

Exhibit No.:
Issue: Synergies and Transition Costs
Witness: Charles R. Hyneman
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: HR-2009-0092
Date Testimony Prepared: March 13, 2009

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

Great Plains Energy, Inc.
GREATER MISSOURI OPERATIONS COMPANY
GMO-L&P STEAM

CASE NO. HR-2009-0092

Jefferson City, Missouri
March 2009

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **CHARLES R. HYNEMAN**

4 **Great Plains Energy, Inc.**
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7
8 **CASE NO. HR-2009-0092**

9 Q. Please state your name and business address.

10 A. Charles R. Hyneman, Fletcher Daniels Office Building, 615 East 13th Street,
11 Room G8, Kansas City, Missouri, 64106.

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

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

15 Q. Are you the same Charles R. Hyneman who filed testimony on this issue in the
16 Staff's Cost of Service Report?

17 A. Yes, I am.

18 Q. Please provide a summary of your rebuttal testimony.

19 A. The purpose of my testimony is to respond to certain positions taken by
20 Kansas City Power & Light Company (KCPL) witness Darrin R. Ives in his direct testimony
21 in this proceeding. Specifically, I address KCPL's proposal to recover costs to integrate its
22 regulated utility operations with Aquila, Inc. as a result of Great Plains Energy's acquisition
23 of Aquila, Inc. on July 14, 2008. The Commission approved this acquisition in its Report and
24 Order in Case No. EM-2007-0374 (the "Acquisition Case"). These costs are referred to as

1 “transition costs.” While Mr. Ives states that KCPL has tracked its merger synergies in
2 accordance with the Commission’s Report and Order in Case No.
3 EM-2007-0374, it has not yet provided this analysis to the Staff for review in this rate case.

4 Q. At page 4 of his direct testimony, Mr. Ives describes his attached schedule
5 DRI-2, and states that this schedule reflects synergy savings determined by comparing
6 budgeted post-acquisition costs to base year 2006 actual operating costs of Aquila and KCPL,
7 adjusted for known and measurable changes. Did KCPL provide support for KCPL’s
8 comparison shown on Schedule DRI-2 of base year 2006 costs, as adjusted, to budgeted
9 post-acquisition costs?

10 A. No. On January 7, 2009, I sent a request to KCPL and asked for this
11 information. On January 9, 2009, KCPL replied that it was still working on the initial work
12 papers, and none were available for review. On January 22, 2009 KCPL provided the Staff
13 with a spreadsheet showing 2006 adjusted baseline expense information, but without any
14 integration synergy information included. On February 9, 2009, I asked KCPL if the 2006
15 baseline synergy document had been updated with any synergy calculations.
16 KCPL responded that the current KCPL and GMO budgets were to be approved by
17 GPE’s Board of Directors within the next couple of days, and KCPL should then have the
18 integration synergy information available to the Staff within one month from that date.
19 On March 6, 2009, KCPL advised Staff that KCPL would provide its integration savings
20 estimates and analysis to the Staff at the end of March 2009.

21 Q. At page 8 of his Direct Testimony Mr. Ives states, “Due to the timing of the
22 Company’s direct filing in this case and the closing date of the acquisition, the synergy

1 savings included in this filing were based on budgeted combined company expenditures
2 compared to base year 2006 operating costs of Aquila and KCP&L adjusted for known and
3 measurable changes, as described earlier in my testimony.” Did KCPL provide any analysis
4 to the Staff that compares 2006 base year costs to either actual or budgeted post-integration
5 costs?

6 A. No.

7 Q. How long would it take the Staff, once it received KCPL’s analysis, to actually
8 audit, analyze, reach conclusions and make recommendations to the Commission regarding
9 integration synergies in this rate case?

10 A. Based on my experience in previous merger and acquisition cases, and utility
11 rate cases in general, it would take two auditors approximately 45 to 60 audit work days
12 working solely on this issue to reach a conclusion about whether or not any actual integration
13 synergies have been realized and provide an estimate of the approximate size of the
14 integration synergies if it was concluded that they were actually realized. Such an analysis
15 could be attempted. However, as KCPL readily admits, tracking integration synergies with
16 any degree of accuracy is difficult at best. I would add to this that current circumstances, such
17 as filing three rate cases within two months of the acquisition closing date, could make such
18 an analysis extremely difficult. This estimate of the amount of time required to audit an
19 integration synergies analysis is based on an assumption that all of the information required
20 for this audit is available and company personnel are readily available to answer questions on
21 an expedited basis. What makes this issue difficult is that surrebuttal testimony in all three
22 rate cases is due in early April 2009.

1 Q. Did the Commission address the issue of the accuracy of a synergy savings
2 tracking mechanism in the Acquisition Case?

3 A. Yes. The Commission found that it would be very difficult to track synergy
4 savings with any degree of accuracy as shown by the following finding of fact from
5 page 97 of the Commission's Report and Order in Case No. EM-2007-0374:

6 Tracking synergy savings with any degree of accuracy is
7 problematic at best. Business operations are not conducted in a
8 static environment, but rather under constant change, including
9 customer growth, technological improvements, etc. Tracking
10 will become more difficult each successive year after the
11 merger (GPE/KCPL Exhibit 29, Wright Direct p. 5; GPE/KCPL
12 Exhibit 1, Bassham Direct, p.10).

13 Q. In its Report and Order in the Acquisition Case the Commission noted that on
14 a Missouri jurisdictional basis, the total integration synergies are equal to \$549 million
15 for 10 years, with \$222 million expected during the first 5 years. Even if KCPL cannot
16 eventually produce an analysis showing that actual synergies achieved exceed transition costs,
17 will KCPL still be able to recover transition costs through rates charged to its customers?

18 A. Yes. The Staff believes the application of natural regulatory lag is the best
19 way for KCPL to recover transition costs in this case. This approach would not require the
20 hundreds of hours of work by the Company to produce a synergy tracking mechanism and the
21 months of work required by the Staff to review, audit and analyze that tracking mechanism.
22 As noted above by KCPL, the effort to produce this document could well produce a document
23 that is worthless, as tracking synergy savings with any degree of accuracy is problematic, at
24 best.

1 Q. Has KCPL recognized the benefits of tracking synergies through regulatory
2 lag?

3 A. Yes, this is the method KCPL proposed in the Acquisition Case
4 to recover synergies from integrating the operations of KCPL and Aquila.
5 KCPL Witness Terry Bassham said at page 3, of his Additional Supplemental Direct
6 Testimony in Case No. EM-2007-0374, that the Joint Applicants withdrew their request for a
7 specific synergy savings adder and instead proposed to use the natural regulatory lag that
8 occurs between rate cases to retain any portion of synergy savings. Mr. Bassham also stated
9 at page 4 of that testimony Great Plains Energy proposed to retain only those synergies
10 achieved between rate cases in excess of those synergies previously included in rates.

11 Q. At page 240 of its Report and Order in the Acquisition Case, the Commission
12 stated that KCPL would not seek recovery of transition costs if sufficient savings are not
13 realized. Consequently, the Commission allowed recovery of transition costs. Is the Staff's
14 position that transition costs be recovered through natural regulatory lag consistent with this
15 part of the Commission Order?

16 A. Yes. Because KCPL has not provided a 2006 Base Year tracking mechanism that
17 compares actual 2006 costs incurred as adjusted with actual post-merger costs as Ordered by
18 the Commission in the Acquisition Case, it has not yet met the test to prove that sufficient
19 savings were realized. Therefore, KCPL should not be proposing direct rate recovery of
20 transition costs in this rate case. Secondly, the Staff is proposing a method of transition cost
21 recovery that is simple, straightforward and was even proposed by KCPL as a means to
22 recover integration synergies – the use of natural regulatory lag.

Rebuttal Testimony of
Charles R. Hyneman

1 | Q. Does this conclude your rebuttal testimony?

2 | A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for) Case No. HR-2009-0092
Approval to Make Certain Changes in its)
Charges for Steam Heating Service)
)

AFFIDAVIT OF CHARLES R. HYNEMAN


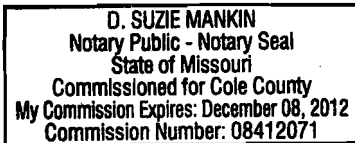
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Charles R. Hyneman

Subscribed and sworn to before me this 13th day of March, 2009.



Notary Public