commission to consider. Without
23 repeating it fully here, I refer to my rebuttal testimony in this case beginning on page 4,

1 line 12 and ending on page 5, line 13. In this section of my rebuttal testimony, I
2 emphasize a Commission conclusion in its Merger Report and Order that clearly shows
3 that the Commission recognized and addressed in the Merger case that **because the**
4 **Applicants have agreed to recover any merger savings through “regulatory lag” as**
5 **part of the traditional ratemaking process there is no net detriment to customers.**
6 (Emphasis added) It is clear the Commission affirmatively addressed the companies’
7 utilization of regulatory lag to retain synergy savings in its Merger Report and Order.

8 **Q: Do you have additional support that the Commission was aware of the companies’**
9 **request to retain synergy savings through regulatory lag in the Merger case?**

10 A: Yes. In the Merger case, the Additional Supplemental Direct testimony provided by both
11 Company witnesses Bassham and Giles addresses utilization by the companies of the
12 natural regulatory lag that occurs between rate cases to retain any portion of synergy
13 savings. In particular, Company witness Bassham describes the Applicants’ withdrawal
14 of their request for a specific synergy savings adder and new proposal to utilize the
15 natural regulatory lag to retain any portion of synergy savings. Company witness Giles
16 provided Schedule CBG-1 to his testimony as support for his testimony estimating the
17 Missouri jurisdictional impact of the companies’ proposal to retain synergy savings
18 utilizing regulatory lag and recover transition/transaction costs over five years from the
19 first change in rates that include merger synergy savings. The companies’ estimate in
20 CBG-1 was that customers would receive cumulative net benefits of \$140 million
21 through 2013 and \$482 million through 2017. Both witnesses’ testimony is clear
22 regarding the utilization of regulatory lag for the companies to retain synergy savings
23 achieved and the expected customer benefits after doing so.

1 **Q: Will the companies deliver net benefits to customers consistent with the expectations**
2 **outlined in Schedule CBG-1 to Company witness Giles testimony in the Merger**
3 **case?**

4 **A: Yes, as discussed in my rebuttal testimony in this case, the Company projects that, with**
5 **consideration of return of synergy savings related to full time equivalent (“FTE”)**
6 **reductions (including related benefits), facilities retirements (removal from rate base and**
7 **cost of service) and insurance costs savings to customers in rates effective from the ER-**
8 **2009-0089 and ER-2009-0090 cases, cumulative regulated synergy savings would be**
9 **\$344.2 million through the second quarter of 2013 (the first five years post-acquisition)**
10 **with 56.1%, or \$193.1 million, of that total returned to customers. Customer benefits are**
11 **projected to grow to \$625.6 million in synergies or 80.6% of the projected \$776.7 million**
12 **in cumulative regulated synergy savings over the first 10 years post-acquisition. Net of**
13 **the \$51.8 million of transition cost recovery requested from customers by the companies,**
14 **cumulative customer benefits over the first five years are projected to be \$141.3 million**
15 **over the first five years after the acquisition and \$573.8 million over the first ten years**
16 **after the acquisition, which in both periods exceed the projections by Company witness**
17 **Giles in the Merger case.**

18 I also provide in my rebuttal testimony a summary of projected customer benefits
19 over the first five years assuming no synergy savings are realized by customers until rates
20 effective from the current cases. With this ultra-conservative assumption, customers still
21 receive 47.5% of the \$344.2 million cumulative regulated synergy savings over the
22 period.

1 **Q: Beginning on page 8 of his rebuttal testimony, Staff witness Majors discusses what**
2 **he describes as the true cost savings relating to the acquisition of Aquila. Do you**
3 **have a response to his testimony on this topic?**

4 A: Yes. Mr. Majors again presents several tables, this time summarizing actual and
5 projected synergy savings as depicted by the companies in their synergy savings charter
6 database. His main points here are to demonstrate the significance of the corporate
7 retained synergy savings category and the amount of regulated synergy savings retained
8 by the Company through regulatory lag. Once again, this is not new data to these current
9 cases or to the Commission. I will not repeat my prior testimony here, but in my rebuttal
10 testimony on pages 9 through 11, I describe the corporate retained synergy savings and
11 the inappropriateness in viewing those savings as an offset to transition costs the
12 Commission said in its Merger Report and Order that the companies could recover. I
13 have already addressed in this surrebuttal testimony, as well as in my direct and rebuttal
14 testimony in this case, the appropriateness of utilizing regulatory lag to retain synergy
15 savings for the companies and will not repeat those arguments again.

16 **Q: Do you have any other points you would like to make in regards to the corporate**
17 **retained synergy savings category?**

18 A: Yes. As another demonstration that the companies were fully transparent in the Merger
19 case regarding the magnitude and treatment of the corporate retained synergies, I would
20 like to refer to Company witnesses Marshall's and Zabors' testimony in the Merger case.
21 On pages 6 through 8 of Company witness Marshall's Supplemental Direct testimony in
22 the Merger case he describes \$302 million of corporate savings over the first five years
23 after acquisition. He states that, "These costs will be eliminated upon the consummation

1 of the Merger and ... those reductions are not a part of our regulatory request.” The \$302
2 million of corporate savings are also provided on Schedule RTZ-6 to the Supplemental
3 Direct testimony of Company witness Zabors. The amounts were clearly identified by
4 the companies in the Merger case and the fact that there were savings to be achieved and
5 retained by the Company was clear in the companies’ testimony demonstrating, as noted
6 above, that Mr. Majors’ testimony in regard to corporate retained synergy savings is not
7 new data to participants in the Merger case and these savings were known and available
8 for consideration in the Merger case.

9 Additionally, as I stated in my rebuttal testimony, corporate retained synergy
10 savings are a result of eliminating either 2006 Aquila corporate retained costs (not
11 allocable to any regulated jurisdictions) or costs that were allocated to regulated
12 jurisdictions other than Missouri. These costs were not subject to recovery from Missouri
13 ratepayers prior to the acquisition and would not be eligible to be recovered from
14 Missouri ratepayers post-acquisition. Therefore, the risks of not realizing these synergy
15 savings were fully borne by the Company and its shareholders and the resultant synergy
16 savings achieved should similarly fully benefit the Company and its shareholders.

17 **Q: Do you agree with Staff witness Majors’ testimony beginning on page 12 line 3 of his**
18 **rebuttal testimony regarding the description and summary of cash flows related to**
19 **the recovery of transition costs?**

20 **A:** No. This is once again an attempt by Mr. Majors to blur the companies’ retention of
21 synergy savings through regulatory lag with the recovery of transition costs. I have
22 provided substantial testimony in this case regarding the Commission’s conclusions in

1 the Merger Report and Order that separately address synergy savings and transition cost
2 recovery.

3 Specifically, the Commission's conclusion (4) on page 238 of the Merger Report
4 and Order regarding synergy savings states, "because the Applicants have agreed to
5 recover any merger savings through "regulatory lag" as part of the traditional ratemaking
6 process there is no net detriment to customers" and on page 241 of the same order
7 regarding transition costs, the Commission states, "If the Commission determines that it
8 will approve the merger when it performs its balancing test (in a later section in this
9 Report and Order), the Commission will authorize KCPL and Aquila to defer transition
10 costs to be amortized over five years." Both (1) the companies' ability to retain synergy
11 savings through regulatory lag and (2) their ability to recover transition costs over five
12 years after the Commission has evaluated the prudence and reasonableness of the costs
13 and the companies have demonstrated that the synergy savings exceed the level of the
14 amortized transition costs were addressed clearly in the Commission's Merger Report
15 and Order. There is no blurred line as depicted by Staff witness Majors.

16 **Q: On page 13 of his rebuttal testimony, Mr. Majors asserts that in your direct**
17 **testimony you do not appear to recognize the benefit shareholders have received**
18 **from synergies through regulatory lag; however, the Company has communicated**
19 **to its employees that shareholders will receive significant benefits from the**
20 **acquisition before they are flowed to ratepayers. How do you respond?**

21 **A:** I can only assume that Mr. Majors overlooked my direct testimony specifically on page 9
22 lines 13 through 21 where I specifically address retaining synergy savings through
23 regulatory lag and the Commission's conclusion in its Merger Report and Order

1 regarding recovering merger savings through regulatory lag. Additionally, earlier in this
2 surrebuttal testimony, I point out the companies' transparency in the Merger case in
3 discussing the utilization of the natural regulatory lag that occurs between rate cases to
4 retain any portion of synergy savings. Lastly, I provided substantial rebuttal testimony in
5 this case describing the projected cumulative regulated synergy savings over the five and
6 ten-year periods after acquisition and the amounts realized by customers of those total
7 savings. The analysis in my rebuttal testimony clearly shows that benefits are retained by
8 the companies and shareholders through regulatory lag.

9 Most importantly, the analysis in my rebuttal testimony demonstrates that
10 customer benefits from synergy savings over the first five years post-transaction will be
11 more than 3 times the \$51.8 million of transition costs the companies seek to recover.
12 Moreover, customer benefits from synergy savings over the first ten years post-
13 transaction will be more than 12 times the level of transition cost recovery requested.

14 **Q: Please summarize your surrebuttal testimony regarding transition cost recovery.**

15 **A:** I have provided testimony demonstrating that Staff witness Majors has provided no new
16 information in his rebuttal testimony for the Commission to consider. The companies'
17 ability to retain synergy savings through regulatory lag and to recover transition costs
18 through amortization over five years after the Commission's evaluation of prudence and
19 reasonableness of the costs have already been addressed in the Commission's Merger
20 Report and Order. The extent of the cumulative regulated synergy savings retained by
21 the Company was detailed in Schedule CBG-1 to Company witness Giles Additional
22 Supplemental Direct testimony in the Merger case and the extent of corporate retained

1 synergy savings was discussed in the Supplemental Direct testimony of Company witness
2 Marshall in the Merger case. There is no new data to evaluate.

3 Finally, in response to Staff witness Majors' assertion on page 18 of his rebuttal
4 testimony that, "In relation to the Commission's report and Order in Case No. EM-2007-
5 0374 ("Merger case") regarding the recovery of transition costs previously referenced, it
6 would be imprudent and unreasonable to include any amount of transition costs in
7 KCPL's or GMO's cost of service", I disagree and submit the following in response:

- 8 1) The companies have acted in good faith and been completely transparent in
9 regards to the transition cost recovery requested and the synergy savings being
10 retained and benefiting customers;
- 11 2) The companies' request is consistent with and supported by the Commission's
12 Merger Report and Order;
- 13 3) The companies have maintained a synergy savings tracking mechanism
14 demonstrating that synergy savings exceed transition cost recovery
15 amortization as ordered by the Commission in the Merger Report and Order;
- 16 4) The requested transition cost recovery is less than the amount projected in the
17 Merger case; and
- 18 5) The synergy savings benefit to customers over the first five years post-
19 transaction is projected to be more than 3 times the \$51.8 million of transition
20 costs the companies seek to recover. Moreover, customer benefits from
21 synergy savings over the first ten years post-transaction will be more than 12
22 times the level of transition cost recovery requested. These customer benefits
23 exceed the amount projected in the Merger case.

1 **Crossroads Energy Center Valuation at Acquisition**

2 **Q: Please summarize the Crossroads Energy Center valuation issue in this case.**

3 A: In its request in this case, GMO's "MPS" jurisdiction has included Crossroads in rate
4 base at its net book value, or in terms of the Federal Energy Regulatory Commission
5 ("FERC") Uniform Systems of Account ("USOA") at net original cost. Staff has not
6 included Crossroads in its rate base determination for MPS and instead asserts that the
7 costs of two hypothetical turbines—Prudent (or Phantom) Turbines 4 and 5—should be
8 used as proxies, as it is Staff's position that GMO should have built the hypothetical
9 Prudent Turbines 4 and 5 to meet the system load requirements of MPS. As I will
10 describe in this testimony, Staff also asserts an inappropriate value for the Commission to
11 reflect in rate base for Crossroads, if the Commission accepts GMO's position and
12 includes Crossroads in MPS' rate base.

13 **Q: Can you please summarize Staff witness Featherstone's testimony on the Crossroads**
14 **valuation issue?**

15 A: Yes. Mr. Featherstone's testimony provides his rationale as to why he believes the
16 Crossroads facility is overvalued in the Company's case based on an early estimated fair
17 value of Crossroads developed in a preliminary internal analysis prepared by Great Plains
18 Energy and disclosed in its joint proxy statement and subsequent amendments filed with
19 the Securities and Exchange Commission ("SEC") between May and August 2007, well
20 before the date of the acquisition of Aquila, Inc. on July 14, 2008. He goes on to state
21 that if the Commission decides to allow Crossroads in GMO's rate base, then the value of
22 Crossroads for purposes of rate base in the MPS jurisdiction should be \$51.6 million,
23 which was an early estimated fair value disclosed by Great Plains Energy in its joint

1 proxy statement filings made in 2007, less accumulated depreciation from the time of the
2 July 14, 2008 acquisition. The discussion of valuation at the time of acquisition is the
3 area that I will be specifically responding to in this testimony.

4 Additionally, Mr. Featherstone argues that Crossroads should not be included in
5 GMO's rate base at all; rather he asserts the cost of two hypothetical turbines, called
6 "Prudent Turbines 4 and 5" by Staff, should be used as proxies. Company witness
7 Burton Crawford provided substantial rebuttal testimony in this case on the
8 inappropriateness of the Staff's replacement of the Crossroads facility in MPS' rate base
9 with Staff's asserted cost for the two hypothetical turbines.

10 **Q: What will you demonstrate in this surrebuttal testimony?**

11 **A:** In this surrebuttal testimony, I will clearly show that the valuation of the Crossroads
12 facility at the time of acquisition, as supported by a third party valuation and consistent
13 with generally accepted accounting principles, was the net book value of the facility on
14 the books of Aquila at the time of acquisition. I will more fully describe the SEC filings
15 regarding the acquisition and purchase price allocation which will be in contrast to Mr.
16 Featherstone's selective discussion. I will fill in the gaps to the selective timeline
17 provided by Mr. Featherstone. Finally, throughout my surrebuttal testimony, I will
18 identify the additional information I am providing that has previously been made
19 available to Staff, or is public information, which Mr. Featherstone chose to ignore,
20 selectively chose to not provide, or determined would not be supportive of the artificially
21 low value of the Staff's "Prudent Turbines 4 and 5", in his rebuttal testimony.

1 **Q: Do you agree with Staff witness Featherstone's description of how Great Plains**
2 **Energy acquired Crossroads and the history of ownership of the Crossroads**
3 **facility?**

4 A: I agree with his summary of Great Plains Energy's acquisition and I agree with his
5 ownership timeline up through August 2007, except there is additional information
6 regarding the \$51.6 million estimate of fair value that I will provide later in this
7 testimony. It is from the August 2007 point in the timeline forward that Staff witness
8 Featherstone leaves out some critical points that lead up to the September 2008 rate case
9 filed by GMO (Case No. ER-2009-0090) requesting inclusion of Crossroads in rate base
10 at its net book value of \$117 million.

11 **Q: Please provide the timeline outlined in Mr. Featherstone's testimony and indicate**
12 **the gaps in the timeline that you will fill in.**

13 A: As provided by Mr. Featherstone, the following is a timeline of Crossroads ownership
14 and significant events related to Crossroads based in part on a memorandum received
15 from Great Plains Energy dated October 31, 2007 explaining the history of the
16 Crossroads facility. Items bold and italicized are added by me in this testimony and
17 reflect SEC filings made by Great Plains Energy that were selectively not reflected by
18 Mr. Featherstone in the timeline presented in his rebuttal testimony.

- 19
- 20 • October 2002 – Crossroads was moved from business unit MEP (Merchant
 - 21 Energy Partners Investment LLC) into business unit ACEC (Aquila
 - 22 Crossroads Energy Center). ACEC was a business unit under the non-
 - 23 regulated subsidiary of Aquila MEP.
 - 24 • October 2002 to March 2007 – Crossroads remained on the books of Aquila's
 - 25 non-regulated Merchant Energy partners.
 - 26 • February 2007 – Great Plains Energy announced an agreement to acquire
 - 27 Aquila, Inc. (subsequently renamed GMO).
 - 28 • March 2007 – the regulated jurisdictional operations of Aquila, currently
- known as GMO, issued a request for proposal ("RFP") for a long-term supply

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option. Crossroads was bid into the RFP at net book value to satisfy the long-term supply option. Based on the 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 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. 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 – SEC filing providing proforma financial information as of March 31, 2008.*
- 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.
- *November 2008 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of September 30, 2008.*
- *February 2009 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of December 31, 2008.*
- *May 2009 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of March 31, 2009.*
- *May 2009 – SEC filing of providing audited proforma financial information for periods up to July 14, 2008.*
- *August 2009 – SEC periodic filing providing the preliminary purchase price allocation as of July 14, 2008, disclosed as of June 30, 2009.*
- *November 2009 – SEC periodic filing providing the FINAL purchase prices allocation as of July 14, 2008, disclosed as of September 30, 2009.*

1 Q: Please elaborate on the items you added to the timeline provided by Staff witness
2 Featherstone in his testimony.

3 A: Subsequent to the August 2007 SEC filing listed by Mr. Featherstone in the timeline he
4 presented, Great Plains Energy made several additional filings with the SEC that either
5 reflected proforma financial statements depicting the acquisition of Aquila or included
6 disclosure regarding the purchase price allocation for the acquisition of Aquila. The
7 following additional SEC filings, not provided in the timeline by Staff witness
8 Featherstone but filled in by me in this testimony, are all publicly available, just as the
9 SEC filings Mr. Featherstone elected to highlight.

- 10 • August 2008 – In a filing with the SEC, Great Plains Energy provided
11 unaudited proforma financial information as of March 31, 2008. The
12 proforma financial information reflected no valuation adjustment for the
13 Crossroads facility, thus reflecting Crossroads at its net book value.
- 14 • May 2009 – In a filing with the SEC, Great Plains Energy provided audited
15 proforma financial information for periods up to July 14, 2008. The proforma
16 financial information reflected no valuation adjustment of the Crossroads
17 facility, thus reflecting Crossroads at its net book value.
- 18 • In four separate periodic filings with the SEC for the periods ended September
19 30, 2008, December 31, 2008, March 31, 2009 and June 30, 2009, Great
20 Plains Energy provided a preliminary purchase price allocation in the Notes to
21 its financial statements, audited for the December 31, 2008, financial
22 statements. The preliminary purchase price allocation reflected no valuation
23 adjustment of the Crossroads facility, thus reflecting Crossroads at its net
24 book value at the date of acquisition.
- 25 • In its periodic filing with the SEC for the period ended September 30, 2009,
26 Great Plains Energy provided its **FINAL** purchase price allocation in the
27 Notes to its financial statements. The **FINAL** purchase price allocation
28 reflected no valuation adjustment of the Crossroads facility, thus reflecting
29 Crossroads at its net book value at the date of acquisition.

30 It is important to note that all SEC filings after May 2008 include no fair value
31 adjustment for the Crossroads facility; as such, the Crossroads facility is included in the
32 purchase price allocation in all of these subsequent SEC filings at Aquila's net book

1 value. This change in the Crossroads facility fair value from the estimated \$51.6 million
2 included in the SEC filings referred to by Mr. Featherstone to the **final** purchase price
3 allocation fair value at the acquisition date equaling the facility's \$117 million net book
4 value, which was included in all SEC filings made subsequent to May 2008, is consistent
5 with the May 2008 timeline item listed by Mr. Featherstone describing Great Plains
6 Energy's concurrence with Aquila's recommendation to use Crossroads as the least cost
7 and preferred option in its utility resource planning process as a long-term supply option.
8 This concurrence was the outcome of several integration planning discussions held
9 between Great Plains Energy and Aquila employees and management during the
10 significant integration planning process that the companies were able to conduct after the
11 February 2007 announcement of the acquisition through the July 2008 acquisition date.

12 **Q: Throughout his rebuttal testimony, Staff witness Featherstone refers to the \$51.6**
13 **million estimated value assigned to the Crossroads facility in the 2007 joint proxy**
14 **SEC filings as a fair market valuation by Great Plains Energy senior management**
15 **of the Crossroads facility. Is this an accurate depiction?**

16 **A:** No, it is not. The \$51.6 million estimated fair value was an early conservative estimate
17 used in the joint proxy filings before the companies had the opportunity to complete
18 integration planning and determine the final use for the Crossroads facility. In fact, as
19 Company witness Burton Crawford describes in his surrebuttal testimony, the \$51.6
20 million value was one of the high-level valuation options prepared internally by
21 KCP&L's Energy Resources department in the joint proxy filing process. Great Plains
22 Energy selected a very conservative option for valuing the Crossroads facility in its joint
23 proxy filings - essentially the estimated salvage value if the Crossroads combustion

1 turbines ("CTs") were dismantled and sold. This option was selected for the joint proxy
2 filings reflecting Great Plains Energy's intent to be conservative in its disclosures due to
3 the uncertainty, at that early stage in the acquisition process, as to what option would
4 ultimately be chosen for the Crossroads facility. Great Plains Energy knew through
5 discussions with its external auditors, Deloitte and Touche LLP, that the final purchase
6 price allocation would be determined utilizing a third party evaluation, and that the
7 integration process would add clarity to the viability of the Crossroads facility.

8 **Q: Staff witness Featherstone provides a section from the May 8, 2007, Great Plains**
9 **Energy & Aquila joint proxy statement/prospectus reflecting disclosure in the**
10 **document of the pro forma adjustment to reflect the Crossroads facility at fair**
11 **value. Please address your concerns with Mr. Featherstone's characterization of**
12 **this section of the joint proxy filing.**

13 **A:** Mr. Featherstone frames the estimated fair value for the Crossroads facility used in the
14 joint proxy as an objective fair market valuation of a reasonable cost of Crossroads in
15 early 2007 and attempts to leverage its release to the public in the Company's SEC filings
16 to turn this into the actual price paid for the Crossroads facility by Great Plains Energy in
17 the acquisition of Aquila. This is clearly an unreasonable stretch of the facts and not
18 reflective of how the allocation of the purchase price to assets and liabilities acquired in a
19 business combination is required to be evaluated and completed under generally accepted
20 accounting principles.

21 As I have referred to in this testimony, the \$51.6 million value represents one of
22 the high-level valuation options developed by the Company internally in the joint proxy
23 filing process. In fact, the \$51.6 million represents the estimated salvage value if the

1 Crossroads facility was dismantled and the turbines were sold. As pointed out in the
2 timeline provided by Mr. Featherstone in his rebuttal testimony, as it completed
3 integration planning, Great Plains Energy senior management did not elect to dismantle
4 and sell the Crossroads facility for its estimated salvage value. In fact, as I have
5 mentioned earlier in this testimony, in 2008 Great Plains Energy senior management
6 ultimately concurred with Aquila's recommendation to use Crossroads as the least cost
7 and preferred option in MPS' resource planning process as a long-term supply option.
8 This go-forward utilization is fundamentally different than dismantling the Crossroads
9 facility and selling it for salvage value and resulted in ultimately transferring the
10 Crossroads facility to MPS' financial records and requesting the assets to be included in
11 rate base in the first case after the acquisition. All of this was done at net book value, or
12 as Mr. Featherstone refers to it, original cost as defined in the FERC USOA.

13 **Q: Is there additional disclosure in the May 8, 2007 joint proxy statement/prospectus**
14 **that should be examined in addition to the section referenced by Staff witness**
15 **Featherstone?**

16 **A:** Generally, the joint proxy statement/prospectus should be evaluated in its entirety.
17 However, I will provide a couple of quotes from the document that are specifically
18 relevant to the excerpt quoted by Staff witness Featherstone:

19 The Unaudited Pro Forma Condensed Combined Financial statements are
20 provided for informational purposes only and they are not necessarily indicative
21 of what the combined companies' financial position or results of operations
22 actually would have been had the merger been completed at the dates indicated. In
23 addition, the unaudited pro forma condensed combined financial information is
24 not intended to project the future financial position or results of operations of the
25 combined company.

26 In the Unaudited Pro Forma Condensed Combined Balance Sheet, Great Plains
27 Energy's cost to acquire Aquila has been allocated to the assets to be acquired and
28 liabilities to be assumed based upon Great Plains Energy's management's

1 ***preliminary estimate*** of their respective fair values. Any differences between the
2 purchase price and the fair value of the assets and liabilities to be acquired will be
3 recorded as goodwill. In Great Plains Energy's opinion, the fair value of the assets
4 acquired and liabilities (including long-term debt) assumed will approximate book
5 value in a rate-regulated merger. Non-regulated assets and liabilities will be
6 recorded at fair value. The amounts allocated to the assets acquired and liabilities
7 assumed in the Unaudited Pro Forma Condensed Combined Financial Statements
8 are based on Great Plains Energy's management's preliminary internal valuation
9 estimates. The final allocation of the purchase price will be based upon the fair
10 value of the assets acquired and liabilities assumed of Aquila on the date the
11 merger is completed. ***Accordingly, the pro forma purchase allocation***
12 ***adjustments are preliminary and have been made solely for the purpose of***
13 ***providing unaudited pro forma condensed combined financial information and***
14 ***are subject to revision based on a final determination of fair value following the***
15 ***closing of the merger. Final determinations of fair value may differ materially***
16 ***from those presented herein.***

17 [Great Plains Energy & Aquila Joint Proxy Statement/Prospectus filed with the
18 SEC on May 8, 2007, pages 167-168, emphasis added]

19 ***The estimated purchase price and the allocation of the estimated purchase price***
20 ***discussed below are preliminary, as the proposed merger has not yet been***
21 ***completed.*** The actual purchase price will be based upon the value of Great Plains
22 Energy shares issued to Aquila shareholders, the fair value of the Aquila share-
23 based compensation that will be exchanged for Great Plains Energy's share-based
24 compensation and the actual transaction-related costs of Great Plains Energy. ***The***
25 ***final allocation of the purchase price will be based upon the fair value of the***
26 ***assets acquired and liabilities assumed of Aquila on the date the merger is***
27 ***completed.***

28 [Great Plains Energy & Aquila Joint Proxy Statement/Prospectus filed with the
29 SEC on May 8, 2007, page 172, emphasis added]

30 The quoted sections above are a portion of the lead-in discussion to the unaudited pro
31 forma condensed combined financial information of the joint proxy, in part explaining
32 considerations that should be given by readers as they review later disclosures in the
33 unaudited pro forma financials, such as the quote of footnote D used by Staff witness
34 Featherstone in his rebuttal testimony.

35 The three sections from the joint proxy statement above make it abundantly clear
36 that the purchase price allocation was preliminary and subject to change, and that the

1 final purchase price allocation would be based on the fair value of the assets acquired on
2 the date the merger is completed, which could differ materially from fair values presented
3 in the May 8, 2007 joint proxy statement.

4 Based on this information, which was in the SEC document, quoted by Mr.
5 Featherstone in his testimony, just pages from the selective quote he used, it is clear that
6 Mr. Featherstone's arguments that the \$51.6 million represents Great Plains Energy's
7 senior management's final fair market valuation, acquisition cost, original cost or other
8 such terms as used by Mr. Featherstone in his rebuttal testimony, are selective,
9 uninformed and misleading.

10 **Q: Did Great Plains Energy have a third party conduct a valuation study in order to**
11 **support its initial purchase price allocation at the acquisition date in accordance**
12 **with generally accepted accounting principles?**

13 **A:** Yes. We engaged the global accounting firm of PricewaterhouseCoopers LLP ("PwC")
14 to complete a valuation engagement as of July 14, 2008 ("acquisition date"). In its
15 report, the firm stated, "This valuation was performed solely to assist in the matter of
16 determining fair value for financial statement reporting in accordance with Statement of
17 Financial Accounting Standards (SFAS) 141, Business Combinations....The estimate of
18 value that results from a valuation engagement is expressed as a conclusion of value."

19 Staff was provided a copy of the valuation report in its review in GMO's first rate
20 cases after the acquisition, GMO Case No. ER-2009-0090.

21 **Q: What was PwC's conclusion of value for the Crossroads facility at the acquisition**
22 **date?**

1 A: Based on visits to the Crossroads facility and the work conducted by its valuation team,
2 PwC concluded that the estimated fair value was \$121 million at the acquisition date. In
3 its report, PwC also acknowledged that subsequent to the acquisition date management
4 intended to request inclusion of the Crossroads facility in MPS rate base at the net book
5 value of \$117 million. Therefore, PwC acknowledged that management would record
6 Crossroads at its net book value at the acquisition date consistent with the valuation of
7 the other regulated assets acquired in the transaction.

8 **Q: Why was the fair value of the regulated assets acquired considered to be net book**
9 **value?**

10 A: It was management's conclusion, after its review of generally accepted accounting
11 principles and discussion with Great Plains Energy's external auditors, Deloitte and
12 Touche LLP, that for regulated utilities subject to traditional cost-of-service regulation
13 and subject to SFAS 71, Accounting for the Effects of Certain Types of Regulation, net
14 book value of regulated assets is typically equal to its fair value. This treatment is also
15 consistent with the term "original cost", as defined by the Electric Plant Instruction
16 Section of the FERC USOA, and cited by Staff witness Featherstone in his rebuttal
17 testimony, as follows:

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

22 As noted by Staff witness Featherstone, and I agree, depreciation and amortization of the
23 utility property from the previous owner must be deducted from the original cost, which
24 results in a net original cost figure to be recorded on the purchaser's books and records.
25 The acquired property is valued at the same value the seller placed on it, hence the

1 "original cost when first devoted to public service," adjusted for depreciation and
2 amortization, concept.

3 Great Plains Energy's acquisition date valuation of the Crossroads facility at its
4 net book value of \$117 million is consistent with the fair value concepts for regulated
5 utilities subject to SFAS 71 and the USOA definition of "original cost" as outlined above.

6 **Q: Do you agree with Staff witness Featherstone's conclusion that in the State of**
7 **Missouri, the use of original cost less depreciation and amortization, i.e., net original**
8 **cost, to set rates is not only the predominant form of regulation, but to his**
9 **knowledge, the only form that has been employed by this Commission?**

10 **A:** I agree, and have no basis to argue his knowledge of net original cost being the only form
11 that has been employed by this Commission. Great Plains Energy's valuation of
12 Crossroads at its \$117 million net book value is consistent with this net original cost
13 concept.

14 Staff witness Featherstone, on the other hand, incorrectly asserts that original cost
15 to Great Plains Energy for the Crossroads facility should be based on a preliminary
16 estimate that was updated prior to the fair value purchase price allocation completed at
17 the time of completion of the merger, the July 14, 2008, acquisition date. I have
18 discussed at length in this testimony the inappropriateness of the position taken by Staff
19 witness Featherstone on this issue.

20 **Q: Please summarize your testimony regarding the Crossroads facility valuation at**
21 **acquisition.**

22 **A:** In his rebuttal testimony, Staff witness Featherstone selectively discloses information
23 regarding the Crossroads valuation in the companies' joint proxy statement/prospectus in

1 support of an artificially low rate base value for the facility in an apparent effort to add
2 credibility to the Staff's "Prudent turbines 4 and 5" argument. My testimony fills in the
3 remainder of the information regarding the Crossroads valuation. The information I
4 filled in is either publicly available or was specifically provided to Staff and not used by
5 Mr. Featherstone.

6 Most importantly, my testimony supports that the value of the Crossroads facility
7 to Great Plains Energy at the time of acquisition was \$117 million, the net book value on
8 Aquila, Inc.'s books at the July 14, 2008, acquisition date. This valuation is supported by
9 Crossroads being the least cost and preferred option in MPS' utility resource planning
10 process as a long-term supply option as discussed in the rebuttal and surrebuttal
11 testimony of Company witness Burton Crawford. As a result of integration planning, in
12 May 2008, before the acquisition date, Great Plains Energy concurred with Aquila's
13 original conclusion regarding the Crossroads facility long-term use culminating in a
14 decision to file in the rate case subsequent to the acquisition date for inclusion of the
15 Crossroads facility in MPS rate base. This decision path resulted in Great Plains Energy
16 reflecting the Crossroads facility at acquisition at net book value, consistent with the
17 concept of original cost, as defined by the Electric Plant Instruction Section of the FERC
18 USOA, and cited by Staff witness Featherstone in his rebuttal testimony.

19 Finally, as described in the SEC documents referred to by Mr. Featherstone, a
20 third party valuation study was completed for Great Plains Energy to determine the
21 purchase price allocation for the Aquila acquisition as of the July 14, 2008 acquisition
22 date. The valuation, performed by the global accounting firm PricewaterhouseCoopers
23 LLP, supported a fair value of the Crossroads facility in excess of net book value. This

1 report was provided to Staff in the last rate cases, but was not referred to by Mr.
2 Featherstone in his rebuttal testimony in this case. Consistent with the fair value
3 concepts for regulated utilities subject to SFAS 71 and the USOA definition of "original
4 cost" as referenced above, Great Plains Energy appropriately reflected the Crossroads
5 facility's acquisition date value at its net book value on that date of \$117 million.

6 **Q: Does that conclude your testimony?**

7 **A:** Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its)
Electric Tariffs to Effectuate a Rate Increase)

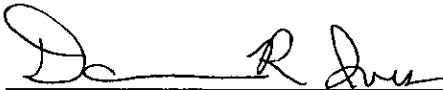
Docket No. ER-2010-0356

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

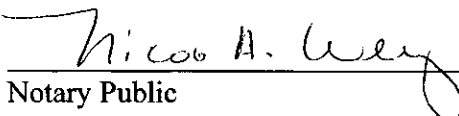
Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Controller.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of twenty-five (25) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Darrin R. Ives

Subscribed and sworn before me this 12th day of January, 2011.



Notary Public

My commission expires: Feb. 4, 2011

