

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 28th day
of June, 2005.

In the Matter of the Application of Kansas City)
Power & Light Company for Authority to Sell)
to Aquila, Inc., Certain Electric Transmission)
Facilities Subject to the Jurisdiction of the)
Commission and Located in Buchanan County,)
Missouri.)

Case No. EO-2005-0270

ORDER APPROVING APPLICATION TO TRANSFER ASSETS

Issue Date: June 28, 2005

Effective Date: July 8, 2005

This order grants Kansas City Power & Light Company's application for authority to sell a section of transmission line to Aquila, Inc.

On February 9, 2005, KCPL applied for authority under Section 393.190, RSMo 2000, to sell approximately 1.02 miles of 161 kV electric transmission line, commonly known as the Lake Road-Nashua Line. The transmission line is located in Aquila's service territory in Buchanan County, Missouri. Aquila has added a substation to this transmission line and without the sale, Aquila will need to add metering in and out of the substations. If the sale is approved no additional metering will need to be added. KCPL stated that since its customers will not benefit from those improvements and the sale of the section of transmission line will not adversely affect KCPL's ability to serve its Missouri retail electric customers, the sale is in the public interest.

Aquila agreed in a Sale Agreement to pay \$200,000, subject to an adjustment for taxes, for the section of transmission line. KCPL stated that the tax revenues of local political subdivisions will not be affected.

On February 18, 2005, the Commission issued an order directing that notice of KCPL's application be sent to the County Commission of Buchanan County, to the members of the General Assembly who represent Buchanan County, and to the newspapers that serve that county. The notice indicated that any interested person wishing to intervene should file an application to intervene on or before March 3, 2005. Aquila filed a request to intervene and was granted intervention. No other requests were received.

The Staff of the Commission filed a recommendation and memorandum on May 10, 2005. Staff indicated that it reviewed the application for transfer of assets and concluded that the transaction will not be detrimental to the public interest, provided it is conditioned on a prohibition against Aquila recovering in rates any acquisition premium incurred as a result of a transaction. Staff concurs with KCPL that the line is not useful to KCPL and that its customers will not be affected by the sale. None of KCPL's customers receive service off this transmission line so no change of service provider will result from the sale of the line.

During a visit to the site, Staff observed that Aquila has recently completed the construction of a new substation on the line. Staff stated that Aquila will not need to purchase and install metering equipment at its substation if the sale is approved. Staff also believes that approval of the sale will increase operational efficiency and aid in streamlining the planning process for anticipated growth in this area.

With regard to the purchase price, Staff stated that Aquila had responded to its data requests indicating that accumulated depreciation reserve and plant in service will not be known until the sale is complete. Thus, Staff recommended that if the sale results in an acquisition premium, that Aquila be prohibited from recovering that premium through its customer rates.

Aquila filed a response to the Staff's recommendation. In its response, Aquila objected to any blanket prohibition of it seeking to recover an acquisition premium. Aquila requested that the Commission reserve the question of recovery of an acquisition premium, if any, for a future rate case. Aquila stated that the alternatives to purchasing this line are to build a new line estimated to cost at least \$2,850,000 for the line and an accompanying substation or to purchase transmission service from KCPL at a cost of approximately \$158,400.00 per year. Aquila stated that because of the unique circumstances of this transaction and the fact that the other alternatives would cost significantly more, the purchase would be in the best interest of its customers even if it were ultimately allowed to recover and earn a return on the \$200,000 purchase price. Thus, Aquila objected to the Commission placing a prohibition on it being allowed to ask for an acquisition premium in a later rate case if such a premium exists.

On May 31, 2005, the Staff filed a reply. Staff stated that it has no objection to the Commission deferring for a future rate case the issue of Aquila's recovery of an acquisition premium. Staff believes, however, that a finding that recovery of the full purchase price in rates is reasonable and not detrimental to the public under the circumstances is "controversial and unnecessary."

Aquila filed a response to Staff's reply on June 7, 2005. In that response, Aquila states it has no objection to the approach taken in Staff's reply. Aquila requests that the Commission approve the sale of assets and defer for a future rate case all ratemaking issues including the recovery of any associated acquisition premium.

The Commission has reviewed KCPL's application, including the Sale Agreement and Aquila's balance sheet and income statement. The Commission has also reviewed the pleadings of Staff and Aquila. With regard to an acquisition premium, the Commission cannot determine on the current record whether a premium will result. The Commission finds, however, that the cost of purchasing this line is very small compared to the size of Aquila's total income and assets. Therefore, this purchase will have no material effect on Aquila or its customers, regardless of whether an acquisition premium is paid. In addition, the Commission finds that the proposed transfer of assets will have no adverse effect on the customers of KCPL. The Commission finds that the transaction is not detrimental to the public interest and should be approved. The Commission will make determinations as to the ratemaking treatment in the course of Aquila's next rate case.

IT IS THEREFORE ORDERED:

1. That Kansas City Power & Light Company's application for authority to sell and transfer to Aquila, Inc., approximately 1.02 miles of 161 kV electric transmission line located in Buchanan County, Missouri, as described in its February 9, 2005, Application is approved.
2. That the Commission makes no finding of the value of this transaction for ratemaking purposes.

3. That the Commission reserves the right to consider in a later proceeding any ratemaking treatment to be afforded this transaction.
4. That this order shall become effective on July 8, 2005.
5. That this case may be closed on July 9, 2005.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., and Murray, C., concur.
Clayton and Appling, CC., concur, with
separate concurring opinions to follow.
Gaw, C., dissents.

Dippell, Senior Regulatory Law Judge