

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION
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6 IN-CAMERA PROCEEDINGS
7

8 April 21, 2008
9 Jefferson City, Missouri
Volume 10

10 In the Matter of the Joint)
11 Application of Great Plains)
Energy Incorporated, Kansas)
12 City Power & Light Company,)
and Aquila, Inc., for Approval)Case No. EM-2007-0374
13 of the Merger of Aquila, Inc.,)
with a Subsidiary of Great)
14 Plains Energy Incorporated and)
for Other Related Relief.)
15

16 JUDGE HAROLD STEARLEY, Presiding,
REGULATORY LAW JUDGE.
17 CONNIE MURRAY,
ROBERT CLAYTON,
18 KEVIN GUNN,
COMMISSIONERS.
19

20 REPORTED BY:
21 PAMELA FICK, RMR, RPR, CCR #447, CSR
MIDWEST LITIGATION SERVICES
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1 I N - C A M E R A P R O C E E D I N G S

2 (EXHIBIT NOS. 124HC AND 125HC WERE
3 MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)
4 CROSS-EXAMINATION (CONTINUED) BY MR. DOTTHEIM:

5 Q. Mr. Bassham, you have a copy of what's
6 been marked as Exhibit 124?

7 A. Yes, sir.

8 Q. Can you identify that document?

9 A. Yes, sir. This is a letter from the
10 Moody's service that provides advisory services to
11 companies when they ask for their review of certain
12 proposals for future ratings.

13 Q. And the letter is addressed to
14 Mr. Cline, is it not?

15 A. Yes, sir.

16 Q. Did you participate in a presentation
17 that was made to Moody's that resulted in this letter
18 being sent to Mr. Cline?

19 A. I did. We sent them written materials,
20 and then we had a telephone presentation, if you
21 will, over the holidays while working on the new
22 proposal.

23 Q. Mr. Bassham, do you have a copy of
24 what's been marked as Exhibit 125?

25 A. Yes, sir.

1 Q. Okay. And can you identify that
2 document?

3 A. It's the same type of document, Standard
4 & Poor's service. It's called Rating Evaluation
5 Service, and so it's the same type of document. It's
6 their written response to our request over the
7 December/January time frame asking for their view of
8 a proposal we sent them related to our current offer
9 in this case.

10 Q. And did you participate in a
11 presentation made to Standard & Poor's which resulted
12 in this letter being sent to Mr. Cline?

13 A. Same type. We sent them written
14 materials and then had a phone call presentation as
15 well.

16 Q. Okay. Do you have with you a copy of
17 your supplemental testimony that was filed on
18 February 25? I believe it's been marked Exhibit 37.

19 A. I do.

20 Q. Okay. I'd like to direct you to page 5.

21 A. Yes, sir.

22 Q. Okay. Line 22, it's the highly
23 confidential --

24 A. Yes, sir.

25 Q. -- information that starts on line 22

1 and continues on to page 6 to a sentence that states,
2 "Based on feedback received from the agencies, we are
3 confident that Great Plains Energy and KCP&L will
4 continue to maintain investment-grade credit quality
5 after the transaction closes and that Aquila will
6 become investment grade shortly thereafter"?

7 A. Yes, sir.

8 Q. The feedback which you're referring to,
9 is that Exhibit 124 and Exhibit 125?

10 A. It's the written feedback. We obviously
11 had a phone call with them as well before the letter
12 arrived. We were working on a short time frame, and
13 then we continued to communicate with them on a
14 regular basis.

15 Q. And I don't know if the record's clear
16 from your response. Was that a yes or a no? Is the
17 feedback that you're referring to on --

18 A. It is, in part, the exhibit you gave me,
19 yes, sir.

20 Q. Okay. On Exhibit 124 --

21 A. Yes, sir.

22 Q. -- I'd like to refer you to page 3.

23 A. Okay.

24 Q. And I'd like to refer you to the last
25 full paragraph on that page, the second sentence that

1 states, "Specifically, Moody's has considered GXP's
2 changes in the prospects for recovery of Aquila's
3 cost of debt, reduced availability of regulatory
4 amortization, changed timing of the retained benefits
5 of any realized synergies and assumptions regarding
6 recovery of transaction costs"?

7 A. Yes, sir.

8 Q. Did I read that accurately?

9 A. You did.

10 Q. Okay. And I'd like to refer you to
11 page 4 towards the center of the page, the paragraph
12 that has the bullet point and the heading Enhanced
13 Regulatory Relationship. I'd like to refer you to
14 the second sentence which states, "Specifically, the
15 assumptions considered include a 7 percent cost of
16 recovery of Aquila debt, creation of a regulatory
17 asset for the approximate \$100 million of transaction
18 costs, future availability of additional regulatory
19 amortization, as well as sharing of any potential
20 synergies over a five-year period." Did I read that
21 accurately?

22 A. You did.

23 Q. Okay. I'd like to refer you to
24 Exhibit 125, and in particular, I'd like to refer you
25 to page 3. And on page 3 I'd like to refer you to

1 the second paragraph, the last line, the last bullet
2 point which states, "Accelerated depreciation for
3 KCP&L Kansas and Missouri."

4 Accelerated depreciation, do you know
5 whether in the Standard & Poor's letter at that line,
6 that term that Standard & Poor's is using,
7 "accelerated depreciation," is the same as additional
8 amortization?

9 A. It is, and that's why it states for
10 KCP&L.

11 Q. Okay. And I'd like to refer you to the
12 next sentence which states, "Following the merger,
13 ILA will file for accelerated depreciation which
14 should help its cash flow measures during its
15 construction period." Did I read that sentence
16 accurately?

17 A. You did.

18 Q. And again, in that sentence, the term
19 "accelerated depreciation," do you know whether that
20 term, "accelerated depreciation," is used by
21 Standard & Poor's as the same for what we term
22 additional amortization?

23 A. It does. And in both instances, we did
24 not include any amortization in our Aquila runs, but
25 we told them the same thing we just talked about,

1 which would be that we would work with the parties to
2 develop that in the future and likely file that in a
3 future case. But there's no amortization for Aquila
4 built into the metrics submitted to the agencies.

5 MR. DOTTHEIM: At this time I'd like to
6 distribute a document that's already been marked
7 as -- as an exhibit. It's the -- it's the company's
8 Joint Application. It doesn't have all the
9 attachments, but I've run some copies just for ease
10 of reference. It was given the exhibit number 32 in
11 December, but copies were not distributed. Of
12 course, when the company made its initial filing, it
13 was the first document filed.

14 JUDGE STEARLEY: You may distribute
15 those.

16 MR. MILLS: Judge, I don't believe that
17 this document is highly confidential.

18 MR. DOTTHEIM: Yes.

19 MR. MILLS: And I believe we're still
20 in-camera.

21 MR. DOTTHEIM: That's true.

22 MR. MILLS: And furthermore, I don't
23 believe that anything that Mr. Dottheim and
24 Mr. Bassham covered in the highly confidential
25 portion was highly confidential, and I would move

1 that that entire section of the transcript be
2 designated as public.

3 MR. ZOBRIST: Judge, the witness, I
4 think, would be qualified to explain this. The
5 specifics as far as what you communicate with these
6 services at Moody's and Standard & Poor's is a very
7 confidential process insisted upon by these
8 companies, and I believe it would be appropriate to
9 maintain that HC designation. And I'd be glad to
10 voir dire the witness just on that limited basis, if
11 you wish.

12 JUDGE STEARLEY: No, we're going to
13 maintain the HC classification. And we now are going
14 in non-HC territory so I can bring us back in public
15 record.

16 (WHEREUPON, the in-camera portion of
17 Terry Bassham's testimony was concluded.)

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1 COMMISSIONER CLAYTON: Are we -- are we
2 in HC or in-camera right now?

3 JUDGE STEARLEY: Yes.

4 COMMISSIONER CLAYTON: Okay.

5 QUESTIONS (CONTINUED) BY COMMISSIONER CLAYTON:

6 Q. Mr. Cline, I'm going to try to go
7 through this quickly, and I just -- I've got a number
8 of questions and I'm not sure how to ask them without
9 getting into HC material. On page 3 of your schedule
10 MWC-4 schedule --

11 A. Sure. Just a moment.

12 Q. -- which relates to Standard & Poor's
13 response dated January 9, 2007, there are general
14 assumptions set out on page 3.

15 A. Sorry, Commissioner, I'm having just a
16 little trouble finding it. Just one moment, please.
17 I have schedules 3 and 5 but not 4. Okay. I'm
18 sorry. Please go ahead.

19 Q. All right. On page 3, the seventh
20 bullet point under General Assumptions says that,
21 "GXP files for accelerated depreciate" -- excuse
22 me -- "accelerated amortization treatment in Missouri
23 on behalf of Asteroid at the time it files for merger
24 approval. The MPSC issues an order approving
25 accelerated amortization for Asteroid prior to merger

1 close."

2 Can you explain how that assumption
3 either was supposed to work or is supposed to work?

4 A. Well, this is the -- one of the
5 components of our Current Ask that has changed
6 significantly in that we are not asking for approval
7 of additional amortization as part of this case.

8 Q. I understand. Can you just -- can you
9 tell me how if it -- how that assumption is supposed
10 to work, though, if you were still asking for it,
11 just so I can understand how this assumption would
12 take place in the analysis associated with S&P's
13 opinion letter?

14 A. Well, if we were still asking for it, we
15 would be looking for approval from the Commission
16 that this mechanism could be used similar to the
17 fashion in which it's used for Kansas City Power &
18 Light and the comprehensive energy plan today on
19 behalf of Aquila.

20 Q. Can you give more specifically what --
21 how does it -- how is this accelerated amortization
22 supposed to work? Is there a defined amount that is
23 set out in the Joint Application that you'd be
24 seeking on an increased basis? Is it -- is it solely
25 a portion of -- of cases that have, you know, been

1 done in the past for other utilities? I'm trying
2 to --

3 A. Sure.

4 Q. -- get a better handle on how this
5 particular provision should have worked under this
6 opinion letter.

7 A. We -- we would have -- we would have
8 established thresholds, credit metric thresholds
9 similar to what we've done for Kansas City Power &
10 Light, and those thresholds would then be -- be used
11 to determine the amount of -- of additional
12 amortization that would be granted in any particular
13 rate case.

14 Q. Okay. The -- two bullets down from
15 that, "Asteroid obtains a 14.1 percent rate increase
16 in 2007." Did Asteroid, in fact, obtain a 14.1
17 percent rate increase in 2007?

18 A. I don't recall off the top of my head
19 what Aquila's rate increase was last year,
20 Commissioner. I'm sorry.

21 Q. On page 4 at the bottom of the page,
22 there's language in -- in this opinion letter that
23 makes reference to dollar amounts associated with
24 additional amortizations as well as a rate increase
25 reflecting an ROE of 11.25 percent and a certain

1 level of equity ratio. Do you see that?

2 A. Yes, I do.

3 Q. Aside from a concept of additional -- of
4 just authorizing additional amortizations or
5 accelerated depreciation, has the Commission made a
6 commitment beyond that concept? Has it made a
7 commitment associated with ROEs or equity ratios?

8 A. No, Commissioner. Those are evaluated
9 with each rate case.

10 COMMISSIONER CLAYTON: I don't think I
11 have any other questions. Thank you, Judge.

12 JUDGE STEARLEY: All right. Very well.
13 Recross based upon Commissioner Clayton's questions.
14 We'll start with -- I'm going to go off the list here
15 since many of our parties have kind of come and gone.
16 We'll start with AgProcessing.

17 MR. CONRAD: We have no questions with
18 respect to the Commissioner's questions, sir.

19 JUDGE STEARLEY: Public Counsel.

20 MR. MILLS: Judge, are we still
21 in-camera?

22 JUDGE STEARLEY: Yes, we are. Do you
23 have questions that no longer need to be in
24 in-camera?

25 MR. MILLS: I have questions that are

1 related to -- that follow up on Commissioner
2 Clayton's questions, but they should not be HC.
3 (WHEREUPON, the in-camera portion of
4 Michael Cline's testimony was concluded.)

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1 THE WITNESS: I have copies of those.

2 JUDGE STEARLEY: Okay. Again, I'm
3 relying on the -- the parties to police whoever may
4 need to be excluded from the room for these
5 questions. You may proceed, Mr. Dottheim.

6 MR. DOTTHEIM: Thank you.

7 CROSS-EXAMINATION (CONTINUED) BY MR. DOTTHEIM:

8 Q. Mr. Bassham, on Exhibit 125, I'd like to
9 direct you to the third bullet point from the bottom
10 of the page. The second sentence for that third
11 bullet point, "The merged company will not be held
12 responsible for forecasted synergies not realized."
13 Do you know what Standard & Poor's means by that
14 sentence?

15 A. Well, the -- what they mean is that
16 the -- again, the process proposed is to use normal
17 regulatory lag for the flow-through of synergies, but
18 there's no retroactive ratemaking in that regard, so
19 if there wasn't a synergy achieved, it wouldn't
20 be assumed to be disallowed in some way. Obviously
21 it would be in front of the regulators in our rate
22 case proposing our cost of service which will be
23 reviewed and approved by the Commission as prudent,
24 just and reasonable or not.

25 Q. The -- the sentence, "The merged company

1 will not be held responsible for forecasted synergies
2 not realized," who will not hold the merged company
3 responsible for the forecasted synergies not
4 realized?

5 A. This is a description of the mechanism
6 within the model. In other words, we go in for a
7 rate case, we assumed we'd have \$15 of synergies the
8 year before, we didn't achieve it -- these are
9 examples, obviously -- we didn't achieve it. Would
10 there be a disallowance of some sort for that \$15?
11 And the answer here is no, there's no disallowance,
12 no retroactive treatment of that. It's a description
13 of what's in the model itself, what's in the
14 assumption itself.

15 Q. Does that mean that Standard & Poor's
16 will not hold Kansas City Power & Light -- or excuse
17 me -- GPE responsible for the forecasted synergies
18 not realized?

19 A. No. Standard & Poor's and Moody's
20 wouldn't hold us responsible for anything. They
21 ultimately will, as an agency, review our credit
22 metrics, whatever they may be at the time, and judge
23 them and rate our securities. Here, it would be the
24 regulatory process for including or not including
25 synergy dollars in rates.

1 Q. And the merged company that is referred
2 to is -- is what entity?

3 A. It's GPE. We're talking here about the
4 process we propose, which would be KCPL and Aquila,
5 as the transaction moves forward.

6 Q. And so the regulator, meaning the
7 Missouri Public Service Company [sic], would not hold
8 GPE responsible for forecasted synergies not
9 realized?

10 A. In the -- assertion is not a regulatory
11 prudence assumption. I mean, we expect to be back in
12 front of the regulatory bodies and we expect to
13 explain what success we've had from a synergy
14 perspective, and our cost of service would be judged
15 by -- by the Commission.

16 So it's -- we're talking about the
17 Commission, but it's not to suggest that we've told
18 them or they've assumed in any way that there won't
19 be a regulatory review of our synergy sharing and
20 synergy success, if I understood your question
21 correctly.

22 Q. But that's -- sentence is intended to
23 indicate that the regulator will not hold the utility
24 responsible for forecasted synergies not realized?

25 A. We fully expect to be in front of this

1 Commission in future rate cases and have our cost of
2 service reviewed. That is not intended to suggest
3 that we suggested in any way -- again, we're giving
4 input to S&P and Moody's -- that we're not going to
5 have that happen.

6 So it is the regulator we're talking
7 about here. But again, it was a description of how
8 the model would work. And to the extent we don't
9 achieve a synergy previously, there's not going to be
10 a disallowance of that in the next case assumed in
11 the model.

12 Q. And the model is a KCPL or a GPE model?

13 A. Yes. They -- they take their input from
14 us.

15 Q. Mr. Bassham, do you have a copy of your
16 February 25th testimony?

17 A. Yes, sir.

18 Q. I'd like to direct you to page 6, lines
19 7 and 8.

20 A. Yes, sir.

21 Q. You state the conservative -- excuse
22 me -- you state, "There should be no doubt" -- excuse
23 me.

24 MR. DOTTHEIM: We're -- we're still
25 in-camera, and my -- although I'm referring to

1 testimony that is not highly confidential, I'm going
2 to make a reference to Standard & Poor's, so I -- I
3 assume it's possibly still best to stay in-camera.

4 JUDGE STEARLEY: Okay. We'll maintain
5 the in-camera review, Mr. Dottheim.

6 BY MR. DOTTHEIM:

7 Q. You state on page 6, lines 7 and 8,
8 "There should be no doubt that synergies will be
9 achieved by this transaction." How can Standard &
10 Poor's have any doubt that the synergies will not be
11 realized, as you testify on page 6, lines 7 and 8?

12 A. Let me make sure I understand your
13 question. Why do I say there should be no doubt
14 synergies will be achieved?

15 Q. Yes.

16 A. Well, for example, we're going to
17 sell -- our proposal is to sell the building that
18 Aquila currently is in. We won't occupy that second
19 building. And we've already, you know, met with
20 employees for day-one hiring and know that there will
21 be certain employees which won't be hired. There
22 are, you know, millions of dollars in synergies that
23 literally will happen quickly after day one.

24 So I'm not suggesting here that there's
25 a certain level, but to suggest that there wouldn't

1 be some level, we clearly see synergies occurring
2 maybe as -- you know, obviously as -- as soon as day
3 one. Now, we had to provide to -- as we have to the
4 Commission, we have to provide our estimate of those
5 synergies, and certainly Standard & Poor's and
6 Moody's relies on our estimates that we gave them
7 just as we've provided to the Commission.

8 Q. I'd like to refer you to Exhibit 124,
9 the Moody's letter --

10 A. Yes, sir.

11 Q. And I'd like to refer you to page 4 --

12 A. Yes, sir.

13 Q. -- the second paragraph under the bullet
14 point heading, Enhanced Regulatory Relationship. And
15 the first sentence in that second paragraph states,
16 "Primary sources of synergy savings are expected to
17 result from a significant reduction in personnel,
18 increased operating efficiency from joint dispatch
19 and reductions in corporate spending and sourcing
20 costs." Did I read that correctly?

21 A. You did.

22 Q. GPE is not planning joint dispatch for
23 KCPL and Aquila, is it?

24 A. It's not.

25 Q. So that statement in that first sentence

1 that I just read is incorrect, is it not?

2 A. I believe it's probably an
3 overstatement. What we've talked about in all of our
4 public disclosures and all our discussion, is that in
5 general, the joint generation fleets of our two
6 companies fit together well in the sense that more
7 gas from an Aquila side is helpful to diversify our
8 mix, and that there -- you know, Aquila tends to be
9 short power, where we'll be longer power once Iatan
10 is finished.

11 Joint dispatch is a very specific term,
12 as you well know, with regard to the operation of our
13 systems. And, no, we're not planning to do that.
14 There are operating efficiencies that the -- we've
15 discussed in the combined companies from a generation
16 perspective, but joint dispatch would be a bit
17 broader than we've proposed. And -- and we did not
18 include anything in the runs or numbers that we gave
19 them that would have assumed any joint dispatch
20 benefits.

21 Q. And if -- if GPE were to entertain joint
22 dispatch between KCPL and Aquila, would that be
23 something for which the Commission, the Missouri
24 Commission authorization would be sought?

25 A. I believe so.

1 Q. Would Federal Energy Regulatory
2 Commission authorization be thought --

3 A. I believe that's --

4 Q. -- be sought?

5 A. -- that's required, yes, sir.

6 Q. Has GPE or KCPL had any subsequent
7 communications with Moody's Investors Service or
8 Standard & Poor's regarding the assessments that
9 weren't -- were obtained in January from those two
10 rating agencies?

11 A. We've not asked for another opinion such
12 as this. As Mr. Cline, I think, testified, he talks
13 with the rating agencies on a regular basis about
14 ongoing activities of the company.

15 Q. Do you anticipate seeking any further
16 written ratings from either Moody's or Standard &
17 Poor's in the near term?

18 MR. MILLS: Judge, I hate to interrupt,
19 but we're still in-camera and I don't -- I don't
20 believe this -- or -- well, I'll get into some more
21 stuff later, but I don't believe this question calls
22 for any highly confidential information. I'm fairly
23 sure that the last question did not, and, in fact, I
24 don't believe any of this discussion that we've had
25 on -- in-camera should remain in-camera.

1 Simply because some of this information
2 happens to be sent back from a rating agency to KCPL
3 doesn't necessarily make it highly confidential.
4 This information about the primary sources of synergy
5 savings is reflected in -- in many, many public
6 documents in this case. Simply because Mr. Dottheim
7 happened to refer to a document that is highly --
8 that has been labeled highly confidential doesn't
9 make all the questions and all the discussion about
10 synergies highly confidential.

11 So I think we're getting now into an
12 area that's not highly confidential. I don't think
13 any of that last bit that was highly confidential
14 should be treated as highly confidential.

15 MR. ZOBRIST: I -- I think Mr. Mills is
16 correct on the last question. I would object to the
17 last question because I think it's stated that there
18 was a rating that was given in January of 2008, and I
19 don't believe there's any foundation for that. But
20 subject to my objection, I don't have the witness --
21 I have no problem with the witness answering that
22 question in open session.

23 JUDGE STEARLEY: All right. Well, first
24 off, Mr. Dottheim, are you wanting to remain
25 in-camera?

1 MR. DOTTHEIM: No.

2 JUDGE STEARLEY: Okay. We'll -- we'll
3 go out of camera for the rest of this discussion on
4 this objection to this particular question, then.

5 (Whereupon, the in-camera portion of
6 Terry Bassham's testimony was concluded.)

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