Exhibit No.:	
Issue:	Merger-related synergy savings and costs to achieve
Witness:	Robert T. Zabors
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Great Plains Energy Incorporated and Kansas City Power & Light Company
Case No.:	EM-2007-____
Date Testimony Prepared:	April 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-____

DIRECT TESTIMONY

OF

ROBERT T. ZABORS

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2007

DIRECT TESTIMONY

OF

ROBERT T. ZABORS

Case No. EM-2007-____

Q: Please state your name and business address.

A: My name is Robert T. Zabors. My business address is One North Franklin, Suite 2100, Chicago, IL 60606.

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

A: I am a partner with Bridge Strategy Group LLC ("Bridge Strategy Group"), a management consulting firm based in Chicago. I lead the firm's energy and utilities practice.

Q: Please describe your education, experience and employment history.

A: I graduated from Northwestern University in 1985, and received an MBA from the University of Chicago, with a concentration in Business Economics. I have spent approximately 20 years in management consulting, primarily serving electric and gas utilities on a wide range of strategic and operational issues. Representative engagements include corporate and business unit strategy, acquisitions, process improvement, cost reduction, organizational redesign, regulatory strategy, alliances and joint ventures. My specific experience with Great Plains Energy Incorporated ("Great Plains Energy") includes supporting the development of the Great Plains Energy strategic intent and the comprehensive energy plan of Kansas City Power & Light Company ("KCPL"). While at Bridge Strategy Group, I have written articles for industry publications such as Public

Utilities Fortnightly and Electric Perspectives. Prior to Bridge Strategy Group, I had been a consultant with three consulting firms, Renaissance Worldwide, Booz Allen & Hamilton and Planmetrics.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to discuss the process Great Plains Energy used to quantify the non-fuel synergy savings and the costs to achieve resulting from its acquisition of Aquila, Inc. ("Aquila"), as announced on February 7, 2007 (the "Merger").

Q: Have you included any exhibits to your testimony?

A: Yes, I have included Schedules RTZ-1 through RTZ-2.

THE PROCESS

Q: When did the process to identify non-fuel synergy savings and costs to achieve begin?

A: Estimation began in July of 2006, following Great Plains Energy's agreement to participate in Aquila's auction process. Bridge Strategy Group facilitated the identification of opportunities to reduce non-fuel operating expenses. This process featured substantial input from Great Plains Energy, KCPL, Aquila and Black Hills Corporation ("Black Hills").

Q: Was there an overriding goal that shaped decisions throughout the process?

A: Yes, alignment with Great Plains Energy's strategic intent was the primary goal maintained throughout this process. Attributes of the intent relevant to this process include building an organization capable of sustained top-tier performance, demonstrating leadership in key issues for customers and the community such as energy efficiency and environmental performance, and continuing to build upon Great Plains Energy's winning culture.

Q: How did that goal shape the analysis?

A: It was important to identify where the companies might have significant differences and to reflect transition costs and future benefits that would likely occur from such a change. In addition to areas where the companies had different operating philosophies, Aquila's cost of capital was significantly different than KCPL's due to its non-investment grade rating. The analysis also needed to explore opportunities given a presumed investment grade rating for the utility post-merger.

Q: What was Great Plains Energy's level of familiarity with Aquila's Missouri operations at the beginning of this process?

A: Great Plains Energy had reasonable knowledge of Aquila's Missouri operations when it began this process, which helped to improve the level of discussion and the precision of estimates. KCPL employees have participated alongside Aquila employees in various industry and regulatory activities. KCPL and Aquila have partnership interests in the Iatan 1 and Iatan 2 generating stations. KCPL participated in Aquila's asset sale process in 2005, including Aquila's St. Joseph operations. Prior to that, KCPL was involved in a joint merger application with Aquila's predecessor company, UtiliCorp United Inc. (Case No. EM-96-248), which was subsequently terminated.

Q: Can you provide an overview of the process that supported the bid that was accepted by Aquila?

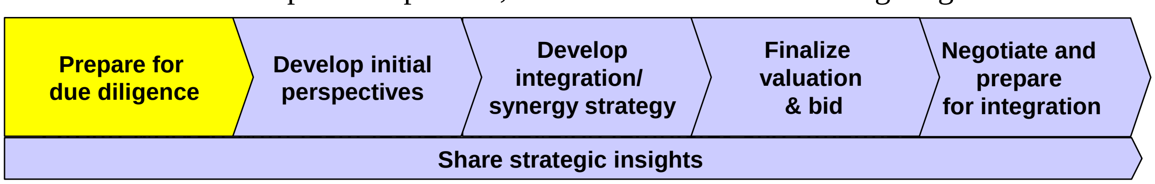
A: Managers from across Great Plains Energy and KCPL developed detailed estimates—a "bottom-up" analysis—of the resources, expenses and capital that Great Plains Energy would require to operate Aquila and KCPL. Participants represented the full scope of functions that would be required in a post-Merger environment, and were able to construct a comprehensive view of how the organization would run after the Merger was complete. That viewpoint was the basis for consideration of potential synergy savings.

Q: Why was there an emphasis on having Great Plains Energy and KCPL management develop a comprehensive evaluation?

A: The premise was that executives and key managers representing the entire operation could best evaluate Aquila's operations and would also be the most qualified to forecast the detailed requirements for operating Aquila and KCPL. In most cases, these are the individuals likely to manage the operations after the Merger. Many of the Great Plains Energy and KCPL managers were already familiar with their Aquila counterparts and had some understanding of their operations. An added benefit of this approach was that mapping all post-Merger functions to the existing Great Plains Energy and KCPL management structure reduced the risk of any major area being overlooked. It should also prove helpful in accelerating the Merger to a fully-integrated operation.

Q: What were the specific steps in this "bottom-up" analysis?

A: There were five steps in the process, as illustrated in the following diagram:



First, Great Plains Energy executives selected representatives for each team. Bridge Strategy Group worked with team leaders to develop templates and timelines to support the evaluations. Next, using the Great Plains Energy and KCPL organizations as the basis for developing forecasts and plans for the integrated company, Aquila's non-fuel operations and maintenance ("O&M") costs and capital expenditures were mapped to each part of the organization. Executives and key managers with knowledge of and, in most cases, operating authority for each area reviewed the data along with a small team of subject matter experts. Each team developed an overall approach to managing the combined organization, and identified transition steps. Data to support decisions in this step came from a variety of sources, including the data room and direct conversations with the Aquila counterparts of team leaders. Strategies were discussed at integration team meetings to ensure consistency and resolve issues. Frequent team leader meetings were forums for comparison of findings and identification of issues across the group. In addition, many of the team leaders participated in a full-day Aquila management presentation and subsequent smaller group interactions. Each team leader completed their estimates and a set of common assumptions across the team, with the data accumulated in standardized workbook formats that enabled easy comparison across groups. And finally, the results of the teams were compiled, discussed among the broader group, and then communicated to the team leading the valuation and bid process.

Q: What were the specific components of the analysis for the teams?

A: Teams developed perspectives on a number of attributes of a combined organization to develop the synergy analysis and to build a platform to accelerate integration planning. Hypotheses were developed on areas such as: what is the going-forward operating model for the area? What are the key issues for integration? What are the likely benefits and costs of combining the groups? Which capital expenditures can be avoided and which will be required? What is the current number of positions in this area for KCPL and for

Aquila? How many incremental positions will be required to operate the combined organization? What transitional resources and skills are required?

Q: How did Great Plains Energy and KCPL reflect the sale of specific properties to Black Hills in the analysis?

A: One of the earliest steps in the process was to allocate the non-fuel expense and personnel between the two companies (Aquila (post-Merger) and Black Hills). In most cases the allocation was simple, due to the availability of detailed position information in Aquila's data room. Follow-up discussions with Aquila enabled an even greater degree of precision. A Black Hills team and a KCPL team independently identified estimates of the allocation.

NON-FUEL SYNERGY SAVINGS

Q: Can you quantify the non-fuel synergy savings expected from the Merger?

A: Yes. Based on the process discussed above, Great Plains Energy estimated Merger non-fuel savings of approximately $500 million over a five-year period ending 2012, as shown on Schedule RTZ-1.

Q: What did you use as the baseline for calculating savings?

A: The baseline is Aquila's 2006 non-fuel O&M expense and the capital plan issued in November 2006.

Q: Are Merger savings limited to this five-year period?

A: No. We anticipate that savings will continue beyond this time period. However, because projections of this nature become less certain over time, we limited projections to five years.

Q: Have the synergy savings listed in Schedules RTZ-1 been escalated for anticipated cost increases?

A: Due to the nature of the bottom-up projections, anticipated cost increases were reflected in specific line items within business areas instead of applying a single escalation factor to all items. The teams projected expenses on a quarterly basis for 2008 and an annual basis thereafter, so the bottom-up estimates would be far more reflective of actual conditions than applying a standard escalation. This approach is also consistent with the costs to achieve estimates discussed later in this testimony.

Q: Do all amounts shown on Schedule RTZ-1 represent projected savings directly attributable to the integration?

A: Yes, the reflected savings are directly attributable to the Merger as guided by the goals and operating philosophies described above. In addition, both parties had previously undergone significant cost reduction and efficiency efforts and had reflected resulting savings in their respective "stand alone" company projections.

Q: Are these definitive estimates?

A: This testimony refers primarily to the results of the process that supported the final bid. Due to the level of analysis already completed, Great Plains Energy does not expect major changes in projected synergy savings as the transition work progresses. However, an update will be provided to the Commission in August of 2007.

Q: What are the primary components of these synergy savings?

A: Due to the specific, bottom-up nature of the estimates, there are many ways to aggregate the results. Communications to date have described savings as resulting from four categories: (i) shared services; (ii) operations; (iii) supply chain; and (iv) debt interest savings.

Q: What are the components of <u>shared services</u> synergy savings?

A: These are primarily labor costs associated with shared services functions, and associated benefit costs, third-party spend, executive compensation, and other overhead. As reflected in Schedule RTZ-1, we believe that shared services synergy savings will be approximately $143 million during the 2008-2012 period. These synergy savings consist of:

<u>Labor savings and associated benefit costs</u>- The teams identified 110 positions, not specific employees, in shared services areas to be eliminated over time due to redundancy or overlap. Individuals currently employed should not interpret an elimination of a position to mean there is no opportunity for continued employment with Great Plains Energy, KCPL or Black Hills, particularly with the reality of normal attrition and frequent job opportunities at the companies.

<u>Third-party services</u>- This reduction relates to elimination of external audit services, legal counsel and consulting where the service level provided for one entity would cover many of the costs of the post-Merger organization.

<u>Executive compensation</u>- Overhead for the top Aquila officers will be eliminated following their departure per the Agreement and Plan of Merger. Compensation for these officers was classified in the shared services area consistent with the allocation of their expenses across multiple entities in the Aquila organization.

Other overhead- Primarily relates to non-labor IT and Human Resources ("HR") reductions, including training and support services.

Q: Have any synergy savings been projected that relate to the current Aquila headquarters building and other possible duplicate facilities?

A: No, Great Plains Energy has not yet decided on the future use, if any, of these facilities; therefore, no synergy savings have been estimated.

Q: What are the components of operating synergy savings?

A: The components include labor costs associated with operating functions, and associated benefit costs, specific operating improvements and emissions credits. As reflected in Schedule RTZ-1, we believe these savings will be approximately $119 million during the 2008-2012 period, consisting of:

Labor savings and associated benefit costs**-** The teams identified 188 Aquila positions to be eliminated over time due to changes in process or technology and scale efficiencies. The process used to determine these savings was the same as discussed above for shared services labor. There were also selected additions to staffing in some operational areas, including safety and performance engineering in Supply and field safety and training in delivery.

Emissions credits- The team determined that environmental improvements would be necessary at two of Aquila's generating stations. These improvements were expected to avoid the use of emissions credits that would have otherwise been utilized, thereby generating the credits reflected in Schedule RTZ-1. The value of these credits was estimated at $9 million in 2009 and $13 million annually from 2010-2012, for a total savings of $48 million.

Fleet lease buy-out benefits- Consistent with actions that KCPL has previously taken to own its transportation assets, this savings represents the O&M savings resulting from Aquila's avoided lease payments following the buyout.

eServices processes efficiencies- KCPL has seen rapid adoption of its eServices offerings. The services provide both operational benefits and an increased level of customer satisfaction. KCPL's intent is to offer the same services to Aquila customers as soon as possible. This savings projection is consistent with KCPL's observations for its own customer base. Kevin E. Bryant discusses these programs in more detail in his direct testimony.

Heat rate and reliability improvements- The team believed there could be a small improvement in the efficiency and reliability of Aquila's fleet. For purposes of savings analysis, that amount was expressed as an improvement in heat rate and reliability.

Bill payment- These savings reflect projected benefits from consolidation of similar operations enabled by the Merger.

Automated meter reading ("AMR") operational costs/benefits- Consistent with KCPL's widespread deployment of AMR in its current territory and investments in its Comprehensive Energy Plan, the teams recommended implementation of AMR and supporting infrastructure in Aquila's service territory starting in 2009 (planning) and 2010 for rollout In particular, implementation of AMR will affect existing positions in meter reading beginning in 2010. With that timeframe in mind, it is important to note again that the analysis focused on reduction in positions, not specific employees. KCPL went through a similar process when AMR was implemented at KCPL in the mid to late 1990's. KCPL offered positions within the organization to all employees whose positions were eliminated through the new system. A similar process will likely be used again.

<u>Increased line clearance expenditures</u>- The teams increased annual line clearance budgets each year for five years. This increase was established to ensure consistent approaches are used across the KCPL and Aquila service area.

<u>Additional increases in non-labor costs</u>- Rather than apply an escalation factor for costs, each team projected five-year actual costs. In most cases the teams were very familiar with the costs in KCPL's budgets and could consider the same cost factors, such as materials, in evaluating the integrated business. The majority of these expenses are in the Supply areas.

Q: Have savings from joint dispatch of the generation fleets been considered in the projected operating synergy savings?

A: No, benefits from joint operation of the generation fleet were not considered in the synergy quantification, as more fully discussed in the direct testimony of F. Dana Crawford.

Q: What are the anticipated <u>Supply Chain</u> synergy savings?

A: The $50 million savings over the five-year period represents procurement savings resulting from economies of scale and improved logistics. The integration will lead to procurement savings from greater scale and scope, more effective use of contracted services in operations, and also enable cost-effective investments in centralization of physical storage and better management of inventory. For purposes of supporting the final bid, savings were estimated at $10 million per year for five years. Annual O&M supply chain savings were projected at $8 million for operating functions and $2 million from shared services functions. This initial estimate was derived from various sources. The team looked at Aquila's and KCPL's total projected and historical spending and typical ratios of O&M spending versus capital. Savings were also compared to estimates from other utility mergers. More precise estimates will be provided in a subsequent update to the Commission in August of 2007.

Q: What are the anticipated <u>Debt</u> <u>Interest Savings</u>?

A: Great Plains Energy anticipates the Merger will result in improvements in Aquila's credit rating, thereby lowering its interest rates. The anticipated savings totals approximately $188 million over the five-year period, as discussed in the testimony of Terry Bassham.

COSTS TO ACHIEVE

Q: What are the components of costs to achieve?

A: The components of costs to achieve, totaling approximately $181 million, are identified on Schedule RTZ-2 and can be categorized into two types: transaction costs to consummate the Merger and transition-related costs to integrate Aquila into Great Plains Energy's operations. Although Great Plains Energy anticipates only minor changes in projected costs to achieve as the transition work progresses, we will provide the Commission an update in August of 2007. These costs consist of:

<u>Position costs/Severance</u>- This cost is for exit payments to be made for positions identified for elimination by Great Plains Energy for which Aquila has severance agreements in place.

<u>Position costs/Share of executive change in control ("CIC") and CIC tax gross-up</u>- This cost is for Great Plains Energy's share (60%) of payments that will be made to Aquila executives upon "CIC", grossed-up for excise tax.

Position costs/Rabbi Trust- This cost is for Great Plains Energy's share (60%) of payments that will be made upon change in control to fund Aquila's Rabbi Trusts, a set of non-qualified deferred compensation plans for executives.

Position costs/Retention- The cost is for labor costs needed to retain key resources to assist in transitioning to as well as effectively operating the new, combined organization.

Position costs/Restricted stock and stock options- The cost is for the vesting of restricted stock and value of options resulting from the change in control.

Process integration costs and benchmarking- This cost is for third-party costs for integration planning, integration systems, and benchmarking for customer satisfaction and operational metrics that will enable the integration teams to target and design for sustainable Tier 1 performance.

Legal and HR- The cost is for on-going support of outside counsel for legal and HR issues encountered during the integration process.

Costs to maintain support services for Black Hills- KCPL assumed that it would provide the majority of shared services to Black Hills. These costs represent the amounts estimated for defining and operating the shared services. The amount will be better defined when the scope of necessary transition services is finalized, currently targeted for July 30, 2007.

Integration team- The majority of these costs ($6 million) represent KCPL employee time charges for integration planning efforts in 2007. It is an estimate of the cost of KCPL personnel charging their time explicitly to merger integration activities and some items to support the teams. It is captured to ensure a complete accounting of efforts related to integration planning. No costs have been included to reflect time of employees once a deal is completed.

Transaction costs- These costs include approximately $25 million in investment banking and advisory fees reflecting support received by Great Plains Energy. It also includes approximately $26 million in fees that Aquila will pay its investment bankers. As mentioned previously, supplemental information will be provided to the Commission in August of 2007. Terry Bassham discusses these costs further in his direct testimony.

Incremental debt tender costs- This is the cost to achieve the interest rate savings discussed earlier in this direct testimony and also discussed by Terry Bassham in his direct testimony.

Other/Directors and Officers liability tail coverage- This cost is for increased Aquila Director and Officer insurance premiums for coverage related to the Merger.

Other/Regulatory process costs- This cost is for the external support required for regulatory filings and analyses related to the Merger. This estimate is for third-party fees for regulatory support and assumes these incremental activities will be limited to 2007 and 2008.

Other/Facilities integration- This cost is primarily for integration of headquarters functions. Regardless of future location, the addition of Aquila employees into KCPL's support and operational functions will require reallocation of space and relocation of many groups. As both headquarters and significant operations are in the same metropolitan area, a significant benefit of this transaction versus most others in the industry is that costs to relocate employees are limited to the shifting of their offices, not the relocation of their personal residences.

Other/Internal and external communications- This cost has been projected for internal and external communication of the basis and implications for the Merger, enabling external and internal constituencies to understand the process, timing and impact of the combination. Benefits of internal communication include efficiency, alignment and retention. These expenses are assumed to conclude in 2008.

Q: Does Great Plains Energy anticipate that all costs to achieve will be incurred by 2012?

A: While it is possible that additional costs could be incurred after 2012, any such amounts would likely not be significant. Over 95% of estimated costs should be incurred by 2009.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy Incorporated and for Other Requester Relief	)))))	**Case No. EM-2007-____**

AFFIDAVIT OF ROBERT T. ZABORS

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Robert T. Zabors, being first duly sworn on his oath, states:

1. My name is Robert T. Zabors. I am employed by Bridge Strategy Group LLC in Chicago, Illinois.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company, consisting of fifteen (15) pages and Schedules RTZ-1 through RTZ-2, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Robert Zabors
Robert T. Zabors

Subscribed and sworn before me this 2nd day of April 2007.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

NON-FUEL SYNERGIES
(amounts in $ millions)

	2008	2009	2010	2011	2012	Total
Shared Services						
Headcount	10	11	11	11	11	54
Benefits	3	4	4	4	4	19
Third Party Spend	5	5	5	5	5	25
Executive Compensation	5	5	5	5	5	25
Other	5	4	4	4	3	20
Total	28	29	29	29	28	143
Operations						
Headcount	7	8	11	15	19	60
Benefits	3	3	4	6	7	23
Emissions Credits		9	13	13	13	48
Other**	6	4	(3)	(9)	(10)	(12)
Total	16	24	25	25	29	119
Supply Chain						
Shared Services	2	2	2	2	2	10
Operations	8	8	8	8	8	40
Total	10	10	10	10	10	50
Interest	37	38	38	38	37	188
TOTAL NON-FUEL SYNERGIES	**91**	**101**	**102**	**102**	**104**	**500**

Breakdown of Other Operational Synergies	2008	2009	2010	2011	2012	Total
Fleet Lease Buy-out Benefits	4	4	2	3	4	17
eServices Process Efficiencies	0	2	5	5	5	17
Heat Rate & Reliability Improvements	2	2	2	2	2	10
Bill Payment	2	2	2	2	2	9
AMR operational costs/ benefits	0	(1)	(1)	(1)	1	(1)
Increased Line Clearance Expenditures	(3)	(3)	(3)	(1)	(1)	(11)
Equalization of Benefits for Management & Labor	(6)	(6)	(6)	(6)	(6)	(32)
Additional Increases in Non-Labor Costs (primarily Supply)	7	4	(4)	(12)	(16)	(21)
Total 'Other' Operational Savings	6	4	(3)	(9)	(10)	(11)

COSTS TO ACHIEVE
(amounts in $ millions)

	2007	2008	2009	2010	2011	2012	Total
Position Costs							
Severance		9	2	3	1	1	**16**
Share of Executive Change in Control (CIC)		11					**11**
CIC tax gross-up		4					**4**
Rabbi trust		9					**9**
Retention		3					**3**
Restricted stock and stock options		6					**6**
Process Integration Costs & Benchmarking	5	14	4				**23**
Legal & Human Resources Support	2	1	1				**4**
Cost to Maintain Support Services for Black Hills		1	1				**2**
Integration Team	7	2					**9**
Transaction Costs		51					**51**
Incremental Debt Tender Costs		35					**35**
Other							
Directors and Officers Liability Tail Coverage		1					**1**
Regulatory Process Costs	2	1					**3**
Facilities Integration		2					**2**
Internal and External Communications	1	1					**2**
Costs to Achieve	**17**	**151**	**8**	**3**	**1**	**1**	**181**
Cumulative Costs to Achieve	**17**	**168**	**176**	**179**	**180**	**181**	