

Exhibit No.: 039
Issue: Operations and Allocations
Witness: Chris B. Giles
Type of Exhibit: Additional Supplemental Direct
Testimony
Sponsoring Party: Great Plains Energy Incorporated and
Kansas City Power & Light Company
Case No.: EM-2007-0374
Date Testimony Prepared: February 25, 2008

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri

KCP&L Exhibit No. 39
Case No(s) EM-2007-0374
Date 4-22-08 Rptr 45

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY

OF

CHRIS B. GILES

Case No. EM-2007-0374

1 **Q:** Are you the same Chris B. Giles who submitted Surrebuttal Testimony in this
2 proceeding?

3 **A:** Yes, I am.

4 **Q:** What is the purpose of your Additional Supplemental Direct Testimony?

5 **A:** My testimony addresses three areas: (i) how we intend to operate Kansas City Power &
6 Light Company ("KCP&L") and Aquila, Inc. ("Aquila") after the merger closes; (ii)
7 affiliate transactions; and (iii) the allocation of costs to achieve the merger synergy
8 savings.

9 **Q:** Please describe how Aquila and KCP&L will operate after the merger closes?

10 **A:** As proposed in the Joint Application, although Aquila and KCP&L will remain separate
11 legal entities, many of the companies' operational functions will be integrated and
12 centralized after the merger closes. Such operations will result in significant cost
13 savings. If the Missouri Public Service Commission ("Commission") approves the
14 merger, but does not allow Aquila and KCP&L to integrate and centralize operations,
15 these savings will not be realized, and the customers of Aquila and KCP&L will be
16 deprived of one of the primary benefits of the merger.

1 Q: What steps have KCP&L and Aquila taken in pursuit of integrating and
2 centralizing operations, as contemplated in the Joint Application?

3 A: Since announcing the merger, Great Plains Energy Incorporated ("Great Plains Energy"),
4 Aquila, and KCP&L have worked diligently on the processes, procedures, and practical
5 aspects of centralizing Aquila's and KCP&L's operations. The major objective has been
6 to select the "best-in-class" operations of each utility for implementation across the
7 board, in order to create synergy savings, and to maintain or improve customer service at
8 both Aquila and KCP&L.

9 Q: Will the integration of KCP&L's and Aquila's operations and the resulting
10 centralized operations involve the sale or transfer of utility assets?

11 A: No, it will not. Neither KCP&L nor Aquila contemplates the sale, transfer, or
12 commingling of utility assets. While there will likely be the transfer of employees
13 between KCP&L and Aquila, it is my understanding that the Commission has never
14 claimed to have authority to review and approve personnel matters of this nature.
15 However, we recognize that any sale or transfer of utility assets between KCP&L and
16 Aquila would require Commission approval.

17 Q: Can the Joint Applicants centrally operate KCP&L and Aquila without executing
18 an operating agreement between the two utilities?

19 A: Practically speaking, such an agreement is not necessary. As I have explained before,
20 after the merger closes KCP&L and Aquila will continue to exist as separate companies,
21 each subject to the Commission's jurisdiction. As such, the Commission will continue to
22 have access to the books and records of both companies. Moreover, both companies will
23 continue to be subject to the various reporting requirements they operate under today. In

1 short, the Commission will readily be able to determine if the centralized operations
2 contemplated in the Joint Application are having an adverse impact on either of the
3 companies' customers or if costs are not being allocated appropriately.

4 If the Commission determines that a joint operating agreement of some kind is
5 needed, it would make sense to permit the companies to operate as contemplated in the
6 Joint Application until such an agreement can be executed. As I have described,
7 centralized operations are key to a substantial portion of the savings attributable to the
8 merger. Allowing KCP&L and Aquila to begin such centralized operations immediately
9 after the merger closes will enable them to immediately begin realizing such savings,
10 which ultimately will be passed on to their respective customers.

11 **Q: Will any portion of the companies' intended operations be reduced to writing?**

12 **A:** Yes, the most significant part of the companies' arrangement from a ratemaking
13 perspective will be reduced to writing. Both KCP&L and Aquila operate under Cost
14 Allocation Manuals ("CAM"), which specify the details of allocations and transactions
15 between affiliates that must be recorded. As presented in the Direct Testimony of Lori A.
16 Wright, KCP&L's and Aquila's CAMs will set forth how costs are to be allocated
17 between KCP&L, Aquila, Great Plains Energy, and any other subsidiary of Great Plains
18 Energy.

19 **Q: Why are you requesting a waiver to the Affiliate Transactions Rule (4 CSR 240-20)?**

20 **A:** The stated "purpose" of the Affiliate Transactions Rule (4 CSR 240-20.015) is "to
21 prevent regulated utilities from subsidizing their non-regulated operations." In the Joint
22 Application, we requested a waiver from the affiliate transactions rule as it might pertain
23 to KCP&L and Aquila to help achieve the synergy savings discussed in the Joint

1 Application and our pre-filed testimony. The rule does not contemplate two regulated
2 utilities owned by the same parent and operated in the manner contemplated here. Rather
3 than the asymmetrical pricing prescribed in the rule, the Joint Applicants request that the
4 Commission grant a waiver from the rules to the extent necessary to allow KCP&L and
5 Aquila to provide services at fully distributed costs, except for wholesale power
6 transactions, which would be based on rates approved by the Federal Energy Regulatory
7 Commission ("FERC").

8 **Q: How do KCP&L and Aquila intend to allocate costs among the various**
9 **jurisdictions?**

10 **A:** Originally, Great Plains Energy proposed in the Supplemental Direct Testimony of Tim
11 M. Rush to allocate the proposed transaction and transition costs based on the same basis
12 as synergy savings. Because the Joint Applicants are withdrawing their request for
13 specific recovery of synergy savings, such an allocation methodology is no longer
14 necessary. However, we continue to believe the concept of assigning costs in proportion
15 to savings is appropriate. We identified synergy savings and developed an allocation for
16 those savings based on specific cost drivers. This was more fully developed in the
17 Supplemental Direct Testimony of Mr. Rush. Because of the changes in the level of sales
18 between jurisdictions, we propose to allocate the cost of electric operations based on the
19 change in sales between jurisdictions in comparison to the base period sales.

20 We propose to allocate the merger integration costs over a period of five years
21 (beginning with the effective date of rates ordered by the Commission in the first rate
22 case after the close of the merger) to each jurisdiction based on the contribution of
23 synergy savings estimated from the base period.

1 The percentage allocation for electric operations will be adjusted in each rate case
2 to reflect the change in sales in each jurisdiction between the base period and the rate
3 case. The Industrial Steam, Merchant and FERC operations allocation percentage will
4 remain unchanged from the base period. The following are the allocation percentages for
5 the base period and the base period electric sales. If the electric sales mix does not
6 change between the base period and the next rate case, then the allocation percentages in
7 this table would be the allocation of costs to each jurisdiction. For the Missouri
8 operations, this represents 72.75% allocation of Merger Integration Costs. Likewise,
9 Missouri operations will receive 72.75% of the synergy savings.

<u>Jurisdiction</u>	<u>Allocation</u>	<u>Sales</u>
Aquila – MPS	35.17%	5,772 Gwh
Aquila - L&P	8.34%	1,710 Gwh
Aquila - Steam	0.80%	
KCPL – Missouri	28.44%	8,693 Gwh
KCPL – Kansas	22.43%	6,357 Gwh
KCPL - Wholesale	0.31%	
Aquila – Wholesale	1.80%	
Aquila - Merchant	2.71%	

19 **Q: Based on the proposal currently before the Commission, what will the impact be on**
20 **each jurisdiction?**

21 **A:** Schedule CBG-1, which is attached hereto, represents the impact of the merger by
22 Missouri jurisdiction. Assuming the merger is consummated in 2008, it is expected that
23 the first a change in rates that include merger synergy savings will occur in mid-2009.

1 An additional rate case will be filed and implemented to correspond with the completion
2 of Iatan 2, sometime in mid-2010. Based on those assumptions, it is expected that
3 Missouri customers will receive net benefits between now and 2013 of over \$100 million.

4 **Q: Does this conclude your testimony?**

5 **A:** Yes.

**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 Requested Relief)
)
) Case No. EM-2007-0374
)
)
)

AFFIDAVIT OF CHRIS B. GILES

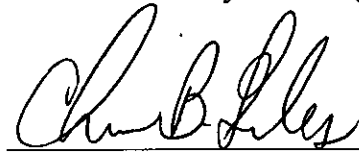
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Chris B. Giles, being first duly sworn on his oath, states:

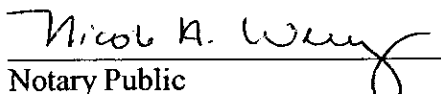
1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Additional Supplemental Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of Six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

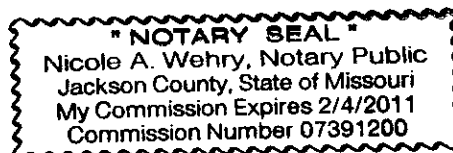
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


Chris B. Giles

Subscribed and sworn before me this 25th day of February, 2008.


Notary Public

My commission expires: Feb 4, 2011



Missouri Allocations

<u>Total (\$m)</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Gross Synergies	\$30	\$56	\$62	\$74	\$82	\$85	\$87	\$90	\$93	\$96	\$755
Customer Retained Synergies	\$0	\$15	\$30	\$62	\$62	\$82	\$85	\$87	\$90	\$93	\$606
Transition	\$0	(\$6)	(\$12)	(\$12)	(\$12)	(\$12)	(\$6)				(\$59)
Transaction	\$0	(\$6)	(\$13)	(\$13)	(\$13)	(\$13)	(\$7)				(\$65)
Customer Benefit	\$0	\$3	\$5	\$37	\$37	\$57	\$72	\$87	\$90	\$93	\$482
Cumulative Customer Benefit	\$0	\$3	\$8	\$46	\$83	\$140	\$212	\$299	\$389	\$482	

Allocations are taken from the Supplemental Direct Testimony of Tim Rush and found on Schedule TMR-1

<u>KCPL MO Allocation 28.44%</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Customer Benefit	\$0.0	\$0.9	\$1.5	\$10.6	\$10.6	\$16.3	\$20.5	\$24.7	\$25.6	\$26.4	\$137.1
5 yr. benefit						\$39.8					
<u>MoPub Allocation 35.17%</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Customer Benefit	\$0.0	\$1.1	\$1.8	\$13.1	\$13.1	\$20.1	\$25.4	\$30.6	\$31.7	\$32.7	\$169.6
5 yr. benefit						\$49.2					
<u>St. Joe Electric Allocation 8.34%</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Customer Benefit	\$0.0	\$0.3	\$0.4	\$3.1	\$3.1	\$4.8	\$6.0	\$7.3	\$7.5	\$7.8	\$40.2
5 yr. benefit						\$11.7					
<u>St. Joe Steam Allocation 0.80%</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Customer Benefit	\$0.0	\$0.0	\$0.0	\$0.3	\$0.3	\$0.5	\$0.6	\$0.7	\$0.7	\$0.7	\$3.9
5 yr. benefit						\$1.1					
<u>Missouri Allocation 72.75%</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Synergies	\$0.0	\$10.9	\$21.8	\$45.1	\$45.1	\$59.7	\$61.8	\$63.3	\$65.5	\$67.7	\$440.9
Transition	\$0.0	(\$4.3)	(\$8.6)	(\$8.6)	(\$8.6)	(\$8.6)	(\$4.3)				(\$42.8)
Transaction	\$0.0	(\$4.4)	(\$9.5)	(\$9.5)	(\$9.5)	(\$9.5)	(\$5.0)				(\$47.2)
Customer Benefit	\$0.0	\$2.3	\$3.8	\$27.1	\$27.1	\$41.6	\$52.5	\$63.3	\$65.5	\$67.7	\$350.8
5 yr. benefit						\$101.8					