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	Synergy Saving and Transition
	Cost Recovery
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

Great Plains Energy, Inc.
GREATER MISSOURI OPERATIONS COMPANY
GMO-MPS AND L&P ELECTRIC

CASE NO. ER-2009-0090

Jefferson City, Missouri
March 2009

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

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Q. Please state your name and business address.

A. Charles R. Hyneman, 615 East 13th Street, Kansas City, MO 64106.

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

A. I am employed by the Missouri Public Service Commission (Commission) as a Utility Regulatory Auditor.

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

A. Yes, I am.

EXECUTIVE SUMMARY

Q. Would you please provide a summary of your testimony?

A. On the topic of capacity planning, this testimony addresses two issues. The first issue is who should pay the cost of past imprudent capacity planning decisions made by senior management of the former Aquila, Inc., now known as KCPL-Greater Missouri Operations Company (GMO). Staff's position is that the former management of the then Aquila Inc. was imprudent when it decided to ignore its least cost capacity planning options and continue its reliance on short-term purchase power contracts (PPAs) to meet its required capacity, instead of constructing generating assets to produce electricity. The Staff believes that shareholders, as owners, are responsible for management decisions, not ratepayers, who have no way to prevent management from taking imprudent actions.

For convenience, Staff will refer to the company as Aquila when referring to events before Aquila's acquisition by Great Plains Energy ("GPE"), GMO's parent company, and GMO when referring to post-acquisition events. The references to MPS (Missouri Public Service) refers to the former division of Aquila whose regulated service territory is now served by GMO.

The Staff first raised the issue of imprudent capacity planning decision making in Case No. ER-2005-0436 (the "2005 rate case"). In that case, in an attempt to prevent Aquila's imprudent capacity planning decisions from resulting in an increased revenue requirements over the long term, the Staff included the costs of a site designed for six 105 megawatts (MW) combustion turbines (CTs) with five CTs installed. For the costs of that imputed site, as a proxy, the Staff used the prudent costs Aquila incurred to construct the South Harper power plant (a six 105 MW CT site with three 105 MW CTs installed) plus a reasonable estimate of the costs Aquila would have incurred to construct two additional 105 MW Siemens CTs at that site.

The cost Staff included in this case represents a proxy for the six 105 MW CT site upon which Aquila should have built five 105 MW CTs for use by the summer 2005 ("MPS Prudent CT Site"). In its 2007 rate case, Case No. ER-2007-0004, Aquila continued to rely on meeting its capacity needs by entering into capacity contracts with other entities. The Staff continued the position it took in Aquila's 2005 rate case and included the cost of the MPS Prudent CT Site, as well as the associated operating expenses.

In the 2007 rate case, while the Staff's revenue requirement was higher in the short-term by approximately $4.6 million, the Staff took the position that while constructing plant to meet new capacity may be higher in the short-term, because the net investment in plant declines over time, the long-term revenue requirement of building capacity will be lower. This is exactly what has transpired.

Because it is likely the legal issues surrounding GMO's South Harper site will be resolved soon, the issues regarding the MPS Prudent CT Site should become limited to the costs Aquila would have incurred to construct two additional 105 MW Siemens CTs at South Harper in time to meet MPS' summer load in 2005.

Instead of adding the two 105 MW CTs in 2005 and obtaining a 100 MW PPA, GMO has transferred from an affiliate a 308 MW peaking plant located in Clarksdale, Mississippi and GMO is seeking to recover the costs of that plant through rates in this case. The cost of new capacity that GPE is trying to include in this case, its 308 MW peaking plant in Clarksdale, Mississippi named Crossroads Energy Center (Crossroads), has a revenue requirement of approximately $23 million. The revenue requirement of Prudent CTs 4 and 5 plus a short-term bridge 100 MW capacity contract is approximately $12 million.

In this section of my rebuttal testimony I address statements made in the direct testimony of GMO witness H. Davis Rooney concerning the appropriateness of including the cost the Crossroads Energy Center (Crossroads) in GMO MPS's rate base in this case.

The second issue I will address in this testimony is the appropriate value to assign to the Crossroads natural gas turbines and related plant. While the management of Great Plains Energy, the holding company that owns Kansas City Power & Light Company (KCPL) and GMO, made public statements in May 2007, June 2007 and again in August 2007 that Crossroads' fair market value was $51.6 million, in September 2008 when GMO filed its rate case in Missouri, GMO proposed to include Crossroads in MPS's rate base at its net book value more than double this amount. In this section of my rebuttal testimony I will explain why the $51.6 million is GPE's historical cost to acquire the Crossroads Energy Center.

The final issue I will address in this rebuttal testimony is the fact that GPE has failed to provide the synergy tracking mechanism ordered by the Commission in its Report and Order authorizing the acquisition of Aquila, Inc. by GPE in Case No. EM-2007-0374. I will point out the fact that both the Staff and GPE agree that the achievement of any degree of accuracy in the tracking of integration synergies is difficult in the best of circumstances. The Staff would add that it may be impossible under the current facts and circumstances created by GPE, such as the fact that it filed three separate rate cases within two months of closing this acquisition, to calculate integration synergies in this case. Finally, I will recommend an alternative method for GPE to recover its transition costs, which is natural regulatory lag.

MPS PRUDENT COMBUSTION TURBINE SITE

Q. At what value is GMO proposing to include Crossroads in MPS's rate base in this case?

A. According to Mr. Rooney's direct testimony at page 29, Crossroads has been included in rate base at its net book value of approximately $117 million (Gross plant of $141 million less an accumulated depreciation reserve of $24 million). This amount includes $119 million in generation plant and $22 million in transmission plant.

Q. Is GMO proposing to include any expenses associated with Crossroads in this case?

A. Yes. In addition to plant in rate base, GPE is proposing to include in this case other costs to operate Crossroads, including depreciation expense, transmission charges to transfer the electricity from Mississippi to Missouri, maintenance charges including labor, operations and maintenance expenses, and property taxes. However, GPE is proposing to exclude a significant portion of the accumulated deferred income taxes associated with Crossroads plant since its construction in 2002. While GPE is proposing to charge to its ratepayers all of the costs of Crossroads (and as will be discussed later, inflated asset valuation costs), it is simultaneously proposing to exclude any associated cost reductions, such as the inclusion of Crossroads deferred taxes as a reduction to rate base. The Staff believes that if all costs of an asset are to be included in a utility's cost of service, then associated reductions in costs of acquiring that asset, especially when they are specifically attached to that asset, should not be excluded from cost of service. This is an issue of basic fairness. If Crossroads is allowed to be included in MPS' rate base then the total amount of the Crossroads accumulated deferred income taxes should be included as an offset to rate base.

Q. Does the Staff believe that the costs of the Crossroads plant should be included in MPS's rate base in this case?

A. No. In its direct filing in this case, No. ER-2009-0090, the Staff made an adjustment to remove all plant and expenses related to Crossroads from Staff's GMO's revenue requirement recommendation to the Commission.

The Staff believes that including Crossroads plant in rate base in this case and including the associated expenses would force GMO's ratepayers to pay $12 million annually that they should not be required to pay. This is the annual cost of Aquila's imprudent decisions made in 2004-2005 that now should be absorbed by the shareholders of GPE and not passed on to GMO's ratepayers.

In Aquila's 2005 rate case, the Staff included in its revenue requirement analysis the costs the Staff determined were required to satisfy Aquila's then current electric capacity shortfall based on the expiration of the Aires capacity PPA. The expiration of this PPA is described at pages 85-87 in the Staff Cost of Service Report filed in this case February 13, 2008 in a section by Staff witness Lena Mantle under the heading "Capacity Requirements for the Territory Formerly Known as MPS."

At the time the Staff filed its direct testimony in the 2005 rate case, October 2005, MPS had a capacity shortfall in meeting its future load requirements. This shortfall was due primarily to Aquila's failure to fully replace all of the capacity it was obtaining from the Aries capacity PPA which expired on May 31, 2005. Aquila satisfied its 2005 capacity needs with a short-term contract with a non-regulated affiliate, Merchant Energy Partners LLC, the then owner of the Crossroads Energy Center.

Q. At page 23 of his direct testimony in this case Mr. Rooney states that "in determining its capacity needs in the long term, GMO utilizes the principles of least cost utility planning." He describes least cost utility planning as "an economic analysis method with the lowest total system operating cost as the objective target." He also states that least cost utility planning methods are applied to an Electric Utility Resource Plan, formerly described as an Integrated Resource Plan ("IRP"). Has Aquila's failure to use least cost planning in meeting its capacity needs in the past the root cause of this issue?

A. Yes, it is. Despite Mr. Rooney's testimony in this case that GMO uses the principles of least cost planning in determining its capacity needs, Aquila imprudently failed to use the principles of least cost planning to meet MPS's summer 2005 capacity needs. This failure of Aquila to meet its 2005 capacity needs under the least-cost capacity plan that Aquila itself created has caused the problem that the Staff has addressed for the third consecutive rate case. The Staff was forced to address the cost of Aquila's imprudent capacity planning decisions in Aquila's two most recent Missouri rate cases, Case Nos. ER-2005-0436 (Aquila's 2005 rate case) and ER-2007-0004 (Aquila's 2007 rate case).

Q. What were Aquila's least cost options to meet its 2005 capacity needs for MPS?

A. MPS personnel met with Staff on February 9, 2004 for its semi-annual resource update. This update showed: ** ____
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_______ . **

Q. Please elaborate on why the Staff believes Aquila's failure to select the least cost capacity option when it acquired needed capacity in 2005 is the crux of this issue in this case.

A. The capacity cost issue in this case was created as a result of continued problems with Aquila's management capacity planning decisions. Aquila's management continually insisted on meeting its capacity requirement with short-term capacity purchases instead of pursuing the construction and ownership of capacity.

Q. Do you agree with Mr. Rooney that the 308 MW transfer of capacity from Aquila's nonregulated merchant operations to its Missouri regulated utility operations was the least cost option to GMO in 2008?

A. No. The least cost by Aquila's own analysis was construction of the <u>five</u> combustion turbines in 2005, which would still be the least cost option in 2008. The year 2005 is the time period that is relevant to this issue. The year 2005, when the Aires capacity contract expired is when the prudent capacity decision should have been made, not in 2008.

In Aquila's 2005 rate case the Staff included the costs of the capacity provided by the MPS Prudent CT Site, including MPS Prudent CTs 4 and 5, because it was the least cost capacity planning option at that time. This was the capacity needed to replace the expiration of the Aires capacity contract in May 2005. The Staff was forced to take actions to protect Aquila's ratepayers because Aquila refused to do so. The least cost option for GMO's required capacity today is not South Harper and Crossroads, but the MPS Prudent CT Site, including MPS Prudent CTs 4 and 5, plus a 100 MW PPA.

Q. What prudent action should Aquila have taken to meet its 2005 capacity needs when the Aires capacity contract expired?

A. Aquila should have constructed and taken ownership of five 105 MW CTs available by the summer of 2005 at South Harper—the equivalent of the Staff's MPS Prudent CT Site. The South Harper power plant, located in Cass County Missouri is a natural gas-fired peaking facility. South Harper was the first regulated generating capacity GMO had built since 1983. Between 1983 and 2005 Aquila relied on purchased power agreements to meet growing demand for electricity in its service territory. When Aquila developed its capacity plan and presented it to the Staff in January 2004, Aquila determined that its <u>least cost plan</u> was to install five combustion turbines, not the three that it installed at South Harper. Because Aquila's failure to follow its least cost plan has led to a significantly higher revenue requirement in this case, Aquila was imprudent. Great Plans Energy shareholders, who purchased Aquila in 2008, should bear the cost of the imprudent decision made by Aquila management in 2005.

As it did in Aquila's 2005 and 2007 rate cases, the Staff's revenue requirement calculation for GMO in this case reflects, as a proxy, the prudent costs incurred to construct the

South Harper power plant (a six 105 MW CT site with three 105 MW CTs installed) plus a reasonable estimate of the costs Aquila would have incurred to construct two additional 105 MW Siemens gas turbines at the time it built the three 105 MW CTs at South Harper. The cost Staff included in this case represents a proxy for the six 105 MW CT site upon which Aquila should have built five 105 MW CTs for use by the summer 2005.

In addition to the capital and operating costs of the MPS Prudent CT Site, Staff has included in its revenue requirement calculation for GMO in this case a reasonable estimate of the costs GMO would incur to purchase 100 MW of capacity to cover its short-term capacity needs. This capacity contract is designed as a bridge to meet capacity until Iatan 2 becomes operational in 2010.

Q. Would you please describe South Harper?

A. South Harper has three 105 MW natural gas-fired CTs on a site located in Cass County, Missouri. South Harper typically operates during peak electricity demand periods, such as the hot summer days in June, July, August, and September. Because of the size and efficiency of the CTs, it is sometimes used as intermediate capacity. However, it has also been used in non-peak periods to support the power system grid during maintenance on other units or during generation shortages and emergencies.

South Harper began generating electricity to meet system load requirements for Unit 1 on July 12, 2005, Unit 2 on July 1, 2005 and Unit 3 on June 30, 2005. The units where considered for commercial operation and plant-in service on these dates. At full capacity the three Siemens-Westinghouse Combustion Turbines produce 315 MW of electricity.

Q. How did the Staff calculate the costs to build the two additional combustion turbines at the Prudent CT plant site in Aquila's 2005 rate case?

A. In the 2005 rate case the Staff used documents containing the actual costs data from Aquila's purchase of three CTs at its South Harper plant as the basis for its calculation of the cost of MPS Prudent CTs 4 and 5. This amount, which the Staff has included in rate base in the 2005 rate case is $63,864,717, less accumulated depreciation. The chart below shows all of the plant components included in the total gross plant amount for MPS Prudent CTs 4 and 5 included in the Staff's surrebuttal testimony in GMO's 2005 rate case.

	MPS Prudent# 4	MPS Prudent # 5	Transmission	Common	Total
Plant	$18,700,000	$18,700,000	$2,100,000	$6,436,658	$45,936,658
AFUDC	$1,308,353	$1,308,353	$111,353		$2,728,059
Construction Costs	$7,600,000	$7,600,000	$0		$15,200,000
Total Plant in Service	$27,608,353	$27,608,353	$2,211,353	$6,436,658	$63,864,717

Q. What was the revenue requirement impact of the Staff's revised plant amount for MPS Prudent CTs 4 and 5 in the 2005 rate case?

A. The revenue requirement in Aquila's 2005 rate case was $9.1 million. This amount, which reflects a cost of $304/kW plant cost, is calculated as follows:

Revised Plant Cost for MPS Prudent Units 4 and 5	$63,864,717
Depreciation Reserve - 4 months @ $217,736/mo	($870,944)
Net Plant	$62,993,773
Tax Grossed Up Rate of Return	10.40%
Rate Base Return on Plant (A)	$6,548,837
Weighted Average Depreciation Rate	4.09%
Depreciation Expense (B)	$2,577,172
Total Revenue Requirement (A + B)	$9,126,009

The 10.40% rate of return includes a weighted cost of debt rate of 7.45% on 57.57% of GMO's capital structure in 2005, and a cost of equity of 9% on 42.43% of the capital structure. The after-tax rate of return of 8.1% was grossed up for taxes for a pre-tax return of 10.40%.

The 4.09% depreciation rate was based on the weighted average depreciation rates for plant accounts 340-346.

Q. Did the Staff include other costs related to owning the MPS Prudent CTs 4 and 5 in Aquila's 2005 rate case?

A. Yes. The Staff included costs of property taxes, maintenance and capacity reservation charges for the additional two units. In addition, by including these units in plant in service, the plant costs will generate depreciation expense and an overall rate of return on the net plant amount.

Q. Did the Staff include the same plant values for MPS Prudent CTs 4 and 5 in Aquila's 2007 rate case?

A. Yes.

Q. What was the total cost of including MPS Prudent CTs 4 and 5 in the Staff's revenue requirement recommendation in the 2007 rate case?

A. The total cost was $12 million.

Q. Was this amount higher than the cost of this capacity included in Aquila's revenue requirement proposal for MPS in the 2007 rate case?

A. Yes. This $12 million included by Staff was higher than the cost for MPS's capacity contracts of $7.3 million by an amount of $4.6 million as shown in the calculation below:

ER-2007-0004	
Plant Cost for MPS Prudent CTs 4 and 5	$63,864,718
Depreciation Reserve – (July 2005-Dec 2006)	($3,756,098)
Net Plant	$60,087,070
Tax Grossed Up Rate of Return (9.62% ROE)	10.98%
Rate Base Return on Plant (A)	$6,596,552
Weighted Average Depreciation Rate	3.71%
Depreciation Expense (B)	$2,367,736

Pipeline Reservation Charges (C)	$2,439,116
Property Taxes (D)	$162,000
Maintenance Expense (E)	$400,000
Gross Increase in Revenue Requirement (A+ B+C+D+E)	$11,965,404
Less Aquila's Purchase Power Capacity Contracts	($7,326,000)
Net increase in Revenue Requirement	$4,639,404

The Staff's rationale was that while the cost of constructing these two additional turbines was higher in the short term, the plant-related costs will decline over time and will be cheaper in the long run.

Q. Was the Staff's rationale proven correct in this case?

A. Yes. The Staff's proposal to continue to include the costs of MPS Prudent CTs 4 and 5 and include the cost of a 100 MW short-term capacity contract results in a significantly lower revenue requirement than GMO's proposal to include the costs of its Crossroads Energy Center. The cost included in the Staff's revenue requirement for its 310 MW of capacity (two 105 MW CTs and a 100 MW PPA) is approximately $12 million. The costs included in GMO's case for Crossroads is approximately $23 million, for a revenue requirement difference of about $11 million. This $11 million represents the cost of the imprudent capacity planning decisions made by the former Aquila management that Great Plains Energy inherited when it purchased Aquila, Inc. GPE's management has to find a way to address this cost, but it should not be to pass this cost on to GMO's ratepayers. That is the recommendation of the Staff to the Commission.

CROSSROADS VALUATION

Q. Please describe how GPE came to own the Crossroads Energy Center.

A. In February 2007, GPE entered into an agreement to acquire Aquila, Inc. The acquisition closed in July 2008. Immediately prior to closing, Black Hills Corporation acquired Aquila's electric utility in Colorado and its gas utilities in Colorado, Kansas, Nebraska and Iowa plus associated liabilities. Following closing, GPE became the owner of Aquila and its Missouri-based utilities consisting of the Missouri Public Service (referred to as GMO-MPS) and St. Joseph Light & Power (referred to as GMO-L&P) divisions as well as Aquila's merchant service operations, which primarily consisted of the Crossroads Energy Center and residential natural gas contracts. Following the completion of the Black Hills Purchase, the Aquila corporate entity consisted of (i) Aquila's current Missouri electric operations, i.e., GMO-MPS and GMO-L&P and (ii) Aquila's St. Joseph Industrial Steam operations; and (iii) Aquila's nonregulated merchant services operations, which primarily consisted of the Crossroads Energy Center in Mississippi.

Q. Please provide a history of the ownership of the Crossroads Energy Center.

A. The Crossroads Energy Center was built in Clarksdale Mississippi in 2002 by Aquila Merchant Services, then a non-regulated subsidiary of GMO. The following is a timeline of Crossroads ownership and significant events related to Crossroads which is based in part on a memorandum received from GPE dated October 31, 2007 explaining the history of the Crossroads plant. This memorandum is attached as Schedule 1 to this testimony.

- October 2002 - Crossroads was moved from business unit MEP (Merchant Energy Partners Investment LLC) into business unit ACEC (Aquila Crossroads Energy Center). ACEC was a business unit under the non-regulated subsidiary of Aquila MEP.

- October 2002 to March 2007 – Crossroads remained on the books of Aquila's nonregulated Merchant Energy partners.

- February 2007 - Great Plains Energy announced an agreement to acquire Aquila, Inc.

- March 2007 - the regulated jurisdictional operations of GMO issued a request for proposal (RFP) for a long-term supply option. Crossroads was bid into the RFP at net book value to satisfy the long-term supply option. Based on 2007 time frame Crossroads was selected as the least cost and preferred option for long-term supply.

- March 2007 – Crossroads was transferred from Aquila Merchant to Aquila, Inc. at net book value and recorded on the books of a nonregulated business unit CECAQ (Crossroads Energy Center Aquila) where it resided when Great Plains Energy acquired Aquila (now GMO).

- May 2007 – Great Plains Energy and Aquila filed a Joint Proxy Statement/Prospectus with the Securities and Exchange Commission. Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of Crossroads. Great Plains Energy estimated that this was the amount of proceeds it would receive from the sale of Crossroads to an unrelated party of similar capacity in the current market place.

- June 2007 - In an other filing with the SEC, Great Plains Energy management told the SEC, the financial community and its shareholders that its found $51.6 million to be an appropriate estimate of the fair value of Crossroads.

- August 2007 – In another filing with the SEC, Great Plains Energy management told the SEC, the financial community and its shareholders that it found $51.6 million to be an appropriate estimate of the fair value of the Crossroads.

- May 2008 - Great Plains Energy concurred with Aquila's recommendation to use Crossroads as the least cost and preferred option in its utility resource planning process as a long-term supply option.

- July 2008 - At the close of Great Plains Energy's acquisition of Aquila. The former Aquila, Inc Missouri electric operations become operating as Greater Missouri Operations (GMO). Crossroads was recorded on the books of GMO business unit NREG by Great Plains Energy.

- August 2008 - Crossroads was moved from GMO business unit NREG to GMO's MPS operations.

- September 2008 - GMO filed a rate case including Crossroads in rate base for MPS at net book value of $117 million.

Q. What value did GPE place on Crossroads in GMO's rate base in this case?

A. At page 29 of Mr. Rooney's direct testimony he states that Crossroads has been included in GMO's rate base at its net book value. This net book value amount at September 30, 2009 was $117 million (Gross plant of $141 million less accumulated depreciation of $24 million).

Q. Does the Staff agree with this valuation of Crossroads?

A. No. GPE appears to be significantly overstating the value of the Crossroads plant that it is proposing to include in GMO's rate base in this case by about $65 million.

Q. Would you please explain?

A. When GPE made the offer to acquire Aquila in February 2007, its offer was based on a fair market value of Crossroads of $51.6 million. By attempting to rate base a nonregulated asset at its book value amount of $117 million, when it previously estimated its fair market value to be $51.6 million, it appears that GPE is significantly overstating the fair market value, or cost of this asset.

Q. Did GPE's senior management perform a fair market valuation of Crossroads?

A. Yes. GPE made a "fair market valuation" of Crossroads in the February to May 2007 time frame. This valuation was an objective fair market valuation of a reasonable cost of Crossroads in early 2007. This valuation was released to the public on at least three occasions from May 2007 to August 2007 in successive GPE and Aquila's joint proxy statements and amendments filed with the SEC. GPE estimated that $51.6 million was the dollar amount of proceeds it would receive from the sale of Crossroads to an unrelated party in the then current market place. The following is a quote from the joint proxy statement and amendments:

> D - The pro forma adjustment represents the adjustment of the estimated fair value of certain Adjusted Aquila non-regulated tangible assets and reduction of depreciation expense associated with the decreased fair value. The adjustment was determined based on Great Plains Energy's estimates of fair value based on estimates of proceeds from sale of units to an unrelated party of similar capacity in the current market place. The preliminary internal analysis indicated a fair value estimate of Aquila's non-regulated Crossroads power generating facility of approximately $51.6 million. This analysis is significantly affected by assumptions regarding the current market for sales of units of similar capacity. The $66.3 million adjustment reflects the difference between the fair value of the combustion turbines at $51.6 million and the $117.9 million book value of the facility at March 31, 2007.
>
> Great Plains Energy management believes this to be an appropriate estimate of the fair value of the facility. The adjusted value will be depreciated over the estimated remaining useful lives of the underlying assets and could be materially affected by changes in fair value prior to the closing of the merger. An additional change in the fair value of the facility of $15 million would result in an additional change to annual depreciation expense of approximately $0.5 million. [GREAT PLAINS ENERGY & GMO Joint Proxy Statement/Prospectus the SEC on May 8, 2007, page 175]

Aquila's management, the then owner of Crossroads in 2007, apparently also believed the value of Crossroads was $51.6 million since it was part of the Joint Proxy Statement/Prospectus filed with the SEC in May 2007.

Q. Did GPE make any pro forma adjustments to the value of Crossroads on its Pro Forma Balance Sheet that is included in the May 8, 2007 proxy statement?

A. Yes, it did. At page 170 of this proxy statement is Great Plains Energy Incorporated's Pro Forma Combined Balance Sheet as of December 31, 2006. This balance sheet, attached as Schedule 2 to this testimony, shows in Pro Forma Adjustment D that GPE management estimated that it would have to writedown the value of GMO's Nonutility Plant by $67.255 million, with $66.3 million of this amount representing the estimated writedown of the Crossroads Energy Center. The remaining approximately $1 million was for GMO's other nonregulated assets.

Q. Did GPE transfer this $66.3 million valuation writedown of Crossroads from nonregulated plant?

A. Yes. On page 175 of the May 8, 2007 Proxy Statement in an explanation of Pro Forma Adjustment E to Goodwill, GPE made public that it expected that if the Aquila acquisition went forward GPE would have to transfer the $66.3 million Crossroads writedown in Adjustment D from Non-utility plant to Goodwill. Clearly, Great Plains Energy believed through out the acquisition process that the Crossroads Energy Center could not be valued at its book value and would be valued at a substantial discount from book value.

Q. In addition to the recognition by GPE's management that the value of Crossroads is significantly less than its book value, are there other indications that the fair market value of Crossroads is less than its current book value?

A. ** ______________________________________ — . **

NP

Q. Does the Commission require that assets acquired in a merger or acquisition be included in rate base at net original cost?

A. Yes. The Commission has consistently applied the net original cost standard when placing a value on assets for purposes of establishing a utility's rates.

Q. What did GPE believe was Crossroads' "cost" when it evaluated the purchase price to pay Aquila to acquire this asset?

A. In the Staff's opinion, based on the evidence that it has reviewed to date, the original cost to GPE to acquire the Crossroads asset would be the value at which GPE placed on Crossroads in early 2007, approximately $51.6 million.

Q. Do you have a final comment about GMO's proposal to include the cost of Crossroads in its rate base?

A. Yes. GPE has advised the Staff that it is opposed to include in GMO's rate base in this case the accumulated deferred income taxes attached to the Crossroads plant since its 2002 construction. The Staff understands that the reasons for this is that GPE does not believe GMO's ratepayers are entitled to the rate base reduction of the deferred taxes because Crossroads was not a regulated plant when these deferred taxes were accrued.

Staff believes GMO's ratepayers are entitled to the deferred tax rate base offset for Crossroads, if that plant is included in the regulated rate base of GMO. It is important to point out that while GPE is attempting to overstate GMO's rate base in an amount that GPE calculated to be approximately $66.3 million, GMO is also proposing that the accumulated deferred income taxes that are specifically attached to Crossroads should not be transferred to GMO's regulated operations. This appears on its face to be an inconsistency and an attempt by GPE to unfairly increase its cost of service in this case. GPE apparently believes it is fair to

GMO's regulated customers to transfer clearly overstated Crossroads plant values, which will artificially inflate GMO's rate base, but it would be unfair to its shareholders to include the actual deferred tax reserve balances specifically attached to Crossroads. This rationale on the part of GPE and its definition of fairness is consistent with the positions it has taken on several issues in its previous two rate cases, Nos. ER-2006-0314 and ER-2007-0291.

MERGER SYNERGIES AND TRACKING MECHANISM

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

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

Q. At page 8 of his Direct Testimony Mr. Ives states, "Due to the timing of the Company's direct filing in this case and the closing date of the acquisition, the synergy savings included in this filing were based on budgeted combined company expenditures compared to base year 2006 operating costs of Aquila and KCP&L adjusted for known and measurable changes, as described earlier in my testimony." Did KCPL provide any analysis to the Staff that compares 2006 base year costs to either actual or budgeted post-integration costs?

A. No.

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

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

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

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

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

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

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

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

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

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

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

Q. Does this conclude your rebuttal testimony?

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 Approval to Make Certain Changes in its Charges for Electric Service.	)))))	Case No. ER-2009-0090

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 22 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.

Chas R. Hyneman

Charles R. Hyneman

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

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

GREAT PLAINS ENERGY INCORPORATED

Unaudited Pro Forma Condensed Combined Balance Sheet

As of December 31, 2006

	Great Plains Energy Historical	Aquila Historical As Adjusted A	Pro Forma Adjustments	Great Plains Energy Combined Pro Forma
		(thousands)		
ASSETS				
Current Assets				
Cash and cash equivalents	$ 61,823	$1,384,499	$ (673,187) M	$ 773,135
Restricted cash	—	9,057		9,057
Funds on deposit	—	107,929		107,929
Receivables, net	339,399	117,861	(1,593) B	455,667
Fuel inventories, at average cost	27,811	39,102		66,913
Materials and supplies, at average cost	59,829	29,136		88,965
Deferred refueling outage costs	13,921	—		13,921
Refundable income taxes	9,832	—		9,832
Deferred income taxes	39,566	—		39,566
Derivative instruments	6,884	71,314		78,198
Other	11,717	6,616		18,333
Total	570,782	1,765,514	(674,780)	1,661,516
Nonutility Property and Investments				
Affordable housing limited partnerships	23,078	—		23,078
Nuclear decommissioning trust fund	104,066	—		104,066
Nonutility plant, net	—	124,938	(67,255) D	57,683
Other	15,663	—		15,663
Total	142,807	124,938	(67,255)	200,490
Utility Plant, at Original Cost				
Utility Plant	5,268,485	2,057,175		7,325,660
Less-accumulated depreciation	2,456,199	802,820		3,259,019
Net utility plant in service	2,812,286	1,254,355	—	4,066,641
Construction work in progress	214,493	52,989		267,482
Nuclear fuel, net of amortization	39,422	—		39,422
Total	3,066,201	1,307,344	—	4,373,545
Deferred Charges and Other Assets				
Regulatory assets	434,392	101,306	28,599 O	564,297
Goodwill	88,139	110,977	(110,977) K 293,068 E	381,207
Derivative instruments	3,544	43,412		46,956
Other	29,795	52,453	(2,800) I	79,448
Total	555,870	308,148	207,890	1,071,908
Total	$4,335,660	$3,505,944	$ (534,145)	$7,307,459

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

opening balance sheet in accordance with Emerging Issues Task Force (EITF) Issue No 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." Other merger-related charges may be incurred that do not meet the criteria in EITF Issue No 95-3, including employee termination and exit costs related to the acquired business, other integration-related costs, and the impacts of potential divestitures, if any, that may be required by governmental authorities.

3. Reclassifications

Certain reclassifications have been made to Aquila's historical financial statement presentation in order to conform to Great Plains Energy's historical financial statement presentation. These reclassifications had no impact on the historical income from continuing operations reported by Aquila.

Based on Great Plains Energy's review of Aquila's summary of significant accounting policies disclosed in Aquila's financial statements, the most significant difference in accounting policies noted relates to the accounting for planned major maintenance activities. Great Plains Energy early adopted the provisions of FASB Staff Position (FSP) No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities", which prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities. Aquila adopted the direct expense method, but, as permitted by regulatory authorities will continue to use the accrue-in-advance method of accounting for planned major maintenance activities. Upon consummation of the merger, further review of Aquila's accounting policies and financial statements may result in required revisions to Aquila's policies and classifications to conform to those of Great Plains Energy.

4. Pro Forma Adjustments

The pro forma adjustments reflect the allocation of the estimated purchase price at an amount equal to the preliminary estimate of their fair values to the Aquila pro forma current and non-current tangible assets, intangible assets, and current and non-current liabilities; the amortization expense related to the estimated definite-lived intangible assets; changes in depreciation and amortization expense resulting from the estimated fair value adjustments to net tangible assets; elimination of intercompany transactions; and the income tax effect related to the pro forma adjustments.

The pro forma combined provisions for income taxes do not reflect the amounts that would have resulted had Great Plains Energy and Adjusted Aquila filed consolidated income tax returns during the periods presented.

The pro forma adjustments included in the Unaudited Pro Forma Condensed Combined Financial Statements are as follows:

A—Great Plains Energy and Aquila As Adjusted Historical Presentation—The amounts presented for Aquila represent the Aquila historical amounts as adjusted as presented in the Unaudited Pro Forma Condensed Consolidated Balance Sheet and Statement of Income.

B—The pro forma adjustment represents the elimination of transactions between Great Plains Energy and Adjusted Aquila included in each company's historical balance sheet and statement of income. The underlying amounts in these adjustments relate primarily to purchases and sales of power, transmission and joint owner activities.

C—The pro forma adjustment represents the deferred tax impact related to the net amount assigned to the current and non-current assets and liabilities of Adjusted Aquila. This adjustment does not consider the goodwill in excess of the Adjusted Aquila historical carrying amount and the deferred tax impacts of the other pro forma adjustments. Income tax effects have been calculated using the Aquila statutory federal and blended state rate of 38.8% and could change based on changes in the applicable tax rates and finalization of the combined company's tax position.

D—The pro forma adjustment represents the adjustment of the estimated fair value of certain Adjusted Aquila non-regulated tangible assets and reduction of depreciation expense associated with the decreased fair value. The adjustment was determined based on Great Plains Energy's estimates of fair value based on estimates of proceeds from sale of units to an unrelated party of similar capacity in the current market place. The preliminary internal analysis indicated a fair value estimate of Aquila's non-regulated Crossroads power generating facility of approximately $51.6 million. This analysis is significantly affected by assumptions regarding the current market for sales of units of similar capacity. The $67.3 million adjustment reflects the difference between the fair value of the combustion turbines at $51.6 million and the $118.9 million book value of the facility at December 31, 2006. Great Plains Energy management believes this to be an appropriate estimate of the fair value of the facility. The adjusted value will be depreciated over the estimated remaining useful lives of the underlying assets and could be materially affected by changes in fair value prior to the closing of the merger. An additional change in the fair value of the facility of $15 million would result in an additional change to annual depreciation expense of approximately $0.5 million.

E—The pro forma adjustment represents goodwill, i.e. the excess of the purchase price over the fair value of the tangible assets of Adjusted Aquila acquired and liabilities assumed.

Under the purchase method of accounting, the total estimated purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values with the excess of the purchase price over the fair value recorded to goodwill. The fair value of these assets and liabilities is preliminary and subject to change pending additional information that may come to our knowledge and restructuring decisions made upon completion of the merger. The following represents the preliminary adjustments to the assets acquired and liabilities assumed:

(Amounts in Thousands)	
Total preliminary estimated purchase price (Note 1)	$1,724,162
Less: Book value of Aquila assets acquired and liabilities assumed	1,590,941
Excess of purchase price over net book value of assets acquired	$ 133,221
Adjustments to goodwill related to:	
Elimination of historical goodwill	$ 110,977
Non-regulated tangible assets	67,255
Regulatory assets-pensions	(28,599)
Other current liabilities	15,000
Deferred tax liabilities	(4,786)
Total adjustments	159,847
Total adjustment to goodwill	$ 293,068

In Great Plains Energy's opinion, the fair value of assets, liabilities and long-term debt assumed will approximate book value in a rate-regulated merger. Great Plains Energy's management analyzed the merger agreement for potential intangible assets and none were identified. For purposes of the pro forma balance sheet, Great Plains Energy's management assumed the cost of Aquila's long-term debt will be recovered in rates after consummation of the merger. Accordingly, no adjustment has been made to fair value Aquila's long-term debt in the pro forma historical financials presented.

Pursuant to SFAS 142, "Goodwill and Other Intangible Assets", goodwill is not amortized; rather, impairment tests are performed at least annually or more frequently if circumstances indicate an impairment may have occurred. If an impairment exists, the goodwill is immediately written down to its fair value through a current charge to retained earnings. Accordingly, the goodwill arising from the merger will be subject to an impairment test at least annually.