

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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

Case No. EO-2005-0270

STAFF RECOMMENDATION

COMES NOW the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”) and respectfully states as follows:

1. On February 9, 2005, Kansas City Power & Light Company (“KCPL”) filed with the Commission an Application for authority to sell to Aquila, Inc. (“Aquila”) approximately one mile of 161 kV transmission facilities, commonly known as the Lake Road-Nashua Line. This section of the transmission line is located in Aquila’s service territory in Buchanan County, Missouri.

2. In the attached Memorandum (Appendix A), the Staff describes benefits of the proposed sale and recommends that it be approved as not detrimental to the public interest, subject to the condition that Aquila be prohibited from recovering in rates any acquisition premium incurred as a result of the transaction.

3. As noted in the Memorandum, in Case No. EM-2000-292, the Commission ultimately denied Aquila (formerly UtiliCorp United Inc.) the right to recover the acquisition premium associated with its merger with St. Joseph Light & Power Company. This occurred the day after Aquila filed a pleading stating that it would not seek such authority.

4. At present, it is not clear whether Aquila has any intention of eventually seeking recovery of an acquisition premium that may arise from the proposed transaction. If the Commission is inclined not to deny Aquila recovery of same at this time, the Commission should consider ordering Aquila to file a pleading stating its intention in this regard. At a minimum, the Commission should reserve its right to decide the issue at some future time.

WHEREFORE, the Staff respectfully requests that the Commission issue an Order approving the proposed transaction, as conditioned in the attached Memorandum.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/ Dennis L. Frey

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 10th day of May 2005.

/s/ Dennis L. Frey

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EO-2005-0270, Application of Kansas City Power and Light to Sell
Certain Transmission Facilities located in Buchanan County, MO to Aquila, Inc.

FROM: Alan J. Bax, Energy Department – Engineering Analysis
Scott D. Clark and V. William Harris, Auditing Department

/s/Lena Mantle 5/10/05 /s/ Steve Dottheim 5/10/05
Energy Department / Date General Counsel's Office / Date

SUBJECT: Staff Recommendation

DATE: May 10, 2005

BACKGROUND

On February 9, 2005, Kansas City Power and Light Company (KCPL) filed an application with the Missouri Public Service Commission (MPSC or Commission) to sell certain transmission facilities located in Buchanan County, MO to Aquila, Inc. (Aquila). This Application was filed by KCPL in accordance with 4 CSR 240-2.060 and 4 CSR 240-3.110. KCPL indicates that the transaction will not be detrimental to the public interest. Aquila applied to intervene in this case on February 25, 2005. The Commission granted Aquila's intervention request on March 5, 2005.

These transmission facilities are a portion of KCPL's 161 kV transmission line commonly known as the Lake Road – Nashua Line. This transmission line is connected between Aquila's Lake Road substation located at the Lake Road generation facility in Buchanan County, MO and KCPL's substation located at Nashua, northeast of Kansas City, MO in Clay County. The specific portion of this line that KCPL seeks to sell to Aquila is an approximate one mile section that includes all poles, cross arms, wires, insulators and associated easements and rights-of-way from Structure 304 to Structure 313. KCPL plans to retain ownership of Structure 304 and the right-of-way necessary for this structure; all transmission facilities north of Structure 304 to the Lake Road substation are the subject of this case.

DISCUSSION

In support of its proposed sale of assets as described in the Application, KCPL indicates that the facilities in question have become virtually useless in serving its customers; thus, service to KCPL's wholesale or retail customers will not be affected by the sale of this section of the Lake Road – Nashua line. KCPL asserts, and Staff agrees, that there is no anticipated material impact on tax revenues of the local area in which these transmission facilities are located.

On April 20, 2005, Staff visited the Lake Road generating facility, including the Lake Road substation, which is the point of origination for the section of the Lake Road – Nashua transmission line that is the subject of this Application. The Staff concurs that this line, which is

physically located within the service territory of Aquila, is essentially of no use to KCPL, and that its customers will be unaffected by its sale.

Aquila will also benefit from this transaction. In the Application, KCPL mentions Aquila's intention to build a new substation along this one-mile section of the Lake Road – Nashua transmission line. During its visit, the Staff observed that Aquila had recently completed construction of the new substation, known as the Alabama Street substation, on this one mile section. If this sale is consummated, Aquila will not need to purchase and install otherwise necessary metering equipment in this new Alabama Street substation and the Lake Road substation. Further, Aquila will be able to transfer a portion of existing retail load onto the new substation bus. This increases operational efficiency by allowing easier operation and maintenance of certain generating units at the Lake Road generating facility. In addition, this will facilitate a more streamlined planning process for future anticipated growth in this corridor of its system.

With respect to the sale price, Aquila believes that it will likely be paying an acquisition premium depending on the book values of this property at the time of closing of this sale transaction. In response to Data Request No. 4 in this case, Aquila stated that "Determination of the plant acquisition adjustment related to the sale of the 161 kV transmission line is dependent on the amount of plant in service and accumulated depreciation reserve. Plant in service, and accumulated depreciation reserve will not be known until completion of the sale." In any event, if the Commission approves this sale transaction and an acquisition premium results, the Staff proposes that the acquisition premium not be recovered by Aquila through customer rates.¹

RECOMMENDATION

Staff recommends conditional approval of the proposed sale as not detrimental to the public interest. Specifically, the Staff recommends that the Commission issue an Order that:

- a. Authorizes KCPL to sell to Aquila certain electric transmission facilities as described in the Sale Agreement dated December 15, 2004 and included in the KCPL Application;
- b. States that the acquisition premium resulting from the proposed transaction shall not be recovered through customer rates in the future; and
- c. Makes no finding that would bind the Commission or any other party to any ratemaking treatment of the actions related to approval of the Application in any future proceeding, except as noted in item b. above.

KCPL and Aquila are current on all assessment fees and annual report filings. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing; however, the following cases are open:

¹ On October 28, 2003, the Supreme Court of Missouri remanded the merger case involving UtiliCorp United Inc (now Aquila) and the St. Joseph Light & Power Company (Case No. EM-2000-292) for a determination whether Utilicorp United Inc could seek rate recovery of the associated acquisition premium. On February 26, 2004, one day after Aquila made a filing in Case No. EM-2000-292 stating that it would not seek rate recovery of said acquisition premium, the Commission issued its Second Report and Order denying such authority.

KCPL Cases

1. EO-2000-0210 Wolf Creek Decommissioning
2. EC-2005-0245 Rhonda Wesley vs. KCPL
3. EO-2005-0329 Regulatory Plan
4. EF-2005-0387 LaCygne Environmental Improvement Bonds
5. EF-2005-0388 Interest Rate Management Products

Aquila Cases

1. EO-2005-0293 Regulatory Plan
2. EO-2005-0156 South Harper - Chapter 100 Financing
3. EO-2003-0566 Request to Join the Midwest Independent System Operator