

AFFIDAVIT

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

Dennis R. Williams
Dennis R. Williams

State of Missouri
County of Jackson

SUBSCRIBED and sworn to before me this 3rd day of January 2005.

Terry D. Lutes
Notary Public
Terry D. Lutes

My Commission Expires: 8-20-2008



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

Exhibit No.	
Issue:	Financing & Affiliate Transaction
Witness:	Dennis R. Williams
Sponsoring Party:	Aquila, Inc.
Type of Exhibit:	Direct Testimony
Case No.:	EO-2005-0156
Date Testimony Prepared:	January 13, 2005

MISSOURI PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

DENNIS R. WILLIAMS

ON BEHALF OF

AQUILA, INC.

January 13, 2005

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF DENNIS WILLIAMS
ON BEHALF OF AQUILA, INC.**

1 Q. Please state your name and business address.

2 A. My name is Dennis R. Williams. My business address is 10700 E. 350 Hwy.,
3 Kansas City, Missouri 64138.

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

5 A. I am employed by Aquila, Inc. ("Aquila" or "Company") as Vice President –
6 Electric Regulatory Services for our electric network operations.

7 Q. Briefly describe your education and work experience.

8 A. I graduated in 1974 from Central Missouri State University, receiving a Bachelor
9 of Science in Business Administration degree – Summa Cum Laude with majors
10 in Accounting and Finance. After graduation I was licensed in Missouri as a
11 Certified Public Accountant and employed as an auditor in the regulated
12 industries division of Arthur Anderson & Company. After leaving Arthur
13 Anderson, I was employed for five years with the regulatory consulting firm of
14 Lubow, McKay, Stevens and Lewis. Since 1986 I have been employed by Aquila
15 in various capacities.

16 Q. What is the nature of the Company's operations in the State of Missouri?

17 A. Aquila is a Delaware corporation having its principal office and place of business
18 at 20 W. 9th St., Kansas City, Missouri. It is authorized to conduct its business in
19 Missouri through its Aquila Networks-MPS and Aquila Networks-L&P operating
20 divisions and is engaged in providing regulated electrical, natural gas and
21 industrial steam service in those areas of the state certificated to it by the

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 Missouri Public Service Commission ("Commission"). It is authorized to do
2 business in the State of Missouri as a foreign corporation as evidenced by
3 documentation on file with the Secretary of State of the State of Missouri.

4 Q. What is the nature of your responsibilities as Vice President – Electric Regulatory
5 Services?

6 A. I have overall responsibility for matters involving electric operations before state
7 regulatory commissions in Missouri, Kansas and Colorado.

8 Q. Where does Aquila Networks-MPS have its operations?

9 A. Aquila Networks-MPS is one of two public utility operating divisions of Aquila
10 doing business in the State of Missouri. It provides regulated electric and natural
11 gas utility services to residential, commercial and industrial customers in the
12 State of Missouri, primarily in the central West region of the state in those areas
13 certificated to it by the Commission. It does so pursuant to rate schedules and
14 tariff sheets on file with and approved by the Commission.

15 Q. What is the purpose of your testimony in this case?

16 A. I will describe the nature of the transactions that are the subject of the Application
17 in this case and provide the reasons why the Commission should grant the relief
18 requested by the Company.

19 Q. Are you familiar with the subject matter of this case?

20 A. Yes I am. This case involves an Application by Aquila for various determinations
21 by and approvals from the Commission related to the construction of an electric
22 power generation station under construction in an area near the City of Peculiar

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 in Cass County, Missouri. In this regard, the Company, through its Aquila
2 Networks-MPS operating division in Missouri, will acquire from an affiliated entity
3 three (3) 105 megawatt ("MW") natural gas-fired combustion turbines to provide
4 electric power for its customers. In conjunction with the construction of the new
5 electric power station, Aquila will enter into a series of agreements with the City
6 of Peculiar, Missouri, the purpose of which is to finance the construction costs
7 with tax-advantaged Chapter 100 revenue bonds.

8 Q. What has caused Aquila to commence with the construction of a new power
9 generation station in its Aquila Networks-MPS service area?

10 A. It is anticipated that the output from the new power station will replace a
11 purchase power contract that expires in June of 2005. The current contract is for
12 500 MW of capacity during the summer months and 200 MW in the winter. With
13 the increase of demand in the Aquila Networks-MPS service area, including
14 portions of Cass County, and the need for year-round peaking capability, the
15 three (3) combustion turbines will provide better flexibility to meet the needs of
16 Aquila's customers. The additional capacity need of approximately 200 – 250
17 MW are planned to be met with purchased power contracts that resemble more
18 of a base and intermediate load type units.

19 Q. How did Aquila go about making a determination about its resource needs?

20 A. Aquila, on behalf of its Aquila Networks operating divisions in Missouri issued
21 several requests for proposals and conducted multiple independent solicitations
22 seeking in excess of 500 MW of power supply beginning in 2005; 500 MW

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 replacing an existing purchase power agreement from a combined cycle facility
2 interconnected with the Aquila Networks-MPS transmission system and
3 approximately 25 MW – 100 MW necessitated by system load growth. Aquila
4 Networks' evaluation of the comprehensive list of responses/solicitations
5 determined that a portfolio of alternatives rather than one single response
6 provided the least cost supply plan. Specifically, Aquila Networks determined the
7 least cost supply plan to be comprised of three (3) combustion turbine generators
8 with a combined nominal rating of 300 MW and power supply arrangements of
9 approximately 225 MW. A memorandum of understanding was entered into for
10 75 MW (8 year duration) and 150 MW (5 year duration), respectively. On
11 December 30, 2004 the 75 MW power supply agreement was consummated.

12 Q. Please provide some background on the combustion turbines that are being
13 installed by Aquila.

14 A. MEP Investments, LLC ("MEP") is a wholly-owned subsidiary of Aquila. MEP in
15 September of 2001 acquired from Siemens Westinghouse Power Corporation
16 ("SWPC") three (3) 105 MW natural gas-fired combustion turbines and
17 associated transformers and breakers (hereinafter, collectively, the "CTs") at a
18 cost of \$78,716,233. In September of 2002, the CTs were transferred from MEP
19 to another wholly-owned subsidiary of Aquila, Aquila Equipment LLC ("AE") at
20 book cost. These CTs are owned by AE and comprise the only material assets
21 owned by that company. There is approximately an additional \$3 million in
22 preliminary survey charges associated with the CTs but it is currently being

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 evaluated as to what portion, if any, would be transferred to Aquila Networks-
2 MPS. The total value of the CTs including preliminary survey charges is \$81.7
3 million.

4 Q. Are the CTs currently in use?

5 A. The CTs are not currently in use and presently are stored at two locations; the
6 Ralph Green plant site in Pleasant Hill, Missouri and Richards Gebaur Airforce
7 Base. AE is not engaged in any ongoing line of business.

8 Q. Has Aquila made any determination as to the current fair market value of the
9 CTs?

10 A. Yes. Aquila retained the services of an independent engineering consulting firm
11 of R.W. Beck ("Beck") to perform an appraisal to determine the fair market value
12 of the CTs. Beck produced a report entitled "Limited Appraisal of the Three
13 SWPC 501 D5A Combustion Turbines and Auxiliaries" dated as of November 22,
14 2004. Beck concluded that the fair market value of the CTs is \$70, 796,850 as of
15 November 2004, a figure that does not include the preliminary survey charges of
16 \$3 million that I described above. A copy of the Beck appraisal report is attached
17 to my testimony as Schedule DRW-1 (HC).

18 Q. Please describe for the Commission the location of the power station where the
19 CTs will be installed.

20 A. The CTs will be installed in an unincorporated area in Cass County at the
21 location near the city limits of the City of Peculiar (hereinafter, "Peculiar").
22 Peculiar is a city of the fourth class located in Cass County, Missouri. Aquila

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 holds a certificate of convenience and necessity ("Certificate") to provide electric
2 service throughout portions of Cass County, Missouri, including Peculiar,
3 pursuant to the Commission's prior decisions and orders, including in Case Nos.
4 9,470, 11,892, EM-87-26 and EM-2002-297.

5 Q. What is involved in the construction of the power station?

6 A. The new power station involves the construction and development of a new
7 generation facility consisting of the CTs together with any and all real estate,
8 improvements, facilities, equipment and installations related thereto (hereinafter,
9 the "Project"). The exact location of the Project is near the city limits of Peculiar
10 at East 241 Street and South Harper Road. A copy of a map showing the
11 location of the Project is attached to my testimony as Schedule DRW-2.

12 Q. Is the Project within the area of the Company's Certificate?

13 A. Yes. The Project is being constructed at a location that is within the area of Cass
14 County certificated to the Company's predecessor in interest, Missouri Public
15 Service Corporation, in Commission Case No. 9470.

16 Q. What is the involvement of Peculiar in the Project you have described?

17 A. Peculiar is a political subdivision having the authority under Article VI, Section 27
18 (b) of the Constitution of the State of Missouri and Sections 100.010 – 100.200 of
19 the Revised Statutes of Missouri, as amended, (hereinafter, the "Act") to issue
20 and sell revenue bonds for the purpose of paying all or part of the cost of
21 purchasing, constructing or improving any project to be leased to a private
22 person or corporation for industrial development purposes.

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 Q. Will that authority under the Act come into play in the financing of the
2 construction of the Project?

3 A. Yes. Aquila has entered into an Economic Development Agreement with
4 Peculiar (the "Agreement"). A copy of the Agreement is attached to my testimony
5 as Schedule DRW-3. In connection therewith, Peculiar has agreed, upon the
6 request of Aquila, to issue up to and including \$140 million of revenue bonds (the
7 "Bonds") in furtherance of the construction of the Project, the maximum term of
8 which shall not exceed thirty (30) years after the commencement of commercial
9 operations of the Project. Under the terms of the Agreement, Aquila has agreed
10 to make, or cause to be made, to Peculiar, certain annual grants and payment in
11 lieu of tax ("PILOT") payments. In addition, Aquila will incur approximately \$1
12 million of up-front bond issuance fees and legal costs necessary to implement
13 the financing structure. The PILOT payments and up-front fees will, however,
14 facilitate significant property tax abatement such that Aquila expects to generate
15 a net savings over the expected thirty (30) year life of the Project of between \$14
16 – \$17 million. These savings will contribute to the provision of reliable and
17 affordable power to the customer of Aquila Networks-MPS.

18 Q. How, generally, will the Project transaction be structured?

19 A. In the event the Bonds are issued, it is expected that the Project will be conveyed
20 to and owned by Peculiar and leased back to Aquila, an arrangement that will
21 exempt the Project from property taxes levied by any applicable taxing authority
22 for as long as Peculiar owns the Project. The Lease payments made by Aquila

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 to Peculiar shall be equal to and timed to coincide with the due date, and pledged
2 to pay, all applicable principal and interest as it shall become due and payable
3 with respect to the Bonds. A copy of the summary term sheet is attached to my
4 testimony as Schedule DRW-4.

5 Q. How will this structure come about?

6 A. Aquila first will cause AE to transfer the CTs to Aquila Networks-MPS. At the
7 conclusion of construction of the new power station, the Project will be
8 transferred to Peculiar. Concurrently with the issuance of the Bonds, Peculiar
9 will lease the Project back to the Company pursuant to a lease agreement
10 between Peculiar and Aquila (the "Lease"). The term of the Lease will be the
11 same as the final maturity of the Bonds and will be a net lease with the applicant
12 being responsible for rental payments in an amount sufficient to pay the debt
13 service on the Bonds. Aquila will be responsible to maintain, ensure and pay any
14 taxes related to the Project. During the term of the Lease, Aquila will be
15 responsible to operate and control the Project and have the right, at its own
16 expense, to make certain additions, modifications or improvements thereto. A
17 copy of the Lease is attached to my testimony as Schedule DRW-5.

18 Q. Will the Project assets be pledged or encumbered in connection with the
19 financing structure you have described?

20 A. Yes. The Lease also provides that the Project will be pledged to a trustee (the
21 "Trustee") under the terms of an Indenture of Trust (the "Indenture") and a Deed
22 of Trust and Security Agreement ("Security Agreement") as security for the

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 benefit of the holders of the Bonds. Copies of the Indenture and Security
2 Agreement are attached to my testimony, respectively, as Schedule DRW-6 and
3 Schedule DRW-7.

4 Q. What occurs at the conclusion of the term of the Lease?

5 A. When the Lease expires, or otherwise terminates, the Agreement provides that
6 Aquila will purchase the Project from Peculiar at a price of \$1000.

7 Q. How will the Lease be handled for accounting purposes?

8 A. Aquila will treat the Lease as a capital lease. The resulting accounting treatment
9 will be the same as if the Project were an electric power plant owned outright by
10 Aquila Networks-MPS.

11 Q. Will the Project be treated as a rate base addition to the Company's regulated
12 electric plant?

13 A. Aquila anticipates that the new Project, once operational, will be rate based for
14 purposes of determining cost of service for Aquila Networks-MPS electric
15 operations.

16 Q. Has the Board of Directors of Aquila authorized the transactions you have
17 described?

18 A. Yes. Attached to my testimony as Schedule DRW-8 is a certified copy of the
19 Resolutions of the Board of Directors of Aquila authorizing and approving the
20 transactions I have described including the terms of the Agreement and Lease.

21 Q. Will any aspect of the transaction that you have described be detrimental to the
22 public interest?

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

1 A. No. There will be no adverse impact on the tax revenues on the various
2 jurisdictions where the Project will be located because the Project has not yet
3 been constructed and no tax revenues with respect thereto are being paid to any
4 political subdivision or *quasi*-governmental entity. Also, because grant payments
5 are being allocated to various political subdivisions by Peculiar after construction
6 of the Project, the future impact on other taxing jurisdictions is not known by
7 Aquila. Finally, the proposed transactions will not be detrimental to the public
8 interest but, rather, advantageous to the interest of the Company and its
9 customers because of the substantial cost savings that will be realized through
10 the tax-advantaged financing structure I have described above.

11 Q. What is the basis for Aquila's need for Commission approval in this case?

12 A. Generally, Aquila is requesting three things. First, the Commission has
13 requested to make a determination that the acquisition of the CTs from AE by its
14 regulated Aquila Networks-MPS division at a fair market transfer value of
15 \$70,796,850 does not provide a financial advantage to AE. Second, Aquila
16 requests permission to enter into a sale and lease back arrangement whereby
17 legal title to the Project, including the CTs, will be conveyed to Peculiar to pay for
18 the installation and construction of the Project through the issuance by Peculiar
19 of tax-advantaged Bonds under the Act. Finally, Aquila is requesting
20 authorization to cause the Project assets to be pledged and conveyed to the
21 Trustee under the Indenture as security for the benefit of the holders of the

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVE YATES
ON BEHALF OF AQUILA, INC.**

- 1 Bonds. The specific and additional related elements of relief being requested by
2 Aquila are set forth in the prayer of the Application.
- 3 Q. Does this complete your direct testimony?
- 4 A. Yes it does.