

Exhibit No.:	
Issues:	<i>Thermal North America / Business Strategy</i>
Witness:	Riaz Q. Siddiqi
Sponsoring Party:	Thermal North America, Inc.
Type of Exhibit:	Direct Testimony
Case No.:	HM-2004-0618
Date Testimony Prepared:	September 1, 2004

**MISSOURI PUBLIC SERVICE COMMISSION
UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY
OF
RIAZ Q. SIDDIQI**

**TRIGEN-KANSAS CITY ENERGY CORP. and
THERMAL NORTH AMERICA, INC.**

CASE NO. HM-2004-0618

September 2004

1 **DIRECT TESTIMONY OF**

2 **RIAZ Q. SIDDIQI**

3 **TRIGEN-KANSAS CITY ENERGY CORP.**

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5
6 **Q. Please state your name and business addresses.**

7 A. My name is Riaz Q. Siddiqi. My business address is Sowood Capital Management
8 LP, 600 Travis Street, Suite 2775, Houston, Texas 77002.

9 **Q. By whom are you employed, and in what position?**

10 A. I am Vice President of Thermal North America Inc. ("TNAI"). In that capacity, I am
11 responsible for TNAI strategic plan development and implementation, and oversight of TNAI
12 investments. I also serve as Chief Operating Officer and Managing Director of Wharton
13 County Power Partners, L.P., one of Sowood Commodity Partners Fund LP's investments,
14 and I am employed by Sowood Capital Management LP ("Sowood") in the capacity of
15 Senior Managing Director.

16 **Q. What is the purpose of your testimony?**

17 A. The purpose of my testimony is to describe (1) TNAI's team, assembled to purchase
18 and operate Trigen-Kansas City Energy Corporation ("Trigen KC") from Trigen Energy
19 Corporation; (2) the commitment of TNAI to this business in contrast to the changed
20 strategic focus and stated business strategy of Tractebel North America, Inc. ("Tractebel"),
21 its current manager; (3) the functional roles played by each part of the TNAI team which will
22 assure that the ownership transition is smooth and that Trigen KC continues to provide

1 reliable service at reasonable cost; and (4) the advantages and public interest benefits that
2 TNAI believes it brings to Trigen KC.

3 **Q. Please summarize your educational background and work experience.**

4 A. I have a Bachelors Degree in Electrical Engineering from the Pakistan University for
5 Engineering and Technology and a Masters in Business Administration from Mississippi
6 State University.

7 I started my career in 1979 at Southern Company, where I was part of a team that
8 developed and supported the first computerized corporate planning system of its kind for the
9 electric utility industry. In 1980, I joined San Diego Gas and Electric's treasury department,
10 where I served as Financial Analyst supporting the development of models for investment
11 decision making. In 1981, I joined Georgia Power Company's Bulk Power Markets
12 department, where I was part of the first organized unit that institutionalized off-system bulk
13 power sales to neighboring power systems. We sold about 5,000 megawatts of coal fired
14 generating capacity to electric utilities in Florida and Texas. I also participated in sale
15 leaseback transactions related to nuclear and coal fired power generating facilities. I was
16 intimately involved with the development of Georgia Power's strategic plans, and also
17 worked very closely with Georgia Power's marketing and sales organization to design
18 electricity products to compete in the Georgia power market.

19 In 1989, I joined the Electric Power Research Institute ("EPRI") as a Project
20 Manager. At EPRI, I started the Market Management Research program which conducted
21 research in retail and wholesale electricity markets. I worked with the New York Mercantile
22 Exchange in the creation of the Western Electricity Futures contracts, and with the Western
23 System Power Pool to enhance the liquidity of the physical power markets. In the retail area,

1 I organized and spearheaded the electricity real time pricing programs in cooperation with
2 electric utilities like Niagara Mohawk, and Georgia Power Company. The focus of the Retail
3 Market Management program was to create menus of price and quantity based electricity
4 products that would attempt to achieve the economic benefits found in competitive markets,
5 all this being achieved under monopoly regulation.

6 In 1995, I joined Cinergy, a multi-state utility holding company as General Manager,
7 Market Management Services. In this capacity, I had responsibility for marketing for the
8 Cinergy system. At Cinergy, I held several positions of increasing responsibility, including
9 Vice President, Cinergy Services, and Managing Director, Cinergy Capital and Trading.
10 I initiated the risk management program at Cinergy. I worked with the Board of Directors,
11 the CEO, the CFO, and other senior management of Cinergy to get risk management
12 protocols approved by the Board. I also managed Cinergy's western power portfolio.
13 I worked with the Gas division to put in place pilot gas hedging schemes for Cincinnati Gas
14 and Electric. I also participated in acquisitions; notable among those was the acquisition of
15 an overseas electric distribution and sales business in the United Kingdom. I also developed
16 the concept and the initial functionality to offer services called national energy services, to
17 multi-state customers, under varying degrees of deregulation. I also oversaw the
18 development of Cinergy's real-time electricity pricing program and then rolled it out to
19 Cinergy's largest industrial and commercial customers. I was also part of the senior
20 management team that developed Cinergy's regulatory strategy to support its advocacy of
21 competition in electricity markets at the state and national level. I then started Cinergy's
22 Power and Trading's, Power and Capital Services unit which originated several structured
23 transactions that involved power contract monetizations and a distressed asset purchase.

1 In 1999, I started a company, Capstone Global Energy, which focused on providing
2 consulting and deal intermediation services to power market participants in the U.S. and
3 Europe. I put together a team of consultants that worked very closely with the senior
4 management of Preussenelektra, (now called EON), which was one of the largest energy
5 service companies in Germany at the time. At Capstone, I served as CEO. I served as CEO
6 of Current Capital until the middle of 2003. In 2003, Current Capital closed an acquisition of
7 peaking power plant in Texas, on behalf of a company called Wharton County Power
8 Partners, L.P. (“WCPP”). I currently serve as COO and Managing Director of WCPP. In
9 May 2003, I joined Canam Inc., a consulting and advisory firm that was working for Harvard
10 Management Company, Inc. (“HMC”) to source, structure and assist in due diligence of
11 transactions in the power markets. Since July 1, 2004, I have joined Sowood as Senior
12 Managing Director. Sowood is an asset management firm that manages a hedge fund and
13 also manages some assets on behalf of HMC. At Sowood, my responsibilities are power
14 origination, risk management and asset management for the commodities portfolio.

15 **Q. Please explain what TNAI is, its ownership structure, and what your role is at**
16 **TNAI and your role with Trigen KC.**

17 A. TNAI was formed in 2004 to acquire the nine district heating businesses being sold
18 by Suez, S.A. in this transaction (the “DHCS Businesses”), and to concentrate upon and
19 expand the district heating business nationally and in each market in which its district heating
20 systems are located. TNAI is a private holding company wholly-owned by Thermal North
21 America Holdings, LLC. (“Thermal Holdings”). The members of Thermal Holdings are
22 Sowood Commodity Partners Fund II LP, Lance Ahearn and Herb Zien. The fund owns
23 99.99986% of the ownership interests of Thermal Holdings while, as discussed further

1 below, Lance Ahearn and Herb Zien each own 0.00007% of the ownership interests of
2 Thermal Holdings.

3 I note that this ownership structure of TNAI became effective on July 1, 2004, which
4 is after the date on which the application in this proceeding was filed. An attachment to the
5 application noted that TNAI was wholly owned, indirectly, by Harvard. (Harvard's formal
6 corporate name is the President and Fellows of Harvard College, and I will refer to it as
7 "Harvard".) Harvard has contributed its interest in TNAI to Sowood Commodity Partners
8 Fund II LP as of July 1, 2004 in exchange for limited partnership interests in Sowood
9 Commodity Partners Fund II LP. Virtually all of the ownership interests in Sowood
10 Commodity Partners Fund II LP are in these limited partnership interests, all of which are
11 held by affiliates of Harvard.

12 Sowood Commodity Partners Fund II LP is managed by Sowood Capital
13 Management LP, defined above as "Sowood." Sowood Commodity Partners Fund II LP has
14 capital commitments of approximately \$460 million.

15 At TNAI, I am responsible for strategy development and implementation, as well as
16 oversight of our investment in the DHCS Businesses and any other future investments.

17 On TNAI's behalf, after closing of the transaction I will become a member of the
18 board of directors of Trigen KC (the "Trigen KC Board"), as TNAI's ownership control of
19 Trigen KC will be exercised through the Trigen KC Board. The operating officers of Trigen
20 KC will report to the Trigen KC Board, and the Trigen KC Board will set the operating
21 parameters and policies for Trigen KC and -- as is consistent with general corporate law --
22 define the limits of discretionary authority within which Trigen KC's officers and contractors

1 may operate. The members of the Trigen KC Board and the role of contractors are discussed
2 further below.

3 **Q. Mr. Barry describes in his testimony how the DHCS Businesses no longer fit**
4 **Tractebel's corporate model and plan. Do the DHCS Businesses fit with TNAI's**
5 **corporate model and plan?**

6 A. Yes. As Mr. Barry describes in his testimony, Tractebel's focus has shifted to
7 businesses that fit within a vertically integrated value chain, from natural gas supply to retail
8 energy sales. The DHCS Businesses fall outside that focus. In contrast, TNAI will not have
9 that problem. TNAI and its investments are focused solely on the thermal district industry
10 and related businesses. TNAI has a long-term view of, and total commitment to, the thermal
11 district business. The DHCS Businesses fall squarely within TNAI's corporate focus, with
12 TNAI concentrating on expanding its thermal business both nationally and in the markets
13 where the DHCS Businesses are now located.

14 **Q. Mr. Barry describes the DHCS Businesses as requiring a very "personal"**
15 **management orientation that Tractebel is no longer able to provide. Will TNAI be**
16 **organized in a way that will promote this management orientation?**

17 A. Yes. TNAI agrees with Mr. Barry that each of the DHCS Business can only be
18 successful when its general manager and marketing staff is visible and empowered and
19 focused on serving customer needs. This management orientation is crucial to TNAI's
20 overall success, which is premised upon our ability to build a reputation for superior quality
21 and service in the industry.

22 The TNAI team is able to deliver on this promise. In particular, ThermalSource, LLC
23 ("ThermalSource") will be the entity which manages the DHCS Businesses, and it brings the

1 strengths I have described to the team. Mr. Barry notes, for example, the impact that Herb
2 Zien had in shaping their evaluation of TNAI's bid for the DHCS Businesses. Herb has a
3 wealth of practical, hands on experience in the thermal industry and, as described further in
4 Mr. Ahearn's testimony, will be central to ThermalSource operations and will be an officer
5 of Trigen KC. ThermalSource will also become the employer of Brian Kirk who will
6 continue to function as General Manager of Trigen KC. These ThermalSource employees,
7 under the terms of the Corporate Services Agreement described more fully below, will have
8 the expertise, the resources, and the closeness to customers needed to build a reputation for
9 value, service and reliability.

10 Part of this corporate strategy includes providing more value to thermal district
11 customers on both the supply and demand side. Although specific programs have not been
12 developed, that value will be derived from fuel cost strategies and more focus upon customer
13 demand-side efficiencies. TNAI's business strategy is premised upon nationally developing
14 best practices for customer service and facilities management. It is also premised upon
15 obtaining the cost stability and reliability benefits that can be realized by subcontracting
16 operations and maintenance under a well-conceived "O&M" contract with a highly regarded,
17 Fortune 100 facility operator, Johnson Controls, Inc. ("JCI"), which is discussed further
18 below.

19 **Q. In what other ways would you contrast the differences that will prevail under**
20 **the circumstance of continued ownership of Trigen KC by Tractebel compared to the**
21 **circumstance of future ownership of Trigen KC by TNAI?**

22 A. Mr. Schopman and Mr. Barry describe in detail in their respective statements the way
23 Trigen KC no longer fits into Tractebel's corporate strategy and the negative impact that has

1 had. Under TNAI ownership, that situation would be reversed. Trigen KC would become an
2 important part of a corporate family dedicated to the thermal district business. Under TNAI,
3 Trigen KC will have a parent holding company devoted to owning and operating district
4 energy systems.

5 In concrete terms, Trigen KC will no longer have to look to the Houston office of a
6 diverse energy company, or ultimately to an overseas board of directors, for resources and
7 direction and support. Trigen KC's officers and directors will no longer be separated by
8 several layers of management from key corporate decision makers. Under new ownership,
9 Trigen KC will no longer be competing for attention: It will be the center of attention.

10 **Q. Would the difference between current ownership and ownership by TNAI affect**
11 **regulatory oversight?**

12 A. Only in a positive manner. For example, Trigen KC's books will be brought back
13 from Houston to Kansas City and we have made a commitment to maintain Trigen KC's
14 books in a manner consistent with Commission requirements. We have also filed the central
15 agreements in this docket, including an affiliated interest agreement, which provide a clear
16 picture of how the TNAI team will operate the utility.

17 **Q. Mr. Barry spoke of four areas that stood out in TNAI's bid for the DHCS**
18 **Businesses. What comments do you have regarding those first of those strengths, the**
19 **financial resources and top-rated credit behind TNAI's offer?**

20 A. We view our financial resources as an important part of what we bring to Trigen KC
21 ownership. As described above, TNAI's ultimate owner, Sowood Commodity Partners Fund
22 LP, is in a position to access substantial equity market participants and is in a strong position
23 to provide additional capital for needed investments promising a reasonable return.

1 **Q. You have already commented on the second area Mr. Barry mentioned, TNAI's**
2 **commitment to district energy business and a customer-centered business plan. What**
3 **about the third area, the vision, leadership and enthusiasm for the business**
4 **demonstrated by Mr. Zien?**

5 A. Well as I stated above, the TNAI team was created to focus on the thermal district
6 business. Mr. Zien and Mr. Ahearn of ThermalSource have played an integral role in
7 creating that vision and will continue to play a key role under the terms of the Corporate
8 Services Agreement described below.

9 **Q. The final area mentioned by Mr. Barry was TNAI's willingness to maintain**
10 **continuity with the current employee group. How will that continuity be structured?**

11 A. TNAI plans to rely heavily on current employees to operate Trigen KC. Most
12 management employees like Brian Kirk, for example, are expected to become
13 ThermalSource employees, while most of the operations employees are expected to become
14 employees of JCI, as described in more detail below and in the testimony of Mr. Ahearn.

15 **Q. How will the acquisition of Trigen KC be accomplished?**

16 A. The acquisition of Trigen KC will be accomplished through a Purchase and Sale
17 Agreement under which TNAI will purchase all of Trigen Energy Corporation's stock in
18 United Thermal Corporation, which will remain intact as an inactive, intermediate holding
19 company. TNAI will thus have control of 100% of the stock of Trigen KC. Overall, TNAI
20 is purchasing all of Trigen Energy Corporation's district heating and cooling systems
21 businesses throughout the United States, including ownership of approximately 23 direct and
22 indirect subsidiaries. These thermal district energy businesses, on a consolidated basis,
23 represent the largest single portfolio of district energy systems in the United States.

1 **Q. As Mr. Barry described it, TNAI can continue to operate Trigen KC without**
2 **interruption or diminution in the quality of service. How will TNAI accomplish that?**

3 A. First, as mentioned above, we do not expect the key people who are in place today
4 operating Trigen KC to change. Simply continuing with this deep pool of institutional
5 knowledge will help make the transition process one that will not have any negative impact
6 on customers and services. Second, as also described by Mr. Barry, Tractebel and Trigen
7 will offer a menu of services to TNAI under the terms of a transition services agreement.
8 To the extent TNAI perceives any temporary gaps in its ability to ensure continuity, this
9 agreement should enable TNAI to fill them. TNAI and Tractebel will work together as
10 closing approaches to plan and implement a transition process. Indeed this process has
11 already begun. Third, and more generally, Mr. Ahearn's testimony describes the extent of
12 the continuity we expect in Trigen KC's operation, not just in the transition period but over
13 the long-term as well.

14 **Q. Please summarize your views as to why the transaction is in the public interest.**

15 A. Approval of the sale of stock of Trigen KC to TNAI is in the public interest, in my
16 view, because the interest of this regulatory body as well as the customers of Trigen KC will
17 be best served by having the operation of Trigen KC under the control of a U.S. based
18 holding company whose primary focus, as described above, is the provision of thermal
19 district services. Because TNAI's long-term business strategy depends upon building a
20 reputation as a leading operator of thermal district systems, it simply cannot allow Trigen KC
21 to operate at anything less than industry benchmark levels.

22 The proposed transaction is in the public interest because, as has been testified to by
23 Tractebel/Trigen witnesses Mr. Barry and Mr. Schopman and discussed above, Tractebel and

1 its French based holding company, Suez, has concluded that operating thermal district
2 businesses in the United States is not compatible with its ongoing business plan. As such,
3 continued ownership by Tractebel would essentially commit the Commission to the difficult
4 process of vigilantly regulating a reluctant owner that prefers not to be in the thermal district
5 business.

6 The proposed transaction is in the public interest because the business plan of TNAI
7 for the operation of its thermal district companies is sound, and assures that the high
8 standards will be applied on an ongoing basis for the benefit of operations of Trigen KC.

9 Also, it is in the public interest because the nature of the contracts to operate and
10 manage the various operating companies should necessarily achieve national synergies and
11 economies of scale. The allocated cost of such operations from ThermalSource and JCI, as
12 explained below and in the testimony of Mr. Ahearn, should result in cost savings as
13 compared to the operation of Trigen KC on a stand alone basis. The potential for such stand
14 alone operations exists: Trigen KC could find itself operating on a stand alone basis if
15 approval in this docket is not received, as the parties are prepared to go forward with the sale
16 of the DHCS Businesses even in the absence of Trigen KC.

17 **Q. In the next part of your testimony, I would like you to describe in more detail the**
18 **role of each of the members of the TNAI team. First, please provide a brief overview of**
19 **the role that TNAI will play as Trigen KC's owner.**

20 A. TNAI will exercise control of Trigen KC through control of the Trigen KC Board,
21 which will be composed of TNAI personnel. As mentioned above, the operating officers of
22 Trigen KC will be appointed by and will report to the Trigen KC Board, which in turn will

1 set the operating goals and policies for Trigen KC and define the parameters of discretionary
2 authority within which Trigen KC's officers and contractors may operate.

3 **Q. Who are TNAI's board members and officers and what relevant experience do**
4 **they have?**

5 A. As of July 1, 2004, the Board members of TNAI are Rick Dowd, Megan Kelleher,
6 Stuart Porter and Riaz Siddiqi. The individuals are also the officers of TNAI, and their titles
7 and biographies are provided below. I note that the application in this proceeding was filed
8 prior to July 1, 2004, before these positions became effective. This occurred concurrent with
9 the change in the ownership structure of TNAI discussed further above. Thus, the
10 information herein should be considered a replacement to Appendices K and L that were
11 attached to the application:

12 **Stuart Porter – President** – Mr. Porter received a Bachelor of Arts degree in
13 Economics from the University of Michigan in 1987 and an M.B.A. from the University of
14 Chicago, Graduate School of Business in 1994. From 1987 to 1989 Mr. Porter was
15 employed by Cargill Incorporated in Minnetonka, Minnesota as a trader in the Financial
16 Markets Division. From 1990 through 1994, Mr. Porter was a self-employed trader at the
17 Chicago Board of Trade. Upon receiving his M.B.A. in 1994, Mr. Porter joined the J. Aron
18 Division of Goldman Sachs as an associate in the metals division. While at J. Aron he
19 worked on the Goldman Sachs Commodity Index desk within the metals group. From 1995
20 to 1996 Mr. Porter worked as the European time zone trader for Bacon Investments. Since
21 1996, Mr. Porter has been employed as a Vice President and Portfolio Manager for
22 commodities at Harvard Management Company. At HMC, Mr. Porter focused on relative
23 value transactions in commodities and structured private transactions in the commodity

1 sector. The private transactions include investments in pipelines, hedged oil and gas
2 reserves, retail and wholesale energy providers as well as distressed investments in the metals
3 sector. All of the private investments have been driven by either implementation of
4 commodity hedges as risk mitigants or the implementation of “real option” analysis.

5 **Megan Kelleher – Vice President** – Ms. Kelleher received a Bachelor of Arts from
6 Stonehill College in 1991; Juris Doctor from New England School of Law in 1994; and
7 Master of Business Administration from Boston College in 2001. Prior to joining HMC, Ms.
8 Kelleher was a Contract Manager for the Commonwealth of Massachusetts. She began work
9 at HMC in 1996 in the Risk Management Department. Her experience there included
10 negotiation of contracts for international and domestic investment relationships, including
11 ISDA master agreements, global and domestic repurchase agreements, futures and options
12 agreements, custody contracts, loan participations, and private placement documentation. She
13 is experienced with legal and business risk analysis of investment instruments for portfolio
14 managers and has assisted with the establishment of risk and regulatory compliance standards
15 and procedures. In 1999, Ms. Kelleher moved to an investment role in the commodities
16 portfolio of HMC where she analyzed, valued and negotiated private equity and structured
17 finance transactions. Concurrently, Ms. Kelleher participated in the international equity
18 portfolios, dealing with legal, regulatory and strategy issues surrounding proposed
19 restructurings of closed-end funds. Ms. Kelleher also served as a member of the HMC
20 Personnel Committee.

21 **Riaz Siddiqi – Vice President** – My background is explained above.

22 **Rick Dowd – Secretary** – Mr. Dowd received a Bachelor of Science degree in
23 Interdisciplinary Engineering & Management from Clarkson University in Potsdam, NY in

1 1981. From 1981 through 1984, he worked as a Sales Engineer in General Electric's
2 Electrical Distribution Division. In 1986, Mr. Dowd earned a Masters of Science degree in
3 Management, concentration in Finance, from the Sloan School at MIT. Mr. Dowd spent the
4 next 10 years as either Vice President or Senior Vice President in the Fixed Income Divisions
5 of the investment banking firms CS First Boston, Kidder Peabody and DLJ. He was
6 involved in the structuring and sales of mortgage derivative securities, as well as high yield
7 and investment grade corporate bonds. In June 1996, Mr. Dowd joined Key Global Finance,
8 a Boston based investment banking boutique, as Vice President of Syndications. Since 1998,
9 Mr. Dowd has served as Chief Financial Officer for both public and private companies.
10 Those have included: The CanFibre Group, a manufacturer of a green medium density
11 fiberboard; Mapletree Networks, a developer and manufacturer of network access technology
12 to the telecom industry worldwide; and Wellspring International, a provider of a wireless
13 sub-metering technology for water utility cost recovery for the multi-family housing market.
14 In these positions, Mr. Dowd has been responsible for accounting, finance, information
15 technology, strategic direction and human resources. Mr. Dowd earned a Chartered
16 Financial Analyst designation in 1997.

17 **Q. How will TNAI provide access to capital for Trigen KC's needs?**

18 A. TNAI is in a position, both directly and indirectly through its owner Sowood
19 Commodity Partners Fund II LP, to access equity markets and therefore is in a strong
20 position to provide additional capital for needed investments in the thermal district systems
21 that have reasonable prospects for earning a fair return on equity. Further, Sowood
22 Commodity Partners Fund II LP already has capital commitments of approximately \$460
23 million which could provide a source of additional capital. If debt is required, it will be

1 raised directly in accordance with regulatory requirements by Trigen KC and each operating
2 company, and those companies might receive credit support from TNAI.

3 **Q. Is the combination of Trigen KC with the other operating companies being**
4 **acquired by TNAI helpful in gaining access to capital?**

5 A. Yes. The combined strength of the assets of the other operating companies provide a
6 stronger balance sheet for TNAI than would Trigen KC standing alone. That consolidated
7 balance sheet allows TNAI to support the credit needs of the operating companies.

8 **Q. Since that combined strength is already present in the DHCS Businesses today,**
9 **is the transaction necessary to create such combined strength?**

10 A. No, because the DHCS Businesses admittedly are currently under control of a single
11 owner. However, unless the transaction is approved, that could change. TNAI is prepared to
12 purchase all of the other DHCS Businesses in the event the proposed acquisition of Trigen
13 KC is not approved, and if so there is no guarantee that Suez would find another, more
14 acceptable buyer for Trigen KC. In that case, this combined strength could be lost and
15 Trigen KC will remain with an owner that has no long term interest in its future.

16 **Q. Please provide a brief description of the role that the other service providers,**
17 **ThermalSource and Johnson Controls Inc., will play in regard to Trigen KC.**

18 A. Johnson Controls Inc. ("JCI") will provide substantial O&M services to Trigen KC
19 under an O&M agreement. The employees who perform this work will largely be the
20 employees who currently operate Trigen KC and who are currently employed by Tractebel
21 North America Services, Inc. The O&M agreement and JCI are described in detail in the
22 testimony of Lance Ahearn.

1 The employees of ThermalSource (some of whom are currently employed by Trigen
2 or its affiliates) will play an important role in Trigen KC as has already been mentioned.
3 First, under the Corporate Services Agreement, ThermalSource will provide an array of
4 management, accounting, legal and other similar services to Trigen KC. As part of that
5 agreement, ThermalSource personnel will also serve as operating officers of Trigen KC. For
6 example, the current plant manager responsible for running Trigen KC, Kevin Brown, will
7 become a ThermalSource employee at closing and will continue in that role.

8 **Q. Please discuss the qualifications of ThermalSource to perform its role.**

9 A. TNAI concluded that ThermalSource, with its management team and business
10 approach to district energy systems, offered the best option for managing Trigen KC and the
11 other DHCS Businesses. The testimony of Mr. Ahearn provides details about
12 ThermalSource, its employees and its qualifications.

13 **Q. Please describe the key terms of the Corporate Services Agreement.**

14 A. The Corporate Services Agreement constitutes the agreement between Trigen KC and
15 ThermalSource for the provision by ThermalSource of various corporate services to Trigen
16 KC. It is an affiliated interest agreement, requiring this Commission's approval, because key
17 officers of ThermalSource, Lance Ahearn and Herb Zien, will also serve as officers of Trigen
18 KC. As Trigen KC officers they will, of course, operate under the direction of Trigen KC's
19 Board. ThermalSource will have approximately fifty employees, and it will provide the
20 range of corporate services described in the Corporate Services Agreement. These are the
21 same types of services currently provided to Trigen KC by Tractebel. A similar agreement
22 will be entered into between ThermalSource and each of the DHCS Businesses being
23 acquired by TNAI.

1 The services to be provided to Trigen KC are described in **Exhibit A** to the Corporate
2 Services Agreement and are discussed in Section 3.1. The cost of each of the services
3 provided by ThermalSource will be allocated back to each of the operating companies on a
4 proportionate and pro rata basis, as discussed in Section 3.2 of the Corporate Services
5 Agreement and its Exhibit C. The allocation to Trigen KC, a regulated utility, will be on a
6 most favored company basis such that the allocation to Trigen KC will be no less favorable
7 than the allocation to any of the other operating companies, as required by section 9.1 of the
8 Corporate Services Agreement.

9 **Q. You mentioned that the ThermalSource will provide to Trigen KC services**
10 **similar to those provided today by Tractebel. Please describe that similarity in more**
11 **detail.**

12 A. The testimony of Mr. Schopman describes the role that Tractebel plays in providing
13 services to each of the DHCS Businesses. ThermalSource will not provide all of the same
14 services, as some will be provided by JCI as described by Mr. Ahearn. But the management
15 functions provided by ThermalSource are similar to those provided to Trigen KC today by
16 Tractebel.

17 **Q. Will ThermalSource exercise control of Trigen KC?**

18 A. While ThermalSource's role is important, particularly through its officers who will
19 also be officers of Trigen KC, ThermalSource remains a contractor under the control of the
20 Board of Directors of Trigen KC, the regulated utility. The Board, controlled by TNAI, has
21 the authority to fire ThermalSource or remove Trigen KC officers; the Board also sets limits
22 on the types of matters over which ThermalSource employees would have discretion.
23 Certain specific restrictions on the authority of ThermalSource and its employees, acting as

1 officers of Trigen KC, to act on behalf of Trigen KC are enumerated in Exhibit B to the
2 Corporate Services Agreement.

3 **Q. How will the Corporate Services Agreement affect the location and manner in**
4 **which Trigen KC's books and records are maintained?**

5 A. Section 4.2 of the Corporate Services Agreement requires that Trigen KC's books and
6 records will be maintained in a location and manner consistent with Commission
7 requirements. We thus expect, for example, that a full and current set of Trigen KC's
8 regulatory books will be maintained in Kansas City.

9 **Q. Please describe all financial arrangements between ThermalSource and Trigen**
10 **KC.**

11 A. ThermalSource payments from Trigen KC will be made exclusively pursuant to the
12 terms of the Corporate Services Agreement, as approved by the Commission.

13 **Q. Please describe all financial arrangements between TNAI and ThermalSource**
14 **and explain all sources of ThermalSource compensation, including the compensation of**
15 **ThermalSource officers.**

16 Q. As discussed above, the key officers of ThermalSource, Lance Ahearn and Herb Zien,
17 have a very small equity interest in Thermal North America Holdings, LCC, which in turn
18 owns all of the TNAI stock. If certain performance benchmarks are achieved, Mr. Ahearn
19 and Mr. Zien may each be entitled to receive up to 2.5% of all distributions above a specified
20 level that are made by Thermal Holdings. The salaries of ThermalSource employees,
21 including its officers, will be allocated to Trigen KC and the other operating companies as
22 required in the respective corporate services agreement for each company. ThermalSource
23 will only allocate costs to Trigen KC for services it provides. All costs for services provided

1 to TNAI and other services for which Trigen KC receives no value will be compensated
2 directly by TNAI.

3 **Q. How will this arrangement benefit Trigen KC ratepayers?**

4 A. ThermalSource will be a service company spreading the overhead costs across the
5 operating companies, thus reducing the cost that would otherwise be borne by Trigen KC if it
6 were required to maintain its own internal service structure. The types of services being
7 provided by ThermalSource, such as back office accounting, legal, and business
8 management, are particularly well suited to sharing across a system of similar operating
9 companies. Keeping a tight rein on costs in this manner will benefit ratepayers by helping
10 delay the need for future rate increases.

11 **Q. Is TNAI seeking approval for any change in rates in this docket?**

12 A. No.

13 **Q. As you may know, the propensity of an applicant to operate safely and legally**
14 **can be relevant to Commission review of an application like the one filed in this docket.**
15 **Do you have anything to state on this subject?**

16 Q. Neither TNAI nor its principals have been penalized for violations of any safety or
17 regulatory laws.

18 **Q. Does this complete your direct testimony?**

19 A. Yes.