

Exhibit No.:

Issues: AAO, Corporate  
Restructuring, Industrial  
Rate Comparisons, South  
Harper Valuation, And  
Fuel Cost Recovery

Witness: Dennis R. Williams

Sponsoring Party: Aquila Networks-MPS  
And L&P

Case No.: ER-2005-0436

FILED<sup>2</sup>

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Missouri Public  
Service Commission

Before the Public Service Commission  
of the State of Missouri

Surrebuttal Testimony

of

Dennis R. Williams

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

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Case No(s) ER-2005-0436  
Date 1-09-06 Rptr 45

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ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF DENNIS R. WILLIAMS  
ON BEHALF OF AQUILA, INC.  
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P  
CASE NO. ER-2005-0436**

1 Q. Please state your name and business address.

2 A. Dennis R. Williams, 10700 East 350 Highway, Kansas City, MO 64138.

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

4 A. I am employed by Aquila, Inc. ("Aquila" or "Company") as Vice-President, Electric  
5 Regulatory Services.

6 Q. ~~Are you the same Dennis R. Williams who has previously filed direct and rebuttal~~  
7 ~~testimony in this proceeding?~~

8 A. Yes, I am.

9 **EXECUTIVE SUMMARY**

10 Q. What is the purpose of this surrebuttal testimony?

11 A. In response to the rebuttal testimony of Office of the Public Counsel ("OPC") witness  
12 Ted Robertson, I will address the propriety of including in rate base costs which Aquila  
13 has previously been authorized to defer. In response to the rebuttal testimony of AARP  
14 witness David Effron, I will explain why his proposal to exclude additional corporate  
15 restructuring cost beyond what has already been proposed by Aquila is improper. In  
16 response to the prepared comments of Terry McClatchey, representing Ag Processing Inc.  
17 ("AGP") at the public hearing held in St. Joseph, Missouri on November 17, 2005, I will

1 comment on relative cost comparisons for the provision of electric service outside the  
2 Aquila L&P service territory. In response to the rebuttal testimony of Staff witness Cary  
3 Featherstone and to statements made by public witness Della January at a public hearing  
4 held in Raytown, Missouri on November 29, 2005, I will provide testimony regarding the  
5 appropriate valuation of the South Harper plant and how that compares to the amount that  
6 is included in rate base in this proceeding. Finally, in response to the rebuttal testimony  
7 of Mr. Featherstone, I will further explain the Company's position in regard to recovery  
8 of fuel costs.

9 **ACCOUNTING AUTHORITY ORDERS**

10 Q. Briefly describe the deferred costs that Mr. Robertson has recommended be excluded  
11 from rate base.

12 A. Mr. Robertson recommends that the unamortized deferred balance associated with  
13 accounting authority orders ("AAO") for the Sibley Rebuild and Western Coal  
14 Conversion, and the deferred balance associated with a 2002 ice storm, not be included in  
15 rate base, thus denying Aquila any return on the related capital expended in providing  
16 service to its customers for these items.

17 Q. What is the Sibley Rebuild and Western Coal Conversion project?

18 A. From 1986 through 1993, Missouri Public Service ("MPS"), the predecessor to Aquila,  
19 embarked upon major construction projects to extend the useful life of its Sibley  
20 Generating Station and comply with the 1990 federal Clean Air Act. The rebuild project  
21 was expected to extend the Sibley units' useful life by twenty years at one/sixth the cost  
22 of building a new plant. Major modifications were also made to allow the Sibley unit to

1 burn low sulfur western coal in order to meet environmental requirements at a reasonable  
2 cost.

3 Q. Did MPS, now Aquila, approach this construction project with a normal construction  
4 schedule?

5 A. No. Typically, this type of project would have involved closing the Sibley plant for at  
6 least two years during construction, with the construction schedule aimed at completing  
7 the project as soon as possible so that rate base recovery could be sought. Instead, Aquila  
8 performed this work intermittently during off-peak periods during a seven year period.  
9 As each incremental segment of construction was completed, it was placed into service.

10 Q. Why did Aquila take this approach?

11 A. By keeping the Sibley plant in-service during peak periods, Aquila was able to utilize the  
12 low cost base unit to meet peak loads and avoided the necessity of constructing  
13 alternative peaking facilities or purchasing higher cost purchased power during the peak  
14 periods. This approach resulted in substantial savings for Aquila's customers but created  
15 a situation whereby recovery of a return on the utility's investment was problematic.

16 Q. Please explain.

17 A. Without special regulatory treatment such as an Accounting Authority Order, Aquila  
18 would have been required to file annual rate increase requests to recover the cost of the  
19 investment. Neither the Company, its customers, nor the Commission wanted seven  
20 expensive back-to-back rate cases. Therefore, Aquila proposed, and the Commission  
21 adopted, a mechanism designed to avoid annual rate requests. As each segment of  
22 construction was completed, the expenditures were closed into plant in service,  
23 allowance for funds used during construction ("AFUDC") was discontinued and

1 depreciation on the plant began. Since the Company would otherwise have had no  
2 opportunity to recover the carrying costs or depreciation on the plant, these costs were  
3 deferred for consideration in a later rate case.

4 Q. Did the Commission approve this accounting treatment?

5 A. Yes. In Cases Nos. EO-90-114, EO-91-358 and EO-91-360, the Commission approved  
6 deferred accounting treatment.

7 Q. Did the Commission have anything to say about the Company's approach to the Sibley  
8 Rebuild and Western Coal Conversion?

9 A. Yes. The Commission "found the projects to be prudent" and called Aquila's approach  
10 "innovative".

11 Q. Did the Commission review the ratemaking treatment of the deferred amounts in a  
12 subsequent rate case?

13 A. Yes. Ratemaking treatment for costs approved for deferral in Case No. EO-90-114 was  
14 prescribed in the Commission's Order in Case No. ER-90-101. The remaining deferrals  
15 were approved for rate recovery in Aquila's 1993 rate case, Case No. ER-93-37. In that  
16 case, the Commission authorized rate base treatment and amortization of the deferred  
17 balances over a twenty-year period of time. This is the same treatment that has been  
18 followed and recommended by Commission Staff in subsequent rate cases filed by  
19 Aquila.

20 Q. Why is Mr. Robertson objecting to continued rate base treatment of the deferred balances  
21 relating to the Sibley Life Extension and Western Coal Conversion?

22 A. His main objections appear to be that deferred accounting treatment protects a utility from  
23 regulatory lag, and that the regulatory standards prescribed in the ratemaking treatment

1 for Aquila have been superseded by a later order in a rate case involving a different  
2 utility.

3 Q. Do you agree with either of these positions?

4 A. No.

5 Q. Please explain.

6 A. The argument that the Company is protected from regulatory lag ignores the facts I have  
7 previously laid out. Aquila purposely followed an innovative construction program to  
8 minimize the costs to its customers. The Company could have been more aggressive in  
9 its construction timeline, thereby increasing the cost to customers but reducing the  
10 utility's regulatory lag. Mr. Robertson's proposal to penalize Aquila for reducing the rate

11 ~~impact on customers makes no practical or policy sense. The Commission made findings~~  
12 ~~enumerating the benefits to customers from the Company's approach in its Order in Case~~  
13 No. ER-93-37, stating:

14 "In addition, the Commission finds that other factors support the recovery of the  
15 deferral costs. The innovative approach taken by MoPub in completing the two  
16 projects is an important factor. The construction of the project was extended over  
17 several years and has permitted MoPub to return Sibley to service for peak use  
18 periods. Also, the projects themselves have extended the life of the Sibley plant  
19 by 20 years and have brought the plant into closer compliance with Clean Air Act  
20 standards. These factors have benefited ratepayers and will benefit ratepayers in  
21 the future. These economic and environmental benefits are important factors."  
22

23 Moreover, OPC has defined the issue of accounting orders very narrowly by expressing  
24 its opinion that accounting orders should not be utilized at all because they may reduce  
25 regulatory lag, and then lifting a portion of a Commission order which indicates that  
26 avoidance of regulatory lag through cost deferral, by itself, is not a reasonable goal. Mr.  
27 Robertson has lifted two paragraphs from the Order in combined Cases Nos. EO-91-358

1 and EO-91-360, but ignores the fact that these two paragraphs were part of a larger  
2 discussion on the standards for deferral, on which the Commission ultimately relied to  
3 approve the requested deferrals. The Commission in that Order discussed at length a  
4 number of topics besides regulatory lag, including the extraordinary and nonrecurring  
5 nature of an event; whether an event has a material or substantial effect on earnings;  
6 whether the event has occurred or is likely to occur; the time between incurrence and rate  
7 relief; rate stability; and avoidance of rate case expense. In other words, Mr. Robertson  
8 has lifted out of context two paragraphs from an order authorizing Aquila's deferral of  
9 Sibley Rebuild and Western Coal Conversion to justify why the historic treatment of  
10 those costs should not be approved in the current proceeding.

11 Q. What observations do you have regarding Mr. Robertson's contention that the  
12 Commission's decision in Missouri Gas Energy ("MGE") Case No. GR-98-140, reverses  
13 the regulatory rate treatment that has been applied to the Sibley Rebuild and Western  
14 Coal Conversion projects?

15 A. Mr. Robertson dismisses the Order in Aquila's 1993 rate case as being early in the  
16 Commission's process of developing a policy concerning accounting authority orders and  
17 implies therefore that the Order cannot be relied upon particularly in light of a subsequent  
18 1998 MGE Order. Though one could argue that five years constitutes ancient history, it  
19 is much more important to look at what each of the referenced orders did and did not say.  
20 I have previously quoted the Order from Case No. ER-93-37, which comments on the  
21 benefits of the projects in question. In addition, the Order from Cases Nos. EO-91-358  
22 and EO-91-360, which included a detailed six page analysis under the heading Standards  
23 for Deferral, begins its discussion with the statement:



1 "The Commission in past instances has granted AAOs on a case by case basis  
2 after reviewing a company's request and Staff's and/or Public Counsel's  
3 recommendations."  
4

5 Q. Is there any language contained in the Order in MGE Case No. GR-98-140 which would  
6 lead you to believe that the case by case standard has been abandoned as suggested by  
7 OPC?

8 A. No. There was no statement contained within the MGE Order that indicated that the  
9 recovery of deferred costs should not be determined on a case by case basis, after  
10 considering the facts surrounding the particular deferrals. In fact, in the MGE case the  
11 Commission increased the rate of recovery of the deferred amounts in question from  
12 twenty years to ten years and referred to this unique determination as partial justification  
13 for not including the deferred items in rate base.

14 "Given that the Company will recover the amortized amount of the SLRP deferral  
15 at the AFUDC rate in ten years, instead of the previous 20 years' amortization period, it is  
16 proper for the ratepayers and shareholders to share the effect of regulatory lag by allowing  
17 the Company to earn a return of the SLRP deferred balance but not a return on the SLRP  
18 deferred balance."  
19

20 The unique facts and conclusion of this case would seem to ratify the Commission's  
21 earlier statement that such determinations should be made on a case by case basis.

22 Q. Mr. Robertson states that none of the deferred costs are capital costs and are nothing more  
23 than expenses and a pseudo-earnings return that the utility would not have recovered  
24 during the normal regulatory lag period, all other things being equal. Do you agree with  
25 his statement?

26 A. No. Mr. Robertson suggests that carrying costs and depreciation expense are not actually  
27 dollars of capital funded by the Company. The semantics of his statement leave an  
28 impression that I believe to be incorrect. The best way of explaining my view is through

1 a simple example. Assume that in 1989, \$1 million dollars in cash was expended on the  
2 Sibley Rebuild project and placed into service that year with a twenty year depreciable  
3 life. Because of Aquila's approach to delay a rate case until the end of the Sibley Rebuild  
4 project, recovery for the Company's investment was not sought until 1993. By 1993, the  
5 depreciated value of the original investment for inclusion in rate base would have been  
6 \$800,000. The \$200,000 difference represents the accounting entries to reflect  
7 depreciation during the ensuing four years, which was recorded as a deferred cost. While  
8 Mr. Robertson is correct that the depreciation accounting entries themselves do not  
9 technically reflect a cash outlay, it is quite clear that they do represent the \$200,000 in  
10 initial cash outlay, on which the Company had no opportunity to earn a return.

11 Q. Mr. Robertson also says that allowing the Company to earn a return on the deferred  
12 balances has the same effect as allowing it to earn a return on a return. Do you agree?

13 A. Again I would say this is a question of semantics. While technically correct, there is  
14 nothing wrong with the result in this case. If you put money into a savings account, it  
15 earns interest. If you leave that interest in the account, the next year you will  
16 appropriately earn interest on the earlier interest received. Regulatory accounting works  
17 the same way. Since a utility is not allowed to earn a return on its investment while a  
18 project is under construction ("CWIP"), it is allowed to defer that return as AFUDC and  
19 add the deferred amount to the total plant balance. When the plant balance is included in  
20 rate base for ultimate recovery, the portion of that balance that is AFUDC also earns a  
21 return -- interest on interest so to speak. This is proper regulatory accounting and for Mr.  
22 Robertson to imply that it is not appropriate is simply wrong.

1 Q. Is the deferred accounting and subsequent rate base treatment that you have discussed in  
2 regard to the Sibley Rebuild and Western Coal Conversion unique?

3 A. While not typical, this treatment is certainly not unique. In fact, recently in conjunction  
4 with separate Orders for Kansas City Power & Light Company and The Empire District  
5 Electric Company pertaining to their participation in the Iatan 2 Generating Station, this  
6 Commission approved Stipulations that included a concept referred to as "construction  
7 accounting". Construction accounting provides that AFUDC on plant expenditures will  
8 continue, and depreciation of the asset will not begin, until the cost of the plant has been  
9 considered for recovery in a rate case. This mechanism operates with slight variation  
10 from Aquila's approach but accomplishes the same objective. In Aquila's case, rather

11 ~~than continuing AFUDC and including that balance in the total plant cost, the AFUDC~~  
12 ~~was separately tracked in a deferral account. Likewise, rather than postponing the onset~~  
13 ~~of depreciation, Aquila began depreciating the plant and tracked the amount in a separate~~  
14 ~~deferral account. The ultimate impact of the two methods is exactly the same. Pages 43~~  
15 ~~and 44 of the Kansas City Power & Light Stipulation and Agreement, approved in Case~~  
16 ~~No. EO-2005-0329, discuss construction accounting. For reference, I have attached those~~  
17 ~~two pages, with the construction accounting section bolded, as Schedule DRW-1.~~

18 Q. Was the OPC, on whose behalf Mr. Robertson is testifying in Aquila's current rate  
19 proceeding, a signatory party to that Stipulation?

20 A. Yes. The OPC signed the settlement that included the construction accounting approach.

21 Q. Has Aquila taken a similar position in requesting a return on the unamortized balance of the  
22 2002 Ice storm AAO?

1 A. Yes. But for settlement purposes we notified both Staff and OPC witnesses prior to the  
2 filing of rebuttal testimony that in order to limit the number of issues we would remove that  
3 request from this case.

4 **CORPORATE RESTRUCTURING**

5 Q. Have you read the rebuttal testimony of David J. Effron, testifying on behalf of AARP, in  
6 regard to corporate restructuring cost?

7 A. Yes, I have.

8 Q. What is your general reaction?

9 A. I believe that Mr. Effron has taken an adjustment that was initially flawed and based on  
10 that adjustment has made a further adjustment that is in error. Corporate restructuring  
11 costs are no longer at issue between the Staff and Aquila as that issue has been settled.

12 While Mr. Effron states that the elimination of 50% of expenses incurred by selected  
13 corporate departments as originally proposed by Staff is reasonable, he has asked no data  
14 requests nor provided any analyses to separately make that determination. His proposal  
15 to further reduce corporate costs using an unsubstantiated starting point is inappropriate.

16 Q. Why do you conclude that the original adjustment was flawed?

17 A. Staff's original adjustment reclassified 50% of costs associated with nine selected  
18 corporate departments to Aquila's restructuring activities. The premise was that the  
19 personnel in these departments had been, and would continue to be, spending half of their  
20 time and half of their nonpayroll budget on restructuring and specifically the sale of the  
21 four utility properties. It is Aquila's position that the costs of restructuring activities  
22 should not be borne by its utility customers. This is consistent with Aquila's commitment  
23 to take full responsibility for restoring financial stability without adversely impacting the  
24 customer. In that regard, Aquila took steps to exclude all costs associated with

1 restructuring from its request for rate relief prior to filing its case and therefore the  
2 original Staff proposed adjustment was duplicative of Aquila's treatment of those costs.

3 Q. Can you give specific examples of how Aquila initiated actions in this case to fulfill this  
4 commitment that restructuring should not be paid for by customers?

5 A. Yes. Our corporate accounting personnel carefully reviewed invoices and costs allocated  
6 to the utility operations to ensure that restructuring costs were being retained at the  
7 corporate level and not charged to utility operations. During the test year, Aquila retained  
8 \$23.9 million in payroll and nonpayroll costs associated with restructuring activities. The  
9 original Staff adjustment would have disallowed an incremental \$1.9 million of payroll  
10 and nonpayroll costs in nine Aquila departments without identifying any specific costs  
11 associated with restructuring.

12 Q. Were there other problems with the original adjustment on which Mr. Effron relied?

13 A. Yes. First, the actual sales process has been managed by Aquila's Strategic Initiatives  
14 Department and Legal Department with support from both the Blackstone Group and  
15 Lehman Brothers. While the officers' in the departments identified by Staff's original  
16 adjustment received regular updates from this team, they were not and are not involved in  
17 the day-to-day sales activities. The Strategic Initiatives Department has charged 100% of  
18 its time to the restructuring activities including the sales process and the Law Department,  
19 as noted in Staff's direct testimony, has charged 47% of its time to the restructuring. In  
20 addition, through the review process I discussed earlier, 41% of Department 4035 CFO,  
21 25% of Department 4223 HR Executive, and 8.5% of Department 4120 Corporate  
22 Communications budgets had already been retained at corporate. Second, the senior  
23 management personnel were not directly involved in the management presentations to

1 prospective buyers. These presentations were primarily lead by the impacted field  
2 management and support personnel. Third, it is unreasonable to assume that senior  
3 management could have spent or will be spending 50% of their time on the sales process.  
4 For example, my direct supervisor Jon Empson is a member of the Leadership Team and  
5 as a result was included in the original Staff exclusion. However, Mr. Empson has 17  
6 direct reports that are responsible for the utility operations, transmission operations,  
7 billing, call center, regulatory, and legislative functions. It is virtually impossible for him  
8 to be spending any significant time on the restructuring activities as his time is focused on  
9 the day to day operation of the utility business. Also, Department 4155 Corporate  
10 Compliance has the very challenging responsibility to ensure compliance with the new  
11 Sarbanes-Oxley regulations. Aquila could not have achieved nor could it continue to  
12 maintain compliance with these very complex regulations if 50% of the department's  
13 time was spent on restructuring. Finally, the restructuring activities have been essentially  
14 completed.

15 Q. What restructuring activities does Aquila have left to complete?

16 A. Very few. Aquila expects the sales process of the four utilities to be completed by July 1,  
17 2006, essentially when the new rates from this case become effective. The Michigan  
18 Commission approved the sale of our Michigan utility on November 10, 2005, and we are  
19 targeting the close for April 1, 2006. Aquila has retained a consultant to sell its Everest  
20 telecommunication business and projects that this will be completed by the second  
21 quarter of 2006. The only significant merchant legacy asset remaining for sale or  
22 resolution will be the Elwood toll and continued efforts to sell three peaking units located

1 in Illinois, which have the potential for completion in 2006. These efforts are being  
2 managed by the Strategic Initiatives Department.

3 Q. Should Mr. Effron's restructuring adjustment be accepted by the Commission?

4 A. No. Mr. Effron argues that Staff's original disallowance of 50% of costs from nine  
5 departments should be adjusted upward to include a disallowance for all corporate  
6 departments. His reasoning is that other departments support the disallowed departments  
7 and therefore should have a portion of costs excluded. I do not agree with this reasoning  
8 because it makes a very broad, and unsupported, assumption that all corporate  
9 departments were somehow involved in corporate restructuring activities, which is simply  
10 not the case. More importantly, I have already discussed why Staff's original proposed  
11 disallowance was inappropriate. The appropriate costs are already being charged to  
12 restructuring activities. Aquila has essentially completed all of the significant  
13 restructuring activities and senior management is clearly focused on the day-to-day  
14 operations of the utility business. Mr. Effron based his additional penalty on an incorrect  
15 adjustment and therefore his proposal is also without merit.

16 **AQUILA INDUSTRIAL RATE COMPARISONS**

17 Q. Were you present at the public hearing for this case held on November 17, 2005 in St.  
18 Joseph, Missouri?

19 A. Yes, I was.

20 Q. Did you hear the prepared testimony of Terry McClatchey, testifying on behalf of Ag  
21 Processing, Inc., an intervener in this proceeding?

22 A. Yes, I did.

23 Q. What were the areas of concern addressed by Mr. McClatchey's prepared testimony?

1 A. Mr. McClatchey mentioned a number of areas. First, he mentioned utility accountability  
2 and as examples referred to a lawsuit involving the C.W. Mining Company, along with a  
3 reference to management salary bonuses. Mr. Andrew Korte addressed the C. W. Mining  
4 issue in his rebuttal testimony in this case. Second, Aquila did not request recovery in  
5 this proceeding of the recent executive bonuses to which I believe Mr. McClatchey was  
6 referring.

7 Q. What other issues did Mr. McClatchey bring to the Commission's attention?

8 A. Mr. McClatchey indicated that he supported the testimony of Michael Gorman, who has  
9 filed rebuttal testimony in this case. Mr. Sam Hadaway has filed direct, rebuttal and  
10 surrebuttal testimony on behalf of Aquila regarding cost of capital issues. Mr.  
11 McClatchey also briefly discussed rate design theory. Mr. Matt Tracy has filed rebuttal  
12 testimony in the current proceeding regarding rate design. Finally, Mr. McClatchey  
13 expressed concern about service reliability, stating in particular that "AGP normally  
14 experiences up to nineteen electrical and steam outages per year." Mr. Glenn Keefe has  
15 filed surrebuttal testimony concerning reliability of service in our St. Joseph service  
16 territory.

17 Q. Upon examination, did Mr. McClatchey indicate that electric and steam rates were  
18 comparably high in comparison to rates at other AGP locations?

19 A. No. In response to a question from Chairman Davis, Mr. McClatchey responded that Ag  
20 Processing operates plants that have both higher and lower electric rates as compared to  
21 what is paid by their St. Joseph facility and that current steam rates are comparable to  
22 their one other facility that purchases steam.

23 Q. Have you done any further rate comparison?



1 A. Yes. In response to a data request, AGP provided the location and electric rate schedules  
2 of other operations located within the United States. AGP indicated that they have  
3 operations in Mason City, Iowa which is served by Alliant Energy; Sgt. Bluff, Iowa which  
4 is served by MidAmerican Energy; Sheldon, Iowa which is also served by MidAmerican  
5 Energy; Dawson, Minnesota which is served by Otter Tail Power; Hastings, Nebraska  
6 which is served by Hastings Utilities; Manning, Iowa which is served by Manning  
7 Municipal Light Plant and Emmetsburg, Iowa which is served by MidAmerican Energy.  
8 To develop rate comparisons, I took the monthly metered demand for the St. Joseph,  
9 Missouri operations and priced that usage out at rates for Aquila and all of the other  
10 identified energy suppliers. In other words, I calculated the billed revenue that would  
11 have been charged to AGP in St. Joseph during 2005 if current rates of the other  
12 identified utilities had been charged instead of Aquila's L&P rates. It should be noted  
13 that I was unable to include the Hastings, Nebraska operations in this comparison because  
14 while Hastings Utilities has an Energy Cost Adjustment ("ECA") in place, I was unable  
15 to verify what the ECA charges were during 2005.

16 Q. What were the findings of your rate comparison?

17 A. The results of this analysis are reflected on Schedule DRW-2. In summary, the billing  
18 amount calculated by applying the L&P rates to AGP's St. Joseph operations were lower  
19 than any other utility included in the cost comparison. Even if Aquila's full rate request  
20 was granted in the current rate proceeding, the L&P prices would still be at the low end of  
21 the rate comparison.

22 **SOUTH HARPER VALUATION**

1 Q. Have you reviewed the testimony of Staff witness Cary Featherstone regarding the South  
2 Harper Generating Facility?

3 A. Yes. Mr. Featherstone essentially supports the valuation of the three turbines at  
4 \$66,760,000, which agrees with the amount that Aquila included in its rate base  
5 determination in connection with the rate request in this docket. As Mr. Featherstone  
6 points out, this valuation was agreed to in a Settlement Agreement among Staff, OPC and  
7 Aquila in Case No. EO-2005-0156. Mr. Featherstone also refers to valuations that may  
8 be realistic for two additional turbines at the South Harper facility. Mr. Terry Hedrick  
9 addresses the validity of these additional values.

10 Q. Were you present at the public hearing in Raytown in connection with this docket and did  
11 you hear testimony from Ms. Della January?

12 A. Yes. Ms. January referred to the cost of the South Harper plant compared to that of  
13 taking power from the Aries power station owned by Calpine or buying it outright. Her  
14 statements specifically referred to the testimony filed by Calpine in this case, identified a  
15 number of specific costs she contended were not well spent, asserted the South Harper  
16 power plant is not needed and ultimately argued for exclusion of any recovery through  
17 rates for the South Harper units.

18 Q. Are the South Harper units currently operational?

19 A. Yes. They have met the Staff's in-service criteria for being operational and were used  
20 extensively this summer to meet peaking requirements on Aquila's system. In fact, at  
21 some financial risk to Aquila, one of the units was brought on line earlier than planned in  
22 order to avoid potential outages on the grid due to constraints on the system and lack of  
23 availability of other utilities' units.

1 Q. Does the \$66,760,000 turbine valuation that has been included in your rate request and  
2 which was referred to by Mr. Featherstone reflect the value that is currently reflected on  
3 the books of MPS?

4 A. No. These assets were originally purchased by Aquila Equipment, LLC., ("AEQ") a  
5 merchant affiliate of Aquila, Inc. at a cost of \$78,716,233 plus an additional approximate  
6 \$3,000,000 of other charges such as survey costs. The affiliate transaction rule requires  
7 that the acquisition of assets by a regulated utility from an affiliate take place at the lower  
8 of cost or market. Therefore MPS recorded the assets at what we believe to be a fair  
9 market transfer value of \$70,796,850.

10 Q. Did MPS pay cash in the amount of \$70,796,850 to AEQ?

11 A. No cash was exchanged between the affiliated parties. The transaction was recorded on  
12 Aquila's books by increasing MPS' plant accounts by the fair market transfer value. The  
13 offsetting entry was handled through an intercompany account so that through Aquila's  
14 capital assignment process, the new investment is properly supported on its books by an  
15 appropriate amount of debt and equity. The net result of this transaction was to debit the  
16 transfer turbine value on MPS books of \$70,796,850 and credit an equal amount of  
17 capital cost (debt and equity). This left almost \$11 million of the original asset cost  
18 stranded on the books of AEQ, which was required to be written off as a loss.

19 Q. How was the turbine transfer value of \$70,796,850 value determined?

20 A. Consistent with the timing of the transfer of the turbines and related equipment from  
21 AEQ to Aquila Networks – MPS, in November 2004 Aquila hired the firm of R.W. Beck  
22 to perform an independent appraisal to determine the value at which those assets should  
23 be recorded on the books of MPS.

1 Q. Who made the decision to employ the R.W. Beck firm?

2 A. I did and I signed the contract setting the scope of their work.

3 Q. Why did you select R.W. Beck as your appraisers?

4 A. For a number of reasons. In a preliminary meeting with representatives of the  
5 Commission's staff and other parties to discuss the market valuation should the transfer  
6 take place, mention had been made by Staff that the R.W. Beck firm had sponsored a  
7 seminar pertaining to appraisal of generating equipment with respect to which Staff  
8 members had favorable reactions. Based on this exchange, I contacted the firm and was  
9 favorably impressed by their experience, credibility and professionalism. Despite isolated  
10 internal discussions that the firm was "consumer oriented", I entered into a contract with  
11 the R.W. Beck firm. In my view, the positive recommendation of Staff and view of the  
12 firm as having a consumer bent were advantages in showing that the independent  
13 appraisal was unbiased and would result in a reasonable, supportable and fair value for  
14 the turbines.

15 Q. Did you give the R.W. Beck firm any special instructions?

16 A. No. The only instructions that I provided were to indicate that I wanted a determination  
17 of fair value for transfer of the assets from an affiliate consistent with the standards set  
18 forth in the Commission's Affiliate Transaction rule.

19 Q. Did R.W. Beck explain any special considerations for their review?

20 A. Yes. They indicated that the appraisal would be conducted in conformity with the  
21 Appraisal Standards Board of the Appraisal Foundation and the Principles of Appraisal  
22 Practice and Code of Ethics of the American Society of Appraisers. They further  
23 indicated that there were three accepted valuation approaches including the cost, income

1 and market approaches; however since the turbines were not in actual use or, at that time,  
2 permanently sited that an income approach would be impossible to perform and therefore  
3 the professional standards previously mentioned would result in an appraisal that would  
4 be classified as limited only for that reason.

5 Q. Did R. W. Beck discuss with you the types of materials on which they would rely in  
6 making their appraisal determination?

7 A. Yes. They indicated they would inspect the equipment itself, equipment supply  
8 agreements, purchase orders, industry resources such as Gas Turbine World data, and  
9 known offers of other similar equipment. The review of this information was considered  
10 necessary in order to assess the condition of the turbines being transferred and the  
11 comparability of this equipment to other market offers and data.

12 Q. Did R. W. Beck provide you with a formal appraisal report containing its conclusions?

13 A. Yes. The R. W. Beck appraisal report is classified as Highly Confidential and is attached  
14 as Schedule DRW-3 to my surrebuttal testimony.

15 Q. Did you agree with this appraisal?

16 A. Not in its entirety. There were areas with which I did not agree that would have in my  
17 opinion resulted in a higher fair market valuation.

18 Q. How did you utilize this report?

19 A. Despite my individual opinion as a layman, I recognized the firm as experts in their field  
20 and it was my recommendation after reviewing the R. W. Beck report to reflect their  
21 expert valuation on our books and absorb a write down of almost \$11 million dollars. In  
22 recommending this valuation, I relied upon the following R. W. Beck conclusion:

1 "Therefore, based on the analyses performed within this Report and our  
2 knowledge in valuation of similar facilities, we are of the opinion that the limited  
3 fair market value of the Assets is \$70, 796,850."  
4

5 Q. If the \$70,796,850 is the fair valuation of these assets, why did you agree to include a  
6 lower amount in the rate base supporting Aquila's revenue requirement in this case?

7 A. As mentioned previously, Aquila was a party to a Stipulation and Agreement in Case No.  
8 EO- 2005-0156. In order to put the transfer valuation behind us, Aquila agreed to a  
9 settlement transfer valuation for turbines and related equipments of \$66,760,000. Aquila  
10 has stood by its commitment and has reflected the lower valuation in rate base for  
11 purposes of this proceeding. At the time that the Commission approves a final transfer  
12 valuation, Aquila will make any necessary additional adjustments to its accounting  
13 records.

14 Q. Did Ms. January complain that Aquila was spending considerable money on the planting  
15 of trees near the South Harper site?

16 A. Yes. When the site was first under development, Aquila indicated at a public meeting  
17 and in discussions with individual homeowners that the Company would build berms and  
18 plant trees in order to further shield the South Harper plant from view. Aquila also  
19 pointed out that the most effective screening would be plantings located on the  
20 homeowners' property. Of course, Aquila has not undertaken any plantings on  
21 homeowners' property without their permission; but, when approached by homeowners  
22 whose properties are located in line of sight of the South Harper plant, we have worked  
23 with those property owners to create a satisfactory screen.

24 Q. Has Aquila requested recovery of this supplemental landscaping in the current rate case?

25 A. No.

1 Q. Has Aquila purchased any properties in the vicinity of the South Harper facility?

2 A. Yes. At the public meeting mentioned earlier and in other discussions, some residents  
3 indicated that they felt their property values had depreciated as a result of the South  
4 Harper construction and asked to be compensated. Aquila did not and does not believe  
5 that any deterioration in property value has occurred. A number of peaking turbines co-  
6 exist in just the Kansas City area alone with homes that are valued in the range and even  
7 much higher than homes in the South Harper area. Moreover, a gas compressor station  
8 owned and operated by Southern Star has been located immediately adjacent to the South  
9 Harper generation site for over fifty years. However, in order to "put our money where  
10 our mouth is", Aquila has offered to purchase from willing sellers at a fair market value  
11 established by an independent real estate appraiser several houses that are located nearest  
12 to the South Harper site. At the time of the filing of this testimony, Aquila had purchased  
13 three homes, a vacant lot and was in the process of negotiating the purchase of another  
14 home.

15 Q. What does Aquila plan to do with the properties acquired?

16 A. The purchase price of any house acquired by Aquila is being treated for ratemaking  
17 purposes as Nonutility Property and held for resale, and therefore is not included in  
18 Aquila's rate request. Aquila is in the process of preparing the purchased homes for  
19 resale. We have hired a management company and have contracted with a real estate  
20 agent. The homes are currently listed by Reese Nichols. We are also working with  
21 members of the community on community projects that they have voted on as being most  
22 important to them such as the installation of 5 tornado warning sirens and lights for 2  
23 parks in Cass County.

**FUEL COST RECOVERY**

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Q. Have you read the rebuttal testimony of Mr. Featherstone regarding a fuel cost recovery mechanism?

A. Yes. Mr. Featherstone asserts that the law requires Commission promulgated rules before a fuel cost recovery mechanism ("FAC") is available for use.

Q. Do you agree with that conclusion?

A. Not necessarily, but ultimately that doesn't matter.

Q. Please explain.

A. It is my understanding that Senate Bill 179, referred to by Mr. Featherstone, provides that a utility that has a request for rate change on file with the Commission on or after the

~~effective date of the law may propose an FAC for Commission consideration. Initially,~~

~~Aquila had hoped that the rulemaking process would move more quickly than it has and~~

~~that Aquila would be able to propose an FAC in accordance with rules adopted by the~~

~~Commission.~~

Q. Is Aquila now requesting an FAC in this case?

A. No. Aquila had considered making such a proposal and included that approach as a possibility in its initial filing, but has now abandoned that approach due to the associated risk of litigation.

Q. What do you mean by risk of litigation?

A. Mr. Featherstone expressed his belief that Senate Bill 179 did not allow Commission approval of an FAC prior to the promulgation of procedural rules. Since we know that view exists and that other parties may hold a similar view, Aquila believes that there is a strong likelihood that any FAC approved by this Commission in this case could be



1 appealed to the courts. Even if that FAC were ultimately found to be legal, court  
2 proceedings could take up to two years to complete. If the courts required that revenues  
3 collected through the FAC be paid in as a bond, it would create a serious cash flow  
4 problem for Aquila and threaten our financial ratio coverage. Even if a bond was not  
5 required, the uncertainty created would be viewed by rating agencies as a substantial risk  
6 and would offset the strides toward improved credit ratings that Aquila has made to date.

7 Q. Mr. Featherstone has suggested the use of an interim energy charge ("IEC") instead.  
8 Would that alleviate Aquila's concerns?

9 A. No. The same litigation risk associated with an FAC applies equally to an IEC.

10 Q. Hasn't an IEC been in place for Aquila in the past?

11 ~~A. Yes. Aquila has utilized an IEC which was unopposed by any party in its last rate case.~~

12 ~~To mitigate the likelihood of litigation, any IEC acceptable to Aquila in this case would~~  
13 ~~require approval of all parties. It is unlikely, given the number of parties in this case and~~  
14 ~~expressions by those parties of their preferred form of IEC mechanism, that an IEC~~  
15 ~~agreement can be reached that is acceptable to all parties.~~

16 Q. How has the existing IEC agreement worked for Aquila?

17 A. Not well. Because of fuel and purchased power price increases that were unexpected at  
18 the time of establishing the IEC, the cap contained within the agreement was quickly  
19 exceeded and as of October 31, 2005 Aquila has absorbed approximately \$33 million in  
20 non-recoverable fuel and purchased power expense that were incurred due to  
21 circumstances largely beyond its control.

22 Q. Mr. Featherstone attributes at least \$6 million of under-recovery to the coal dispute with  
23 C. W. Mining. Is that correct?

1 A. Technically, no. C. W. Mining stopped delivering coal under its contract due to what it  
2 claimed were force majeure conditions resulting from a labor dispute that made it  
3 impossible for them to deliver the contracted quantities of coal. As a result, Aquila was  
4 required to re-enter the market to find an alternative coal supply. Since C. W. Mining had  
5 the best available price at the time we entered into that contract, it is not surprising that  
6 the new supplier prices were higher. It is this new coal contract that has resulted in about  
7 \$6 million of the IEC under-recovery, not any legal or other costs associated with the  
8 C.W. Mining contract. This new contract is currently in place and these higher coal costs  
9 will continue into the future.

10 Q. If litigation risk prevents Aquila from currently utilizing an FAC or IEC mechanism, what  
11 is your proposal for fuel cost recovery?

12 A. My recommendation is that the Commission establish base rates utilizing fuel and  
13 purchased power costs that are reasonably expected to be in place at the time rates go into  
14 effect. Mr. Jerry Boehm has discussed in his testimony an appropriate method and the  
15 general trend in fuel prices. The most reasonable approach would be to adopt the method  
16 supported by Mr. Boehm, as adjusted to reflect impacts through the true-up period.  
17 Further, the Commission should specifically state in its Order that the current rate  
18 proceeding serves to satisfy the initial rate filing required by Senate Bill 179 and allow  
19 Aquila to make a separate filing limited to establishment of FAC tariffs in accordance  
20 with the Commission's rules when they are ultimately promulgated.

21 Q. Why would it be advantageous to make a finding that the current rate proceeding satisfies  
22 the requirement of Senate Bill 179?

1 A. There are two reasons. First, fuel costs are volatile. While methods can be developed  
2 which reasonably attempt to set base rates to reflect the price of fuel and purchased power  
3 at the time rates go into effect, no one can reasonably expect those prices will be exactly  
4 what is actually incurred. Utilizing this case as the initial rate case required by Senate  
5 Bill 179 provides equal protection to both the consumer and the utility shareholder. If  
6 actual prudently incurred fuel costs go up or down from what is included in base rates in  
7 this proceeding, tariffs would be adjusted accordingly. Second, this approach would  
8 avoid the time and expense of a new rate case, the purpose of which would be almost  
9 solely to establish base fuel costs in rates.

10 Q. Does this conclude your prefiled surrebuttal testimony?

11 A. Yes, it does,

necessary or timely, or that alternative technologies should have been used by KCPL, so long as KCPL proceeds to implement the Resource Plan described herein (or a modified version of the Resource Plan where the modified plan has been approved by the Commission) and KCPL is in compliance with Paragraph III.B.1(o) "Resource Plan Monitoring." Nothing in this Agreement shall be construed to limit any of the Signatory Parties' ability to inquire regarding the prudence of KCPL's expenditures, or to assert that the appropriate amount to include in KCPL's rate base or its cost of service for these investments is a different amount (e.g., due to imprudent project management) than that proposed by KCPL.

~~(v) Demand Response, Efficiency and Affordability Programs.~~ The 2009 Rate Case will also include the amortization related to the Demand Response, Efficiency and Affordability Programs, as more fully described in Paragraph III.B.5 below. The Signatory Parties agree not to contest the continuation of this amortization in the 2009 Rate Case on any basis other than KCPL's failure to prudently implement the Demand Response, Efficiency and Affordability Programs described in Paragraph III.B.5 below.

(vi) Special Contracts. KCPL agrees that for ratemaking determinations, Praxair, Ford and other special contracts will be treated as if they were paying the full generally applicable tariff rate for service from KCPL and other provisions in special contracts will not affect rate base for regulatory purposes.

**(vii) Construction Accounting. The Signatory Parties agree that KCPL should be allowed to treat the Iatan 2 project under "Construction Accounting" to**

the effective date of new rates in the 2009 Rate Case. Construction Accounting will be the same treatment for expenditures and credits consistent with the treatment for Iatan 2 prior to Iatan 2's commercial in service operation date. Construction Accounting will include treatment for test power and its valuation consistent with the treatment of such power prior to Iatan 2's commercial in service operation date with the exception that such power valuation will include off-system sales. The AFUDC rate that will be used during this period will be consistent with the AFUDC rate calculation in Paragraph III.B.1.g. The amortization of the amounts deferred under this Construction Accounting method will be determined by the Commission in the 2009 Rate Case. The non-KCPL Signatory Parties reserve the right to challenge amounts deferred under this Paragraph in the event that they contend that the Iatan 2 commercial in service operation date was delayed due to imprudence relating to its construction.

e. **Post Iatan 2 Rates**

KCPL may file rate requests and any Signatory Party with standing may file a rate decrease request at any time subsequent to the effective dates of the tariffs approved in Rate Filing #4 described above.

**4. TIMELY INFRASTRUCTURE INVESTMENTS**

KCPL agrees to undertake commercially reasonable efforts to make energy infrastructure investments as specified in Appendix D from January 1, 2005 through December 31, 2009 and as generally identified in Paragraph III.B.3.a.(iii), III.B.3.b.(iv), III.B.3.c.(iv) and III.B.3.d.(iv), described above. This commitment includes the completion or substantial progress being made on the following construction projects:

Entire Schedule "Highly Confidential"

Limited Appraisal of  
Three SWPC 501 D5A  
Combustion Turbines  
and Auxiliaries

Prepared For  
Aquila, Inc.

November 22, 2004



Aqla, Inc.

**Appraisal of Three SWPC DA  
Combustion Turbines and Auxiliaries**

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### Section 6 APPRAISAL CERTIFICATION

This report has been prepared for the use of the client for the specific purposes identified in the report. The conclusions, observations and recommendations contained herein attributed to R. W. Beck, Inc. (R. W. Beck) constitute the opinions of R. W. Beck. To the extent that statements, information and opinions provided by the client or others have been used in the preparation of this report, R. W. Beck has relied upon the same to be accurate, and for which no assurances are intended and no representations or warranties are made. R. W. Beck makes no certification and gives no assurances except as explicitly set forth in this report.

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# Section 1

## PREMISE OF THE STUDY

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### 1.1 Purpose and Intended Use

R. W. Beck, Inc. (Beck) was retained by Aquila, Inc. (Aquila) to perform a limited appraisal study on three Siemens Westinghouse Power Corporation (SWPC) 501D5A combustion turbines and auxiliary equipment (the Assets) that were originally purchased by MEP Investments, LLC (MEP), a subsidiary of Aquila Merchant Services (AMS), which is a subsidiary of Aquila. The title to the Assets has been (in the case of the combustion turbine equipment), or will be assigned and transferred to Aquila Equipment, LLC (AEQ). MEP, AMS and AEQ are unregulated subsidiaries of Aquila. It is our understanding that Aquila plans to transfer the Assets to Aquila's regulated subsidiaries and build a new power plant near Peculiar, Missouri. Aquila estimates that the new power plant utilizing the Assets will become commercially available sometime during the summer of 2005.

This appraisal is confidential and proprietary information of Aquila and may be used by Aquila as part of the filing necessary before the Missouri Public Service Commission (MPSC) regarding the value of the Assets. The MPSC has set forth specific rulings regarding transfer of assets between affiliated companies. As specified in the scope of services agreed to between the Aquila and Beck, this appraisal was prepared using only the Cost Approach and the Market Approach. As such, this appraisal is a limited, restricted use appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP). The conclusions contained in this report are based solely on the information, data and assumptions discussed and described herein.

In undertaking the studies and analyses required to provide an opinion with respect to the value of the Assets, we have relied on generally accepted valuation methods and procedures. This limited, restricted use appraisal report has been prepared in accordance with USPAP.

### 1.2 Date of Valuation

The value of the Assets is estimated as of November 2004 using the Cost Approach and the Market Approach methods of valuation.

## 1.3 Definition of Value

In undertaking the studies and analyses required to provide an opinion with respect to the value of the Assets, we have relied on generally accepted valuation methods and procedures in accordance with USPAP. The definition of market value used in this Report is set forth in USPAP as follows:

Market value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated,
2. Both parties are well informed or well advised, and acting in what they consider their best interests,
3. A reasonable time is allowed for exposure in the open market,
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto, and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing of sales concessions granted by anyone associated with the sale.<sup>1</sup>

## 1.4 Property Interest Appraised

The property interest being valued is the fee simple ownership rights of the Assets with no restrictions, indebtedness or other encumbrances. A description of the Assets can be found in Section 3 of this report.

## 1.5 Highest and Best Use

Highest and best use is defined as the reasonably probable and legal use of the property being appraised "that is physically possible, appropriately supported, financially feasible, and results in the highest value."<sup>2</sup> In our opinion, the highest and best use of the Assets is their projected use: to produce electrical power and energy.

<sup>1</sup> Uniform Standards of Professional Appraisal Practice (USPAP), Glossary.

<sup>2</sup> Ibid.

## 1.6 Scope of Work

At the request of Aquila, Beck performed a limited appraisal to determine the estimated market value of the Assets. In undertaking the studies and analyses required to provide an opinion with respect to the market value of Assets, we have relied on generally accepted valuation methods and procedures in accordance with USPAP. In performing the limited appraisal, Beck considered only the Cost Approach and the Market Approach to valuation. The results of our indicators of value developed are described in Section 4 of this report.

As will be discussed in Section 4 of this report, although we did not use the Income Approach in the valuation of the Assets, we believe that the Income Approach would not provide meaningful figures in developing the value of the Assets. Therefore, the Income Approach was considered, however no analyses regarding the Income Approach were performed.

## 1.7 Research Undertaken

Our opinions set forth, herein, are based on information provided to us by Aquila, other information generally available to us, and studies and analyses undertaken by us, all of which are basic to and in support of our opinion regarding the market value of the Assets. The studies and analyses undertaken in preparation of the opinions contained herein have been performed in accordance with standard engineering practices and USPAP as promulgated by the Appraisal Standards Board of the Appraisal Foundation. These studies and analyses included a site visit to the Assets and investigations and review of certain documents relating to the Assets.

## 1.8 R. W. Beck, Inc.

Beck is an independent firm of engineers and consultants providing professional services in the fields of operation, planning, organization, financial analyses, engineering design, construction management and other matters related to electric, water, gas, wastewater and solid waste utilities. The firm has extensive experience in the utility industry including valuation and appraisal of utility and industrial property. Beck has main offices in Austin, Texas; Boston, Massachusetts; Columbus, Nebraska; Denver, Colorado; Houston, Texas; Indianapolis, Indiana; Madison, Wisconsin; Minneapolis, Minnesota; Nashville, Tennessee; Orlando, Florida; Phoenix, Arizona; Sacramento, California; San Diego California; Seattle, Washington; and Tampa, Florida. Beck also has twelve satellite offices located throughout the United States.

Since it was founded in 1942, Beck has been involved in property valuation. Beck has provided appraisal reports for a variety of utility property. With a staff having significant experience in providing services related to appraisals of electric, water, natural gas, solid waste and telecommunications systems and in the design,

## **PREMISE OF THE STUDY**

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construction and operation of these systems, Beck is well qualified to prepare appraisal reports.

Specifically, the appraisers and other personnel working on this assignment have the knowledge and experience to complete the assignment competently. A list of individuals contributing to the limited appraisal report and a summary of their qualifications and experience are provided in Exhibit 1 to this report.

## Section 2

# ASSUMPTIONS AND LIMITING CONDITIONS

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In the preparation of this limited, restricted use appraisal report and the opinions that follow, we have made certain assumptions with respect to conditions that may occur in the future. In addition, we have used and relied upon certain information and assumptions provided to us by sources that we believe to be reliable. We believe the use of such information and assumptions is reasonable for the purposes of this report. However, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those forecasted to the extent that actual future conditions differ from those assumed by us or provided to us by others.

The conclusions and opinions found in this report are made expressly subject to the following conditions and stipulations:

- No responsibility is assumed by Beck for matters that are legal in nature, nor do we render any opinion as to the title, which is assumed to be good and marketable. No opinion is intended to be expressed for matters that would require specialized investigation or knowledge beyond that normally used by an appraiser engaged in valuing the type of assets described in this report.
- We made no determination as to the validity, enforceability, or interpretation of any law, contract, rule, or regulation applicable to the Assets and their proposed operation. However, for the purposes of this report, we assumed that all such laws, contracts, rules, and regulations will be fully enforceable in accordance with their terms as we understand them and that the operators of the Assets will operate the Assets in accordance with all applicable laws, contracts, rules, and regulations.
- All existing liens and encumbrances have been disregarded and the value of the Assets was appraised as though free and clear and under responsible ownership.
- Beck personnel conducted field reviews of the Assets on November 3, 2004. A description of the field review is provided in Section 3. We have assumed that there are no hidden or unapparent conditions that would make the Assets more or less valuable.
- We assume the Assets will be operated in a reasonable and prudent manner consistent with industry practices.
- We assume that the Assets will be placed into commercial operation and operated in compliance with all federal, state, and local environmental laws and regulations at the date of valuation.



## ASSUMPTIONS AND LIMITING CONDITIONS

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- Substances such as asbestos, chemicals, toxic wastes, or other potentially hazardous materials could, if present, adversely affect the value of the Assets. Unless otherwise stated in this report, we did not consider the existence of hazardous substance, which may or may not be present in or on the Assets. The stated value estimates are predicated on the assumption that there is no material in or on the Assets that would cause such a loss in value and as such are likely to represent the highest reasonable value of the Assets.
- For the purpose of performing the valuation, we assumed that a typical purchaser of the Assets would be able to operate the Assets in accordance with contractual terms and conditions of the existing contracts, and that the agreements, rights, and easements would be assigned to a typical purchaser.
- No one outside Beck has provided significant assistance in the preparation of this report. Individuals affiliated with Beck and contributing to this report are Neal D. Suess, P.E., Senior Appraiser; Nancy Heller Hughes, Accredited Senior Appraiser; Rob Brune, Technical Assistant. A description of the qualifications and experience of the individuals contributing to the appraisal report is provided in Exhibit 1.
- ~~The studies and analyses undertaken in the preparation of the opinions contained herein have been performed in accordance with standard engineering practices and USPAP.~~

## Section 3

# DESCRIPTION OF THE ASSETS

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### 3.1 Background

As discussed earlier, the Assets were originally procured for Aquila's unregulated business and are now being contemplated for use by Aquila's regulated entities. The Assets, as defined herein, include three 501D5A combustion turbines with generators and auxiliaries, three generator step-up (GSU) transformers, three auxiliary transformers, and three generator breakers. MEP originally procured the combustion turbines, generators, and auxiliaries in 2001 directly from SWPC. The GSU transformers and auxiliary transformers were procured in early 2002 by Burns & McDonnell (B&M) for MEP from HICO America, Inc. (HICO). The generator breakers were also procured by B&M for MEP in early 2002 from Alstom T&D Inc. (Alstom). The combustion turbines, generators and auxiliaries were received in the fourth quarter of 2002 and placed directly in storage at two locations in the greater Kansas City area. The transformers and generator breakers were received in August 2004 and September 2004, respectively, and also placed directly in storage. The Assets remain in storage and are currently being preserved and maintained by Aquila personnel. The equipment is described in more detail below along with the preservation and maintenance recommendations of the manufacturers, the maintenance records, and the condition of the equipment as observed by Beck as of November 3, 2004.

### 3.2 Description of the Assets

#### 3.2.1 Combustion Turbines, Generators, and Auxiliaries

Beck has reviewed the Equipment Supply Agreement between MEP and SWPC, dated September 2001 and Change Order 001 to the Contract, dated September 26, 2001 (collectively, the "ESA"), which describes the terms and conditions of the purchase of three 501D5A combustion turbine Econopacs. The ESA scope of supply includes the following equipment for each of three combustion turbine units unless specified otherwise below.

- Combustion turbine with DLN combustors for firing natural gas
- Combustion turbine enclosure
- Inlet filter house with silencers



## DESCRIPTION OF THE ASSETS

- Inlet evaporative cooler
- Exhaust expansion joint
- Exhaust stack (deleted in CO No. 1 and not included in this appraisal)
- Fuel gas skid
- Starting package
- Fire protection skid
- Mechanical Package, including lubricating oil equipment
- Rotor air cooler
- Control oil skid
- Water wash skid
- Pipe Rack and Piping
- Open air cooled generator rotor and stator assembly for 60 Hz 13.8 kV service
- Generator Enclosure
- Electrical package, including switchgear, motor control centers, uninterruptible power supply system, and TXP control system (excluding on unit control station)
- Erection manuals, commissioning manuals, operating and maintenance manuals, and drawings.
- Transportation of the equipment to the project site in the greater Kansas City, Missouri area.

The equipment was purchased with Technical Field Assistance included for construction and commissioning (approximately 160 man weeks), training services, warranty, performance guarantees, and emissions guarantees. However, it is our understanding that the warranty is no longer valid. Additionally, SWPC has issued several minor production modifications to the 501D5A model combustion turbines since the subject assets were purchased, which have not yet been incorporated into the Assets as they currently exist.

### 3.2.2 Transformers

Beck has reviewed the Purchase Order between B&M and HICO, dated February 6, 2002 and Change Orders 1, 2, and 3 (collectively, the "HICO PO"), which describes the terms and conditions of the purchase of three GSU transformers and three auxiliary transformers. The HICO PO scope of supply includes the following equipment.

- Three 13.8 to 161 kV GSU transformers rated at 78/104/130 MVA, including all special tools, and initial fill of oil.

## DESCRIPTION OF THE ASSETS

- Three 4.16 to 13.8 kV auxiliary transformers rated at 5000 kVA, including all special tools, and initial fill of oil.
- Erection manuals, commissioning manuals, operating and maintenance manuals, and drawings.
- Transportation of the equipment to the project site in the greater Kansas City, Missouri area.

Additionally, the equipment was purchased with a warranty for one year after the equipment is placed in service.

### 3.2.3 Generator Breakers

Beck has reviewed the Purchase Order between B&M and Alstom, dated February 7, 2002 and Change Order 1 (collectively, the "Alstom PO"), which describes the terms and conditions of the purchase of three generator breakers. The Alstom PO scope of supply includes the following equipment.

- Three 13.8 kV, 63 A, 60 Hz generator breakers, including all special tools, and a performance bond.
- Erection manuals, commissioning manuals, operating and maintenance manuals, and drawings.

Additionally, the equipment was purchased with a warranty for one year after the equipment is placed in service.

## 3.3 Condition of the Assets

### 3.3.1 Combustion Turbines, Generators, and Auxiliaries

The combustion turbines and generators are being stored at the Ralph Green Plant site, in Pleasant Hill, Missouri, in temporary enclosures without climate control. The combustion turbines are wrapped as shipped and dehumidifiers have been installed to minimize storage impacts. The generators are also wrapped as shipped in hermetically sealed packaging and in shipping crates. The combustion turbine and generator auxiliaries, including enclosures, skids, piping, coolers, and auxiliaries are being stored at the Richards Gebaur Air Force base in Kansas City, Missouri, in two warehouses without climate control. Aquila has coordinated with SWPC since delivery of the equipment and has arranged for preservation and maintenance of the combustion turbines, generators, and auxiliaries to be performed by Aquila personnel in accordance with the recommendations of the manual titled, "Storage and Preservation Manual for Econopac Systems," SWPC Document No. SPM-2000, Revision 5. Pursuant to SWPC recommendations, temporary power has been installed to energize space heaters on motors and climate control equipment on the electrical

## DESCRIPTION OF THE ASSETS

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packages. Other storage and preservation techniques have been employed, including the use of humidity monitoring, rotation of equipment, and the like. Storage and preservation records are in good order and Aquila has indicated that the records are being submitted to SWPC on a frequent and regular basis.

### 3.3.2 Transformers

The transformers are being stored at the Ralph Green Plant site, in Pleasant Hill, Missouri. The cores have been placed on concrete pads and are being maintained in an outside, open air environment. The GSU auxiliary equipment and the auxiliary transformers are also being stored in an outside, open air environment, but are in the original shipping crates, which have been wrapped in plastic. The transformers are not assembled and were not filled with oil at the time of our observation. However, Aquila has indicated that vacuum oil filling of all transformers in situ, in order to preserve the manufacturers' warranty, was initiated on November 16, 2004 under supervision of factory service. Aquila has coordinated with HICO since delivery of the equipment and has arranged for preservation and maintenance of the transformers to be performed by Aquila personnel in accordance with the recommendations of the manual titled, "Instruction & Maintenance Manual," HICO Spec No. HSM-6155. Pursuant to HICO recommendations, temporary power has been installed to energize space heaters and inert gas and dessicant are being utilized for humidity control. Storage and preservation records are in good order and Aquila has indicated that the records are being submitted to HICO on a frequent and regular basis.

### 3.3.3 Generator Breakers

The generator breakers are being stored at the Richards Gebaur Air Force base in Kansas City, Missouri, in one of the two warehouses along with combustion turbine auxiliaries. The generator breakers remain in original shipping crates. Aquila has coordinated with Alstom since delivery of the equipment and has arranged for preservation and maintenance of the generator breakers to be performed by Aquila personnel in accordance with the recommendations of the manual titled, "Instruction Manual," Alstom Document No. S22-001EN/03. Pursuant to Alstom recommendations, the use of inert gas and dessicant are being used for humidity control. Storage and preservation records are in good order.

### 3.3.4 Conclusions on Condition of the Assets

Based on our observation all equipment and materials discussed in Section 3.2 have been received, have not been damaged, and are in storage as described herein. Based on our review of the storage and preservation manuals, the related records provided to us for our review by Aquila, and our observations, it appears that the equipment has been stored and preserved in accordance with the manufacturer's recommendations and the equipment is in good condition. However, due to the storage duration it is

## DESCRIPTION OF THE ASSETS

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likely that some rehabilitation of the equipment, such as replacement of seals and gaskets, will be necessary prior to placing the equipment in service.

## Section 4

# FAIR MARKET VALUE ANALYSES

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### 4.1 Introduction

There are three generally accepted valuation approaches that can be used to estimate the value of property: the Cost Approach, the Income Approach and the Market Approach. The Cost Approach analyzes various cost methods, such as the Original Cost Method, the Reproduction Cost Method and the Replacement Cost Method. For the purposes of valuing the Assets, the Replacement Cost Method, which is an estimate of the cost of new assets similar to the existing Assets and the Original Cost Method, which is the original cost of the Assets, best represent the methods of determining value under the Cost Approach. The Income Approach values the property by determining the present worth of prospective net earnings using a discounted cash flow analysis. The Market Approach assesses value based on recent fair market sales of similar assets under similar circumstances.

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We believe that all applicable approaches to valuation should be considered. However, our scope of work with Aquila was limited to performing only the Cost Approach and the Market Approach. Although this is considered a limited appraisal, since only the Cost Approach and the Market Approach methods to valuation were performed, we believe that these two approaches, especially in this case, are the most appropriate method for valuing the Assets. For example, the Income Approach would be difficult to use for valuation of the Assets since the Assets could be moved to almost any location to maximize the revenue potential of the Assets given the variety in electricity prices throughout the United States.

In valuing the Assets for this limited appraisal, the Assets are considered to be three individual units, each considered a single, fully integrated system, of which each of the major components is interrelated in terms of structure, design, and function. None of the individual components are designed for, or intended for use in, commercial operation independent of the other components during normal operation of the Assets. In the event certain major components are independently operated, the operating efficiency, reliability, and intended purpose of the Assets would decline.

## 4.2 Cost Approach

### 4.2.1 Original Cost

The Original Cost Method for the Assets involves determining the original cost of the Assets. This method includes adjusting the book value for any physical depreciation associated with the Assets due to wear and tear, for the value lost relating to such issues as warranty expiration, and for certain costs specific to the Assets which currently carry no inherent value, such as storage costs. Based on information provided by Aquila, the book value of the Assets is described in Table 4-1.

**Table 4-1**  
**Book Value of the Aquila Assets**

Item	Book Value
Combustion Turbines	\$76,137,869
Transformers & Breakers	\$2,578,364
<b>Book Value</b>	<b>\$78,716,233</b>

Based on documents provided by Aquila, the book value of the combustion turbines (excluding the transformers and generator breakers) is \$76,137,869. The book value has been adjusted for option payments made to retain manufacturing slots, lost value associated with the expiration of the warranty, costs associated with the incorporation of production modifications released by SWPC since the equipment was purchased, the costs associated with rehabilitation of the Assets necessary prior to the equipment being ready for operation, which is required due to the duration the Assets have been in storage, and internal labor costs associated with the equipment purchase and storage. The adjustment values were developed based upon documents provided by Aquila, discussions with SWPC, and our experience with similar costs. These deductions represent the depreciation of the Assets from their original costs.

Based on documents provided by Aquila, the book value of the transformers and generator breakers is \$2,578,364. The book value has been adjusted for costs associated with manufacturer's performance bonds, storage, additional factory testing, and procurement services. The adjustment values were developed based upon documents provided by Aquila and discussions with SWPC. These deductions represent the depreciation of the Assets from their original costs.

Table 4-2 provides the value of the Assets using the Original Cost Method.



## FAIR MARKET VALUE ANALYSES

**Table 4-2**  
**Value of the Aquila Assets**  
**Under the Original Cost Method**

Item	Original Cost
<b>Combustion Turbines</b>	
Book Value	\$76,137,869
Adjustments	
Option Payment	(\$3,712,500)
Warranty	(\$2,240,000)
Production Modifications	(\$300,000)
Rehabilitation	(\$600,000)
Internal Labor	(\$39,399)
<b>Combustion Turbines Subtotal</b>	<b>\$69,245,970</b>
<b>Transformers &amp; Breakers</b>	
Book Value	\$2,578,364
Adjustments	
Performance Bond	(\$7,500)
Storage	(\$28,820)
Re-test	(\$28,305)
Procurement Services	(\$126,644)
Additional Retainage	(\$1,045)
<b>Transformers &amp; Breakers Subtotal</b>	<b>\$2,386,050</b>
<b>Value - Original Cost Method</b>	<b>\$71,632,020</b>

### 4.2.2 Replacement Cost

The Replacement Cost Method generally involves determining the estimated current cost of similar assets that could be manufactured and purchased under present market conditions to produce an equivalent net functionality to that of the Assets being valued. This method indicates the cost of building comparable equipment at present market prices. In addition, since the manufacturers still produce the Assets, the technical features of the Assets should be comparable to similar Assets being contemplated in today's market for the same basic use.

Since the replacement cost is recognized to be a test of the reasonableness of actual expenditure rather than a repetition of the actual expenditure, our estimated replacement cost represents an expected cost of a "generic" unit for the Assets. The generic unit utilizes current technology that will meet all the present requirements for environmental protection and can produce essentially the same output as the Assets. We believe that this is a reasonable assumption. A typical purchaser would not be willing to buy the Assets at a cost inclusive of any additional costs associated with the existing Assets if the market may offer similar facilities without the costs based on a

## FAIR MARKET VALUE ANALYSES

specific design. Our cost estimation follows professional valuation procedures. Asset costs are defined based on considerations of physical characteristics and other criteria such as materiality, identifiability, and process function. Cost estimates of labor and materials pertaining to individual property units are developed from construction specifications and other contracts and accounting information. Properties are also priced using recognized cost estimating manuals, direct quotes, or our judgment when no other price information is available.

We have had discussions with SWPC regarding current costs associated with the 501D5A technology combustion turbines. Based upon these discussions we have determined that the cost to purchase a new combustion turbine in today's market would be \$24,500,000. This would include all existing production modifications that have been issued since the Assets were purchased. It would also include a warranty and all guarantees associated with a new unit. This pricing also includes exhaust stacks for the combustion turbines, which are not included on the Assets.

In order to produce a replacement cost that would be comparable to the original cost, adjustments would need to be included to remove the costs/value of the warranty and the exhaust stack. In addition, since the Assets include three (3) combustion turbines, there may be a price reduction for a multi-unit purchase of combustion turbines as compared to purchasing a single combustion turbine package.

We have adjusted the replacement cost estimate to take into account the reduction in replacement cost for the value of the warranty, the value of the exhaust stacks and the reduced costs associated with the purchase of multiple units from the manufacturer. These values were developed based upon discussions with SWPC and other combustion turbine manufacturers.

The transformers and generator breakers were recently delivered and were observed to be in good condition. Therefore, similar costs, and adjustments, used for the transformer and generator breakers included in the Original Cost Method valuation above have been utilized for the Replacement Cost Method.

Table 4-3 provides the value of the Assets using the Replacement Cost Method.

## FAIR MARKET VALUE ANALYSES

**Table 4-3**  
**Value of the Aquila Assets**  
**Under the Replacement Cost Method**

Item	Replacement Cost
<b>Combustion Turbines</b>	
Replacement Cost	\$73,500,000
Adjustments	
Warranty	(\$2,240,000)
Exhaust Stacks	(\$1,849,200)
Multi-Unit Purchase	(\$1,000,000)
<b>Combustion Turbines Subtotal</b>	<b>\$68,410,800</b>
<b>Transformers &amp; Breakers</b>	<b>\$2,386,050</b>
<b>Value – Replacement Cost Method</b>	<b>\$70,796,850</b>

### 4.3 Income Approach

The Earnings Stream Method under the Income Approach involves a determination of an estimated value, which based upon an assumed level of revenues and expenses, would result in a typical purchaser receiving a return on its investment of an assumed amount, if that typical purchaser paid the estimated value.

As stated previously, since the Assets are not installed, performing an analysis under the Income Approach is not reasonable for developing the value of the Assets. The Assets could technically be moved to different locations that would produce a variety of revenue levels, depending upon the current forecast of market prices for a particular location. This could produce any number of results under the Earnings Stream Method of valuation. It would be reasonable to assume that if a third-party were looking to purchase the Assets, they would move these turbines to maximize the level of revenue from the operation of the Assets, thereby increasing their value.

For the above reasons, we have not performed an analysis under the Income Approach for the valuation of the Assets.

### 4.4 Market Approach

The Comparable Sales Method under the Market Approach involves a review of recent sales and offers of similar facilities between a willing buyer and a willing seller, who are unrelated, as an indication of the general market price for such facilities.

In reviewing sales of combustion turbines to determine if a sufficient basis exists for comparison to the Assets, consideration must be given to factors related to the particular units being sold and the circumstances related to the sale which may have an

## FAIR MARKET VALUE ANALYSES

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effect on the sales price of such facility. For instance the relationship between the purchasing and selling parties and other transactions between such parties at essentially the same time as the sale may affect the sales price. Also, technical features of the equipment being sold, such as the location, competing facilities, resource needs of other utilities in the area and the potential output of the equipment will affect the value.

The Comparable Sales Method is primarily applicable to property which is readily substitutable and where a number of similar type properties have recently been traded. A number of factors must be weighed when making comparisons to facilities for the purpose of the Market Approach. These include but are not limited to the following:

- The capacity and size of the facility/equipment being reviewed.
- Location and potential limitations associated with the equipment at that particular location.
- Age and remaining life of the equipment.
- Prior uses of the equipment.
- Variety of technical features associated with the equipment being reviewed.

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We have found or are aware of six different offers to sell equipment similar (i.e., 501D5A equipment) to the Assets. (One of the offers was for the Assets being valued). In order to produce a comparable sales method analysis that would be comparable to the figures developed in the Cost Approach, adjustments need to be included for the costs/value of the warranty, the value of technical field assistance, the value of the exhaust stack, the value of modifications to make the comparable facilities dry, low NO<sub>x</sub> burners, and the costs associated with transportation to the current location of the Assets.

We have adjusted the market prices to take into account the above referenced items. These adjustments were developed based upon discussions with SWPC and other combustion turbine manufacturers.

The offers that were reviewed are as follows:

- Offer 1 was an offer from Aquila to Kansas City Power and Light Company for the Assets. The price included transportation and the transformers and breakers.
- Offer 2 was an offer from Rolls Royce to Aquila for two combustion turbines. The price was adjusted to reflect three combustion turbines and other adjustments as noted.
- Offer 3 was an offer of a single combustion turbine from a private party through SWPC. The price was adjusted to reflect three combustion turbines and other adjustments as noted.

## FAIR MARKET VALUE ANALYSES

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- Offer 4 was an Internet offer for a single combustion turbine. The price was adjusted to reflect three combustion turbines and other adjustments as noted.
- Offer 5 was an Internet offer for a single combustion turbine. The price was adjusted to reflect three combustion turbines and other adjustments as noted.
- Offer 6 was an Internet offer for a single combustion turbine. The price was adjusted to reflect three combustion turbines and other adjustments as noted.

As described previously Offer 4, 5 and 6 are Internet offers. It is difficult to fully evaluate these Internet offers since a variety of factors could influence additional adjustments to these offers. These additional adjustments include the date of the offer, the scope of supply, the division of responsibility, location, options included on the combustion turbines and the equipment preservation techniques. It would require a significant effort to explore each of these aspects for each internet offer. Although we have made adjustments to the offer price based on factors that were known, other adjustments may be necessary.

Table 4-4 provides a summary of the comparable sales method for the Assets.

# FAIR MARKET VALUE ANALYSES

**Table 4-4**  
**Value of the Aquila Assets**  
**Under the Market Approach**

Item	Offer 1	Offer 2	Offer 3	Offer 4	Offer 5	Offer 6
<b>Combustion Turbines</b>						
Offer	\$69,000,000	\$64,500,000	\$57,000,000	\$78,000,000	\$99,000,000	\$45,000,000
Adjustments						
Warranty	(\$2,240,000)	\$0	(\$2,240,000)	\$0	\$0	\$0
Technical Field Assistance	\$0	\$2,350,000	\$2,350,000	\$0	\$0	\$2,350,000
Exhaust Stacks	\$0	(\$1,849,200)	(\$1,849,200)	(\$1,849,200)	(\$1,849,200)	\$0
Dry Low NO <sub>x</sub>	\$0	\$5,000,000	\$5,000,000	\$0	\$0	\$5,000,000
Transportation	\$0	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
<b>Combustion Turbines Subtotal</b>	<b>\$66,760,000</b>	<b>\$71,200,800</b>	<b>\$61,460,800</b>	<b>\$77,350,800</b>	<b>\$98,350,800</b>	<b>\$53,550,000</b>
<b>Transformers &amp; Breakers</b>	<b>\$0</b>	<b>\$2,386,050</b>	<b>\$2,386,050</b>	<b>\$2,386,050</b>	<b>\$2,386,050</b>	<b>\$2,386,050</b>
<b>Comparable Sales</b>	<b>\$66,760,000</b>	<b>\$73,586,850</b>	<b>\$63,846,850</b>	<b>\$79,736,850</b>	<b>\$100,736,850</b>	<b>\$55,936,050</b>

**RW BECK**

## Section 5

# CONCLUSIONS

### 5.1 Fair Market Value

The results of our analyses of the estimated Fair Market Value of the Assets are summarized in Table 5-1.

Table 5-1  
Summary of Value Indicators

Indicator	Value
Cost Approach	
Original Cost Approach	\$71,632,020
Replacement Cost Approach	\$70,796,850
Income Approach	Not Applicable
Market Approach	\$55,936,050 to \$100,736,850

As stated previously, this is a limited appraisal in that only the Cost Approach and the Market Approach were used at the direction of Aquila. However, due to the relevance of the Cost Approach and the Market Approach as discussed in Section 4, as compared to the Income Approach, we believe that the Cost Approach and the Market Approach produce the best indications of value for the Assets.

Generally, a potential purchaser of a property should be willing to pay the lesser of the value indicated by the Cost Approach (specifically the Replacement Cost Method) and the value indicated by the Income Approach. If the prospective purchaser were to pay an amount greater than that indicated by the Income Approach, the purchaser would be unable to earn its desired return on equity.

Similarly, the purchaser should be unwilling to pay more than the value indicated by the Cost Approach (the Replacement Cost Method) because the purchaser could construct or purchase similar project assets at the indicated replacement cost. However, the purchaser might be willing to pay more than the replacement cost for certain income producing assets if the earnings stream valuation clearly supports a higher price because the potential cost of the risks associated with the design, development, and construction of a project or any special technical or other features of a project are generally not precisely measured in the Replacement Cost Method.

In addition, if the Market Approach clearly indicated a value that was supported by the Income Approach, a potential purchaser may be willing to pay more than the value



## CONCLUSIONS

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indicated by the Cost Approach. The reason for this increased value under the Market Approach could include the intrinsic value associated with the value of acquired contractual rights, the ability to expand production at a facility site, or a number of other reasons.

As stated previously, we have not performed an analysis of the value of the Assets under the Income Approach. However, the value of the Assets under the Cost Approach (specifically the Replacement Cost Method) is supported by the value of the Assets under the Market Approach.

Therefore, based on the analyses performed within this Report and our knowledge in valuation of similar facilities, we are of the opinion that the limited fair market value of the Assets is \$70,796,850.



## Section 6

# APPRAISAL CERTIFICATION

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We, the undersigned, certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and the unbiased professional analyses, opinions, and conclusions of Beck.
- Beck has no present or prospective interest in the properties that are the subject of this report, and has no personal interest or bias with respect to the parties involved.
- Compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the limited appraisal.
- The report is not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- Representatives of Beck made on-site, above-ground, general field observations of the properties that are the subject of this Report.
- Beck staff, under the principal supervision of the undersigned, provided assistance in the preparation of this report. A list of significant contributors is included in the report.
- The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with USPAP promulgated by the Appraisal Standards Board of the Appraisal Foundation and the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.

Respectfully submitted,

**R. W. BECK, INC.**



Neal D. Suess, PE, Project Manager

November 19, 2004



**Exbt 1**

## **INDIVIDUALS CONTRIBUTING TO THE REPORT**

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## INDIVIDUALS CONTRIBUTING TO THE REPORT

### **Neal D. Suess, P.E.**

**B.S. IN MECHANICAL ENGINEERING, IOWA STATE UNIVERSITY**

Mr. Suess is experienced in developing economic feasibility analyses and independent engineering appraisals for the purpose of utility property acquisitions. He has also prepared appraisal studies of generation facilities in connection with leveraged lease financings and property tax appraisals. In addition, Mr. Suess is experienced in contract negotiations, power supply planning, and cost-of-service and rate design. His experience includes preparing expert testimony before state and local regulatory agencies and the Federal Energy Regulatory Commission.

Prior to joining R. W. Beck, Mr. Suess was the electric director for a Midwestern municipal utility and was the planning engineer for a municipal joint-action agency. He has experience directing the operations of a municipal electric utility, including hands-on experience in operating power generating facilities. This has included managing a crew of thirty employees, developing and managing operating and capital improvements budgets, and developing strategic plans.

### **Nancy Heller Hughes, ASA**

**B.A. IN BUSINESS AND STATISTICS, UNIVERSITY OF CHICAGO**

**M.B.A IN FINANCE AND ACCOUNTING, UNIVERSITY OF CHICAGO**

Ms. Hughes is an Accredited Senior Appraiser (ASA) of Public Utility property certified by the American Society of Appraisers. She has worked in the public utility industry since 1977 specializing in utility rates and regulation, depreciation, and valuation. She has testified as an expert witness on these issues before federal and state regulatory commissions, city councils and courts of law. In the area of utility rates and regulation, Ms. Hughes is responsible for conducting and analyzing revenue requirement, cost-of-service and rate design studies for electric, gas, telephone, and solid waste utilities. She has also been active in utility merger and acquisition cases before federal and state regulatory agencies.

Ms. Hughes has performed valuation and appraisal studies to determine the value of a wide range of utility property including electric, water, wastewater, telecommunications, railroad, and solid waste landfill property. These studies have been performed in connection with the sale and acquisition of property, eminent domain cases, property tax issues, and utility rate cases. In conjunction with her appraisal work, Ms. Hughes has testified as an expert witness on the valuation of utility property in court proceedings and utility rate cases.

**Robert A. Brune, P.E.****B.S. IN MECHANICAL ENGINEERING, UNIVERSITY OF COLORADO**

Mr. Brune has 12 years of experience in thermal electric generating plant projects, providing both on-site and off-site technical input, including feasibility studies, detailed design, budget reviews, technical assessments, construction supervision, start-up, and performance testing. Mr. Brune's experience has been with domestic and international combustion turbine and coal-fired projects utilizing equipment from most major industry manufacturers. His project work has been in support of developers, contractors, utilities, municipalities, and financial institutions.

Mr. Brune has coordinated technical due diligence efforts for financial institutions and developers including plant systems technical analysis and the review of financial model and technical inputs to support project financing. His review and analysis of project information identified fatal flaws and areas of risk relating to design, performance, contractual obligations, construction costs, construction schedule, and operations. Mr. Brune has been involved in consulting services related to acquisition and divestiture analysis for power generation assets, as well the economic and financial analysis pertaining to the deregulation of the power market. Mr. Brune also has experience in preparing conceptual design information to support project development, including arrangement drawings, along with cost and performance estimates for various combustion turbine and thermal unit alternatives. Mr. Brune has been involved in all facets of performance testing from procedure development, procedure review, test coordination, test witnessing and results review. He is familiar with ASME Power Test Codes, computer modeling simulations and has both managed and worked on projects utilizing combustion turbines manufactured by GE, SWPC, and ABB as well as steam turbines manufactured by Siemens, Westinghouse and Toshiba.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

County of Jackson     )  
                                  )  
State of Missouri     )     ss

AFFIDAVIT OF DENNIS R. WILLIAMS

Dennis R. Williams, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Dennis R. Williams;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Dennis R. Williams  
Dennis R. Williams

Subscribed and sworn to before me this 13th day of December 2005.

Terry D. Lutes  
Notary Public  
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES  
Jackson County  
My Commission Expires  
August 20, 2008