

Exhibit No.:
Issue: Merger Synergy Tracking and
Transition Cost Recovery
Witness: Darrin Ives
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Sponsoring Party: KCP&L Greater Missouri
Operations Company
Case No.: HR-2009-0092
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HR-2009-0092

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
April 2009**

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Case No. HR-2009-0092

1 **Q: Are you the same Darrin R. Ives who submitted Direct and Rebuttal Testimony in**
2 **this case on behalf of KCP&L Greater Missouri Operations Company (“GMO” or**
3 **the “Company”)?**

4 **A: Yes, I am.**

5 **Q: What is the purpose of your Surrebuttal Testimony?**

6 **A: I will address assertions made by Missouri Public Service Commission (“Commission”)**
7 **Staff (“Staff”) witness Charles R. Hyneman in his Rebuttal Testimony regarding the**
8 **Company’s demonstration of synergy tracking in accordance with the Commission’s**
9 **Report and Order in Case No. EM-2007-0374 (“Merger Report & Order”). I will also**
10 **address Mr. Hyneman’s recommendation that the Company utilize natural regulatory lag**
11 **to recover transition costs in this case.**

12 **SYNERGY SAVINGS TRACKING PROCESS**

13 **Q: Do you agree with Mr. Hyneman’s assertion at page 2, line 3 of his Rebuttal**
14 **Testimony that the Company has not yet provided to Staff an analysis of tracked**
15 **merger synergies in accordance with the Merger Report & Order?**

16 **A: No, I do not. As more fully discussed in my Rebuttal Testimony in this case starting on**
17 **page 7, line 6 through page 10, line 9, we have implemented a synergy tracking process**
18 **consistent with the Commission’s Merger Report & Order. As described to Staff in**

1 multiple meetings on this topic, because the acquisition occurred on July 14, 2008, the
2 Company determined that synergy savings would have to be tracked differently for 2008
3 than in 2009 and beyond. Essentially, a two-phase approach is required to track synergy
4 savings. On December 10, 2008, the Company had its first meeting with Staff regarding
5 synergy savings and transition costs, and outlined the two-phase approach we were
6 taking, which is fully described in my Rebuttal Testimony. On January 10, 2009, the
7 Company provided the database of the Phase 1 project charter synergy tracking as well as
8 the underlying project charters. The Phase 1 project charter process is more fully
9 described in my Rebuttal Testimony on pages 7-8. On January 12, 2009, a follow-up
10 meeting was held with Staff to address additional questions they had regarding synergy
11 savings and transition costs. Additional follow-up meetings regarding synergy savings
12 and transition costs were held with Staff on January 22, 2009 and February 6, 2009.

13 **Q: What additional synergy tracking information has the Company provided to Staff?**

14 A: On April 1, 2009, the Company provided to Staff its first view of the Phase 2 synergy
15 tracking document and supporting schedules, which compares non-fuel operations and
16 maintenance (“NFOM”) expenses for base year 2006, as adjusted for inflation and other
17 known and measurable changes, to budgeted 2009 combined company NFOM expenses.
18 Lastly, on April 6, 2009, the Company provided to Staff an updated database of the Phase
19 1 project charter synergy tracking and indicated that the underlying project charters and
20 support were available for review at the Company’s offices.

21 **Q: Do the Phase 1 and Phase 2 synergy tracking schedules provided to Staff in April**
22 **demonstrate synergy savings projected to the true-up date in this case that exceed**
23 **the transition cost amortization projected to be included in the true-up in this case?**

1 A: Yes, both schedules project synergy savings in excess of transition costs recovery. The
2 Phase 2 schedule comparing the 2006 base year NFOM costs, as inflated and adjusted for
3 known and measurable changes, to budgeted 2009 combined company NFOM reflects
4 2009 total regulated projected synergies of \$40.6 million. The Phase 1 project charter
5 synergy tracking database shows total regulated synergy savings of \$20.7 million in
6 2008. Additionally, for the test to be completed at the true-up date in this case to
7 demonstrate synergy savings exceed transition costs amortization, the Phase 1 database
8 will reflect four months of additional synergy savings in 2009. Both schedules clearly
9 demonstrate synergy savings well in excess of the total regulated annual transition costs
10 amortization of approximately \$9 million projected by the Company based on actual
11 transition costs through the true-up date of this case.

12 **Q: Has Staff worked with you or your team in conducting a review of the Phase 1**
13 **project charter database and underlying project charters that were provided on**
14 **January 10, 2009?**

15 A: No. I am not aware of any significant audit work performed by Staff on the project
16 charter information provided on January 10, 2009.

17 **Q: Please respond to Mr. Hyneman's assertion on page 2, lines 10-20 of his Rebuttal**
18 **Testimony that the Company has not provided support for the comparison provided**
19 **in Schedule DRI-2 of your direct testimony.**

20 A: As I described in my Direct Testimony on page 4, lines 2-9 and page 8, lines 6-18, the
21 amounts included on Schedule DRI-2 represent projected synergy savings based on
22 comparing combined Company budgets through March 31, 2009, compared to base year
23 2006 NFOM costs of Aquila, Inc. ("Aquila") and KCP&L on a stand-alone basis adjusted

1 for known and measurable changes. On page 8 of my Direct Testimony I go on to state
2 that it is the Company's intent to reflect annualized, recurring synergy savings based on
3 actual known and measurable synergies realized up to the true-up date in this case. This
4 is also consistent with the discussions the Company has had with Staff, as described
5 above. Therefore, the projected synergy savings included in the Company's direct filing
6 in this case are not relevant to actual synergy savings that will be included in the true-up
7 to this case. In my meetings with Staff, I indicated that the measure of synergy savings
8 that needed to be considered in this case was the Phase 1 project charter database and
9 underlying project charters. As I indicated above, the Company provided the database
10 and underlying charters on January 10, 2009.

11 **Q: Mr. Hyneman states in his Rebuttal Testimony at page 3, lines 3-6 that KCP&L has**
12 **not provided any analysis to Staff that compares 2006 base year costs to either**
13 **actual or budget post-integration costs. Is that correct?**

14 A: No, it is not. The project charter database and underlying project charters provided on
15 January 10, 2009, calculate synergy savings based on a comparison to 2006 base year
16 costs adjusted for inflation and other known and measurable changes. Additionally, on
17 April 1, 2009, the Company provided Staff with the 2009 Phase 2 synergy tracking
18 document to give Staff a view of how synergy tracking will evolve as we move forward
19 in the synergy tracking process. The Company also provided on April 6, 2009, an
20 updated Phase 1 project charter database.

21 **Q: Do you agree with Mr. Hyneman's Rebuttal Testimony on page 3 that it would take**
22 **two auditors approximately 45 to 60 audit work days to review the synergy savings**
23 **analysis?**

1 A: No, I do not. With the structure of the project charter database and the documentation
2 contained in the project charters, I believe that with help from Company personnel that
3 such a timetable could be shortened. I would reiterate though that we provided the
4 project charter database and underlying project charters to Staff initially on January 10,
5 2009. I am not aware of any significant audit work performed on the information
6 provided to date. That was roughly 90 calendar days before the submission of this
7 Surrebuttal Testimony.

8 **Q: Please summarize your Surrebuttal Testimony regarding the Company's synergy**
9 **savings tracking process.**

10 A: I believe that through our two-phase approach to track synergy savings, the Company has
11 implemented an effective synergy savings tracking mechanism, as ordered by the
12 Commission in the Merger Report & Order, which achieves the appropriate objective.
13 The Company has held multiple meetings with Staff where we discussed the Company's
14 process for tracking synergy savings. The Company first provided the Phase 1 project
15 charter database and underlying project charters on January 10, 2009, approximately 90
16 calendar days before the submission of this Surrebuttal Testimony. I am not aware of any
17 active audit work performed by Staff on the synergy savings project charter information
18 provided to them in January. I do not believe that the Company's request for recovery of
19 amortization of transition costs in this case should be impeded by Staff's failure to audit
20 the synergy savings Phase 1 project charter database provided to Staff three months ago.

1 A: I draw two primary conclusions. First, the Commission found that the Company's
2 request to defer transition costs and to amortize them over a five-year period beginning
3 with the first rate cases post transaction for Aquila and KCP&L subject to 'true up' of
4 actual transition and transaction costs in those future cases was not disputed or contested
5 as related to transition costs.

6 Second, the Commission did approve the merger after performing its balancing
7 tests (on pages 255-262 of the Merger Report & Order, finding that the applicants had
8 met their burden of proof that the merger was not detrimental to the public interest), and
9 authorized KCP&L and Aquila (now KCP&L Greater Missouri Operations Company) to
10 defer transition costs to be amortized over five years.

11 **Q: Are there other indications of the Commission's intent on this issue?**

12 A: Yes. I believe there is clear and substantial evidence in the Merger Report & Order that
13 the Commission acknowledged that the "regulatory lag" proposed by the Applicants in
14 the merger case was intended to provide the Company's shareholders an ability to share
15 in synergy savings before new rates were ordered by the Commission that reflected the
16 benefits of the synergy savings to ratepayers. I do not believe it was the Commission's
17 intent to use "regulatory lag" to recover transition costs or that "regulatory lag" is the
18 appropriate mechanism to use to recover transition costs based on statements in Section F
19 of the Findings of Fact and in Section C of the Conclusions of Law. Additionally,
20 adoption of Staff's position to utilize regulatory lag to recover transition costs would shift
21 the burden for all of the costs to achieve synergies to shareholders, which is inconsistent
22 with the Commission's discussion on page 241 of the Merger Report & Order.

1 Therefore, the Commission should adopt the Company's proposal to amortize transition
2 costs over five years.

3 **Q: Does that conclude your Surrebuttal Testimony?**

4 A: Yes, it does.

