

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION
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6 TRANSCRIPT OF PROCEEDINGS
7 Hearing
8 December 6, 2007
9 Jefferson City, Missouri
Volume 7

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 NANCY M. DIPPELL, Presiding,
SENIOR REGULATORY LAW JUDGE.
17 (COLLEEN M. DALE,
CHIEF REGULATORY LAW JUDGE.)
18

JEFF DAVIS, Chairman,
19 CONNIE MURRAY,
LINWARD "LIN" APPLING,
20 TERRY JARRETT,
COMMISSIONERS.
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REPORTED BY:

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1 P R O C E E D I N G S

2 JUDGE DIPPELL: Okay. Let's go on
3 the record. Okay. This is Thursday morning,
4 December 6th, and we're back on the record in
5 EM-2007-0374. I believe, just housekeeping
6 matters, Mr. Mills, you had an exhibit you wanted
7 to offer?

8 MR. MILLS: I do, your Honor, thank
9 you. It's Exhibit 207 which was originally marked
10 at Mr. Green's deposition as Exhibit 14. I was
11 trying to move quickly and I -- I ran him through
12 a bunch of e-mails.

13 This one was one from Christopher
14 Reitz to him, and Mr. Green identified the
15 nonredacted paragraph as accurately reflecting what
16 he said, and so I think the foundation was laid, and
17 I'd like to offer Exhibit 207 at this time.

18 JUDGE DIPPELL: Would there be any
19 objection to Exhibit 207?

20 MS. PARSONS: Could I see 207? Oh. No,
21 there's no objection.

22 JUDGE DIPPELL: All right. And that one
23 does remain HC because there was one line that is
24 highly confidential?

25 MR. MILLS: That's correct.

1 JUDGE DIPPELL: So 207 will be HC and
2 I'll have an N -- NP version also. Seeing no -- no
3 objections, I will receive that into evidence.

4 (EXHIBIT NO. 207 HC AND NP WERE RECEIVED
5 INTO EVIDENCE AND MADE A PART OF THE RECORD.)

6 MR. MILLS: Thank you.

7 JUDGE DIPPELL: All right, then. I
8 think we are ready to proceed on with our next
9 witness.

10 CHAIRMAN DAVIS: Judge, can I make an
11 inquiry of the parties --

12 JUDGE DIPPELL: Certainly.

13 CHAIRMAN DAVIS: -- just for -- just for
14 a brief second? It has been raised to my attention
15 that the Missouri Consumers Council who is, to the
16 best of my knowledge, not a party to this case, is --
17 is asking me to recuse myself in this matter.

18 Now, you know, I made a commitment to
19 all of you here, you know, Monday afternoon that I
20 would certainly recuse myself in this case if any of
21 you felt uncomfortable or -- for -- for whatever
22 reason, and I would certainly intend to -- to honor
23 that commitment.

24 So -- but until I hear the request
25 from -- from one of you, I mean, and you only have --

1 you don't need to file a formal motion or anything
2 else, it's my intent, you know, to hear the case and,
3 you know, I guess from this point forward, I'll make
4 sure not to have any contact with any other -- other
5 Commissioners, Staff people or anything else involved
6 with this case, I mean, in terms of -- other than --
7 than on the record here and present in front of you.

8 And I just -- Mr. Mills is looking a
9 little confused there. But anyway, you know, at this
10 present moment, it is -- it is still my intent to
11 participate in this case, but, you know, if anybody
12 feels the least bit uncomfortable with that, then
13 please just say so now and I'll pack up my bags.

14 MR. MILLS: Judge, may I inquire a bit
15 of the Chairman?

16 JUDGE DIPPELL: Certainly you may ask.

17 MR. MILLS: CCM, is that -- is that the
18 Alberta Slavin Group?

19 CHAIRMAN DAVIS: Yes, Mr. Mills, I
20 believe that is the Alberta -- it's a --

21 MR. MILLS: Then I --

22 CHAIRMAN DAVIS: -- St. Louis
23 Post-Dispatch story.

24 MR. MILLS: Okay. So -- and my question
25 was gonna be -- and I think you're right, I don't

1 think they are a party in this case. Have they filed
2 something?

3 CHAIRMAN DAVIS: No, sir, they have not.

4 MR. MILLS: Have they -- they asked the
5 press to recuse you, is that -- that the notion?

6 CHAIRMAN DAVIS: That is -- that is --
7 that is -- that is my impression.

8 MR. MILLS: Okay. I just -- I wanted to
9 just find out whether they filed something. Okay.
10 Thank you.

11 JUDGE DIPPELL: All right, then. I
12 believe we are ready to proceed with our first
13 witness of the day.

14 MR. ZOBRIST: Our next witness at the
15 request of Staff is William H. Downey, and with
16 Staff's permission, I'll put him on the stand and
17 we'll just identify his direct testimony, and then
18 I'll let Staff inquire and other parties as well, of
19 course.

20 JUDGE DIPPELL: All right. Let's
21 proceed in that manner, then. Would you please raise
22 your right hand?

23 (THE WITNESS WAS SWORN.)

24 DIRECT EXAMINATION BY MR. ZOBRIST:

25 Q. State your name, please.

1 A. William H. Downey.

2 Q. And what is your position?

3 A. I'm president and chief operating
4 officer of Great Plains Energy and president and
5 chief executive officer of Kansas City Power & Light.

6 Q. I've handed the court reporter what has
7 been previously marked as Exhibit 13, your direct
8 testimony in this case. Do you have a copy of that
9 before you, Mr. Downey?

10 A. I do.

11 Q. Do you have any corrections to that
12 testimony?

13 A. I do not.

14 MR. ZOBRIST: The other Staff or
15 opposing parties may inquire, Judge.

16 JUDGE DIPPELL: Thank you. Okay. Now,
17 just so that I'm straight on the procedure here, this
18 is -- we're treating him the same as we treated the
19 witnesses that didn't have any direct testimony,
20 correct, and the -- so the order of cross-examination
21 is reversed or --

22 MR. ZOBRIST: Well, I don't know that to
23 be the case. Because of those other witnesses, they
24 did not file testimony, but I know Staff wanted
25 Mr. Downey early on and we said we'd make him

1 available.

2 JUDGE DIPPELL: Okay. That -- I guess
3 that was my -- so do I proceed as if he is a Great
4 Plains witness, then?

5 MR. ZOBRIST: Yes.

6 JUDGE DIPPELL: Yes. Okay. Then in
7 that case, is there any cross-examination from
8 Aquila?

9 MS. PARSONS: No, your Honor.

10 JUDGE DIPPELL: Black Hills?

11 (NO RESPONSE.)

12 JUDGE DIPPELL: Okay. Department of
13 Energy or the Union, Dogwood Energy, Joint Municipal,
14 any of the cities, Cass County, South Harper
15 Residents?

16 (NO RESPONSE.)

17 JUDGE DIPPELL: All appear to be absent
18 this morning. Ag Processing?

19 MR. CONRAD: Your Honor, I don't -- I
20 don't have anything for Mr. Downey right now.

21 JUDGE DIPPELL: Public Counsel?

22 MR. MILLS: Thank you. I have just a
23 few.

24 CROSS-EXAMINATION BY MR. MILLS:

25 Q. Mr. Downey, does your 2000 or -- 2007 or

1 2008 incentive compensation or any portion of it
2 depend upon successful consummation of this merger?

3 A. No, it does not.

4 Q. Do you know to date how much has been
5 expended in the way of transaction costs in this --
6 in this transaction?

7 A. I do not have that number in my head.

8 Q. Do you have a -- just a --

9 A. I don't.

10 Q. Not even an estimate? Okay. Now, do
11 you recall in your deposition having a series of
12 questions about meetings you had with regulators?

13 A. Yes, I do.

14 Q. And did you meet with both Commissioners
15 and with Staff in Missouri?

16 A. I was involved in the meetings with the
17 Commissioners in January.

18 Q. But not with the Staff?

19 A. I was not.

20 Q. Okay. And I believe it was your
21 testimony that you had a series of meetings with
22 Commissioners; is that correct?

23 A. On a single day we met with individual
24 Commissioners in the Commission offices.

25 Q. Okay. Did you tell each of the

1 Commissioners the same thing?

2 A. Yes, I did.

3 Q. Do you know why you met with them
4 individually as opposed to meeting with them as a
5 group if you were talking about all the same thing?

6 A. I believe as Mr. Chesser indicated
7 yesterday, it was at the convenience of the
8 Commissioners, when they were available.

9 Q. Were they available one right after the
10 other, you just walked -- sort of walked office to
11 office?

12 A. Well, I think we sat and waited at
13 various points for people to be available.

14 Q. Okay. And I believe your testimony in
15 your deposition was that you didn't hear any comments
16 that were along the lines of -- let me get to that
17 section. "Hell, no, there is no way. This is just
18 totally out of bounds," nothing like that?

19 A. And I think that was -- I was trying to
20 make a point similar to the one Mr. Chesser made
21 yesterday which was we were there to educate and to
22 listen carefully to see if there were any reactions
23 of a negative nature that we ought to take and keep
24 in mind as we moved forward.

25 Q. And what was your -- what was reported

1 to you in terms of the reaction of the Missouri
2 Commission Staff?

3 A. Well, as you may or may not be aware,
4 Mr. Giles and the regulatory staff report to me.

5 Q. Yes.

6 A. So I would rely on Mr. Giles and his
7 team to work on a daily basis with the Staff. And --
8 and as has been reported, we did have some not-so-
9 positive reaction with regard to some things. There
10 was a fairly straightforward and seemingly
11 nonnegotiable position from the Staff.

12 Q. Okay. In other words, the Staff did say
13 "Hell, no, there is no way. This is just totally out
14 of bounds"?

15 A. Something like that.

16 Q. And at that point in time, did you
17 have -- did you or any of your staff have any
18 conversation with -- with the Office of Public
19 Counsel?

20 A. I don't recall. I did not.

21 Q. Do you recall ever getting any reports
22 from anyone on your staff that they talked to Public
23 Counsel?

24 A. I -- I don't know specifically whether
25 we talked to Public Counsel in any formal

1 discussions. I know that we usually start with Staff
2 and we generally talk to Public Counsel. I think
3 this is an ongoing and continuing process on all
4 manner of things. But I don't recall specifically
5 whether Mr. Giles or his team talked directly to you
6 or your team.

7 MR. MILLS: Those are all the questions
8 I have. Thank you.

9 JUDGE DIPPELL: Thank you. Staff?

10 MR. WILLIAMS: Thank you, Judge.

11 CROSS-EXAMINATION BY MR. WILLIAMS:

12 Q. Good morning, Mr. Downey.

13 A. Good morning.

14 Q. What are your duties as president and
15 chief operating officer of Great Plains Energy?

16 A. I have overall responsibility for the
17 management of -- of the company.

18 Q. And what are your duties as chief
19 executive officer and president of Kansas City Power
20 & Light Company?

21 A. I have very specific responsibilities.
22 I am the principal officer for Kansas City Power &
23 Light, a regulated utility subsidiary, and have full
24 responsibility for its day-to-day management.

25 Q. Is the management of Great Plains Energy

1 separate and distinct from the management of Kansas
2 City Power & Light Company?

3 A. No, not completely. All utility
4 officers report directly to me or through others to
5 me. There are several instances, much as I have
6 joint duties, others have joint duties; specifically,
7 Mr. Bassham, who was the CFO of Great Plains, also
8 serves as my CFO inside the utility.

9 Barbara Curry, who has our human
10 resource and administrative areas for Great Plains
11 also has additional responsibilities with regard to
12 the utility or will have in this structure as we go
13 forward as we -- we're looking at it. But Terry
14 Bassham is the principal person with joint duties,
15 not just myself.

16 Q. If Great Plains Energy acquires Aquila,
17 will the management of Great Plains Energy be
18 separate and distinct from the management of Aquila?

19 A. As we've indicated, our -- our goal day
20 one, and it's not an unusual at all process, would be
21 to integrate the people and the business processes as
22 opposed to consolidating the assets. We have -- will
23 have, assuming this is successful, two separate bases
24 of assets with -- with -- or three, and different
25 rate structures.

1 And the initial efforts to gain savings
2 and to improve operations and to do all the things we
3 want to do are not based on consolidating the assets,
4 they're based on integrating the people and the
5 operations and changing the processes and the way we
6 do business. So the idea would be to integrate
7 those -- those functions and to function as a single
8 organization with regard to work and processes and
9 delivering service to customers.

10 Q. So will the management of Great Plains
11 Energy be separate and distinct from the management
12 of Aquila if Great Plains Energy acquires Aquila?

13 A. Our intent would be to bring the people
14 over into Kansas City Power & Light and to -- to have
15 them function day to day as a single group of people.

16 Q. When you say "bring people over," are
17 you talking about bringing Aquila employees into
18 Kansas City Power & Light Company?

19 A. Yes. As we envision it ultimately,
20 about a third of the people in the new organization
21 will be former Aquila employees. As we've indicated,
22 all of the workers, the people who do the work, who
23 deliver service day to day to customers, we are
24 bringing over virtually in total. We have -- we have
25 assured our unions and their unions that they will

1 have employment. They're critical to providing
2 day-to-day service.

3 We're in a period of time in our
4 business and our industry and our company where there
5 are large waves of retirements across the country.
6 You read every -- every day about companies and
7 shortages of people.

8 What we envision here is actually
9 providing strength to the new organization because we
10 can deal with some of that attrition. We can fill
11 holes with people that have experience. And so the
12 day-to-day workers are coming over. It's in areas of
13 duplication where -- where people -- where positions
14 will be eliminated.

15 Q. So are you saying that the management of
16 Kansas City Power & Light Company and Aquila will not
17 be separate and distinct if Great Plains Energy
18 acquires Aquila?

19 A. That's correct.

20 Q. But will the management of Great Plains
21 Energy be separate and distinct from the management
22 of Aquila?

23 A. Well, the management of Great Plains
24 Energy is a relatively small group of people who have
25 full-time positions only at Great Plains at the

1 holding company level. The bulk of the work, the
2 bulk of the people are in our operating subsidiaries,
3 whether they're regulated or unregulated. So the
4 bulk of the people in the utility function will be in
5 the utility.

6 Q. And if Great Plains Energy acquires
7 Aquila as between Kansas City Power & Light Company
8 and Aquila, where -- where will the bulk of the
9 people be if --

10 A. Would you repeat that question, please?

11 Q. Assuming that Great Plains Energy
12 acquires Aquila, as between Kansas City Power & Light
13 Company and Aquila, where will the bulk of the people
14 be?

15 A. Well, because of the relative size of
16 the organizations, I think the bulk of the people
17 will be in Kansas City Power & Light. But it will be
18 pro rata based on appropriate allocation measures as
19 to where people get charged and what they do.

20 Q. Are the board of directors of Great
21 Plains Energy and Kansas City Power & Light Company
22 separate and distinct?

23 A. They -- there are two formally identified
24 boards. They tend to -- they -- they -- they
25 overlap, and all the members of the Kansas City Power

1 & Light board are also members of the Great Plains
2 Energy board.

3 Q. And if Great Plains Energy acquires
4 Aquila, will the board of directors of Aquila be
5 separate and distinct from the board of directors of
6 Great Plains Energy?

7 A. As Mr. Chesser indicated yesterday and I
8 will repeat, the nature of the board will be similar
9 to the nature of the Kansas City Power & Light board.

10 Q. So the members of the board of directors
11 for Aquila is anticipated to be a subset of the board
12 of directors of Great Plains Energy?

13 A. That would be correct. And as I
14 mentioned in my deposition, I serve on several boards
15 of stock-exchange-traded organizations, and it is
16 best practice to have clear transparency from holding
17 companies down through operating subsidiaries. So
18 we -- we happen to feel very strongly that this is a
19 good practice.

20 Q. Do Kansas City Power & Light Company
21 employees provide services to Great Plains Energy?

22 A. Yes, they do.

23 Q. Is there any formal agreement under
24 which Kansas City Power & Light Company employees
25 provide those services to Great Plains Energy?

1 A. We follow our cost allocation manual
2 which is on file with the Missouri Commission which
3 we worked out with the Staff over a long period of
4 time.

5 Q. Is there any other formal agreement?

6 A. No, there is not.

7 Q. Will -- is it anticipated that Kansas
8 City Power & Light Company will provide services to
9 Aquila if Great Plains Energy acquires Aquila?

10 A. That's correct.

11 Q. And is there any formal agreement
12 planned to set out the parameters of Kansas City
13 Power & Light Company employees providing those
14 services to Aquila?

15 A. We -- I know that our accounting people
16 are working as we speak and going forward to make
17 sure that we take our cost allocation manual, that we
18 look at the appropriate allocations with this new
19 structure and that things are charged appropriately
20 under the agreements that we have with the
21 commissions because we fully expect to have to
22 testify and defend those allocations as we go forward
23 with regular annual reviews.

24 Q. Is there any agreement planned other
25 than this cost allocation manual?

1 A. No.

2 Q. Do you know any Commission requirements
3 regarding cost allocation manual or reporting
4 requirements for utilities doing businesses with an
5 affiliate without a contract?

6 A. I am -- I am aware of those practices,
7 yes.

8 Q. And what do you know of those practices?

9 A. Well, the -- the -- the intent is to --
10 where you have a holding company and you have
11 regulated and unregulated enterprises, is to not
12 advantage the unregulated at the disadvantage of the
13 regulated and therefore transfer costs or burden to
14 ratepayers.

15 That's been an evolving practice and
16 process as our industry has been changing over the
17 last decade or decade and a half. And we do have a
18 regulated/unregulated, and -- and we -- we make sure
19 that the utility is not disadvantaged in any way or
20 that there are transactions that go on that shouldn't
21 go on between the regulated and the unregulated.

22 In this case we're talking about two --
23 we're asking for an exemption on the affiliate
24 interest because we're dealing in a very different
25 situation with two regulated entities, Kansas City

1 Power & Light and -- and the Aquila regulated
2 properties, both of which are under the review and
3 the administration and the regulation of the Missouri
4 Commission. Both are totally transparent with regard
5 to Commission and the reporting processes.

6 And -- and it would actually not make
7 sense nor could it be actually executed to have that
8 affiliate agreement work with both parties given the
9 circumstances there. We're gonna -- we're gonna
10 function at cost between both organizations, and
11 ultimately that should provide neutrality with regard
12 to the independent regulated entities, but also
13 provide benefits as we integrate operations.

14 Q. Will Kansas City Power & Light Company
15 as in Aquila's interest be aligned in all matters if
16 Great Plains Energy acquires Aquila?

17 A. I'm not sure what you mean, "in all
18 matters."

19 Q. Won't they have some interests that will
20 be separate and distinct that may not be -- may pull
21 in different directions?

22 A. I suppose there may. I don't have any
23 particular in mind.

24 Q. Do you know if Kansas City Power
25 Company -- Power & Light Company has reported in its

1 cost allocation manual that it was providing services
2 to Great Plains Energy without a contract?

3 A. I'm not -- I'm not specifically aware of
4 that.

5 Q. And what is the business purpose of
6 Great Plains Energy?

7 A. It's a holding company. It's a
8 registered holding company, and it -- it -- it
9 functions totally with it -- through its operating
10 subsidiaries. It's dependent on them. It does not
11 have a specific business purpose outside of the
12 subsidiaries that it holds.

13 Q. Does Great Plains Energy have the
14 resources to manage or operate a utility subsidiary?

15 A. It does through its existing subsidiary.

16 Q. It doesn't independently?

17 A. It -- it -- it holds Kansas City Power &
18 Light, and as we testified, our intent would be to be
19 managing the Aquila properties through a combination
20 of the existing Kansas City Power & Light team in the
21 addition of members of the Aquila organization.

22 Q. Does Kansas City Power & Light Company
23 itself have the resources needed to manage and
24 operate Kansas City Power & Light Company?

25 A. Yes, it does.

1 Q. Does Great Plains Energy have an
2 interest in dividend income from its subsidiaries?

3 A. Yes, it does.

4 Q. And what is that interest?

5 A. Great Plains Energy is the owner of
6 Kansas City Power & Light, and it is the organization
7 that is New-York-Stock-Exchange-Traded. It's the --
8 it's the parent company. It is the way we raise new
9 equity for all of our operations.

10 As you know, we have a mix of equity and
11 debt financing for the utility properties, and we
12 can -- we can borrow in a number of ways, either
13 through the utility or through the holding company.
14 But with regard to raising equity, that is generally
15 done through our parent, our owner, Great Plains
16 Energy.

17 Q. My question was about dividend -- Great
18 Plains Energy receiving dividend income from its
19 subsidiaries.

20 A. Great Plains Energy, as far as being a
21 stock-exchange-traded company, does pay a dividend
22 and -- and the source of funds from the dividend that
23 it pays are the dividends that it receives from its
24 subsidiaries.

25 Q. When did Great Plains Energy first begin

1 considering acquiring Aquila?

2 A. I think at various times, as we look at
3 strategic options, we -- we thought about that.
4 However, if you go back into the 2005 and 2000 --
5 early 2006 time frames, you will also see in our
6 strategic statements that our -- our vision for the
7 future was one of internal growth, growth in the
8 utility. Also we had growth plans for our
9 unregulated subsidiary in Pittsburgh.

10 But with respect to our regulated
11 enterprises, we were embarked on a program of organic
12 growth, and -- and we felt that was significant. We
13 spent all of 2003 and moving into 2004 working with
14 many of the parties here in the room around building
15 a comprehensive energy plan and embarking on a very
16 large construction program that we're in the middle
17 of.

18 What happened, however, was we began to
19 get the impression that -- and understood that Aquila
20 had a number of problems and issues. And then
21 ultimately, they came to us and indicated that they
22 would be embarking on a formal process to review
23 their strategic options.

24 At that point I think the compelling
25 vision of a strong, stable regional utility with

1 local ownership seemed to us very compelling, and we
2 became a party to that process, albeit with the major
3 internal program that we already had underway.

4 Q. So is your answer that it was in the
5 2005 to 2006 time frame that Great Plains Energy
6 began considering acquiring Aquila?

7 A. Yes. Particularly, though, as Aquila
8 made its announcement, or announced to us a limited
9 group of people.

10 Q. Did Kansas City Power & Light Company
11 employees provide Great Plains Energy assistance in
12 evaluating acquiring Aquila?

13 A. A number of our people were involved
14 in -- in assessments.

15 Q. And "our people" refers to Kansas City
16 Power & Light Company people?

17 A. That's correct.

18 Q. Were those people from Kansas City
19 Power & Light Company involved in the evaluation
20 because of their experience in utility operations?

21 A. Yes.

22 Q. Were those people involved in the
23 process that Great Plains Energy used in evaluating
24 acquiring Aquila in the year 2006?

25 A. I don't recall specific dates. There

1 are a number of people who have been involved at
2 different times. One of the key parts of our
3 testimony that you're gonna hear and see in the
4 course of this process is around synergy savings, and
5 I've expressed that a lot of the real value from this
6 comes from the integration. I mean, I -- I live as
7 close or closer to Aquila facilities as I do
8 facilities in my own company.

9 We have offices in multiple places that
10 are within 10 or 15 minutes of each other, so the --
11 the whole issue of how we are going to function going
12 forward, where -- where synergies can come from, the
13 fact that we're so adjacent makes it a very -- we
14 probably have the most powerful ability to create
15 synergies, to unlock synergies of any potential
16 bidder. And what was key was to get the real
17 expertise of our utility people thinking about that
18 and involved in it.

19 MR. WILLIAMS: Judge, I think his
20 answers are going way beyond the scope of the
21 questions. Would you direct the witness to just
22 answer the questions as posed?

23 JUDGE DIPPELL: I'd be happy to.
24 Mr. Downey, I believe you did actually answer his
25 question that you didn't recall, and -- and if you

1 could try to keep your answers to the questions, we'd
2 appreciate it.

3 THE WITNESS: Yes, your Honor.

4 BY MR. WILLIAMS:

5 Q. And I'm gonna try on this topic one more
6 time. To the best of your recollection, when did
7 Kansas City Power & Light Company employees first
8 become involved in the evaluation process for Great
9 Plains Energy acquiring Aquila?

10 A. It would have been during the course of
11 the assessment process. Once we had the preliminary
12 bids in, and I don't know specifically -- there were
13 a number of people involved, and I don't know
14 specifically when and what time people did get
15 engaged in it.

16 Q. Were there more than one bid that was
17 made to Aquila? You mentioned a preliminary bid, and
18 I --

19 A. No. The process was -- the process was
20 the initial -- a nonbinding bid followed by -- I'm
21 talking about the process that we went through, the
22 single process.

23 Q. Well, you said something about a
24 preliminary bid, and I've also heard --

25 A. I meant the nonbinding bid.

1 Q. The one that was done in November?

2 A. Yes.

3 Q. Do you know the value of the assets of
4 Great Plains Energy and its subsidiaries on a
5 consolidated basis?

6 A. The assets are about \$4.8 billion.

7 Q. Do you know the amount of the
8 liabilities of Great Plains Energy and its
9 subsidiaries on a consolidated basis?

10 A. I believe that's about a billion, a
11 billion of current liabilities. There are deferred
12 and other liabilities that are probably about another
13 1.1 billion.

14 Q. Do you know the value of the assets of
15 Kansas City Power & Light Company?

16 A. About 4.3 billion.

17 Q. And do you know the liabilities of
18 Kansas City Power & Light Company?

19 A. Both current and deferred and other,
20 about 1.8 to 1.9 billion.

21 THE COURT REPORTER: Billion?

22 THE WITNESS: Billion.

23 BY MR. WILLIAMS:

24 Q. Do you know the value of Aquila's
25 assets?

1 A. I do not. Let me --

2 Q. Do you know the value of Aquila --

3 MR. ZOBRIST: I'm sorry. I think the
4 witness was reflecting.

5 THE WITNESS: I -- I -- I'm thinking
6 about the enterprise value equity and debts, about
7 2.7, 2.8 billion. I believe the -- there's about a
8 billion of debt, about 1.7 to 1.8 of equity. I think
9 the rate base in the Aquila utilities, about a
10 billion, a little bit more, maybe.

11 BY MR. WILLIAMS:

12 Q. When you're talking about rate base, are
13 you talking about the value of Aquila's regulated
14 utility assets in Missouri?

15 A. Yes.

16 Q. And you said that was about a billion?

17 A. A little bit more.

18 MR. ZOBRIST: Well, let me just object
19 because I'm not a financial expert --

20 MR. WILLIAMS: He's already -- or asked
21 and answered.

22 MR. ZOBRIST: Well, I didn't have time
23 to get my objection in. We heard "value" and then we
24 heard "assets," and I'm not sure if we're talking
25 about rate base or market value, so -- at any rate,

1 my objection is for the record.

2 JUDGE DIPPELL: Okay. I'm not sure
3 that's actually an objection, but if you want to
4 clarify that on direct, you can do so.

5 MR. ZOBRIST: All right. Thank you.

6 JUDGE DIPPELL: Or redirect.

7 BY MR. WILLIAMS:

8 Q. Do you know the amount of Aquila's
9 liabilities?

10 A. I don't -- I don't have their balance
11 sheet in my head.

12 Q. Does -- in the state of Missouri, does
13 Aquila or Kansas City Power & Light Company have a
14 larger service area?

15 A. Aquila would.

16 Q. And in Missouri does Aquila or Kansas
17 City Power & Light Company have more customers?

18 A. Aquila would.

19 Q. Didn't Kansas City Power & Light Company
20 agree that it is incumbent upon Kansas City &
21 Power -- Kansas City Power & Light Company to take
22 prudent and reasonable actions that do not place its
23 investment grade debt rating at risk as part of its
24 experimental regulatory plan in Missouri the
25 Commission approved in Case No. EO-2005-0329?

1 A. I got the part about the case. Would
2 you repeat the first half of the --

3 Q. Sure. Didn't Kansas City Power & Light
4 Company agree as part of its experimental regulatory
5 plan in Missouri that it is incumbent upon Kansas
6 City Power & Light Company to take prudent and
7 reasonable actions that do not place its investment
8 grade debt rating at risk?

9 A. Yes.

10 Q. And as part of that same experimental
11 regulatory plan in Missouri, didn't Kansas City Power
12 & Light Company agree that any negative impact from
13 its failure to be adequately insulated from the Great
14 Plains Energy, Inc.'s business risk as perceived by
15 the debt rating agencies will not be supported by its
16 Missouri jurisdictional customers?

17 A. Yes.

18 Q. Are the applicants in this case
19 proposing that if Aquila is acquired by Great Plains
20 Energy, Aquila's actual debt interest cost is to be
21 included in Aquila's cost of service in
22 post-acquisition rate cases?

23 A. It -- it is one of the variables within
24 a number of -- of important issues that we're
25 considering here and that we've advocated.

1 Q. Does that mean your answer is yes?

2 A. Yes.

3 Q. And is Kansas City Power & Light Company
4 one of the applicants in this case?

5 A. Great Plains Energy is the applicant.

6 Q. So it's your understanding that Kansas
7 City Power & Light Company is not an applicant in
8 this case?

9 A. They're -- they're involved in this
10 case.

11 Q. If you don't know, that's fine too.

12 A. Well, I -- I'm not sure of the exact --
13 the exact -- I mean, Kansas City Power & Light is
14 here because we're the regulated entity involved as
15 part of the Great Plains acquisition.

16 Q. Are the applicants in this case also
17 requesting that if Great Plains Energy acquires
18 Aquila, there be a regulatory amortization available
19 in future rate cases to enable Aquila after the
20 acquisition to have sufficient cash flow to maintain
21 credit rating -- credit ratings during periods of
22 construction?

23 A. Yes.

24 Q. Who will be president of Aquila after
25 Great Plains Energy acquires Aquila, if it does so?

1 A. I will be.

2 Q. If Great Plains Energy acquires Aquila
3 as part of -- as proposed in this case, what
4 rating -- debt rating are you anticipating the debt
5 rating agencies will give to Aquila for its debt?

6 A. We have very specific financial
7 witnesses. I'm thinking about Mr. Bassham and
8 Mr. Cline, and I think those questions are better
9 answered by them.

10 Q. Are you anticipating that it will be an
11 investment grade debt rating?

12 A. Our intent day one through the
13 transaction is to create an investment grade
14 situation. That's a question that's been asked here,
15 and I think what may have been lost in the first few
16 days is the extent to which we're going to reduce the
17 debt, refinance debt, infuse cash and lower the
18 amount of debt in the balance sheet for Aquila to
19 make an investment grade day one. All of that is
20 going to occur and all of that will be testified to
21 by Mr. Bassham and Mr. Cline.

22 Q. And have you relied on input from the
23 debt rating agencies for anticipating that Aquila
24 will remain -- will become investment grade if Great
25 Plains Energy acquires Aquila as proposed in the

1 transaction in the case?

2 A. The answer is yes, Mr. Cline works with
3 those people on a regular basis, and he will be,
4 again, testifying with regard to that.

5 Q. Do you know if those debt rating
6 agencies advised Aquila that Aquila -- I mean advised
7 Great Plains Energy that Aquila's debt rating would
8 be investment grade if the acquisition takes place as
9 proposed except that the Commission does not approve
10 the proposed regulatory amortization feature?

11 A. Again, I think that's better answered by
12 Mr. Cline.

13 Q. You don't know?

14 A. I don't.

15 Q. Are you aware that the Missouri Public
16 Service Commission Staff took the position in
17 Aquila's last rate case that Aquila's rates for
18 Aquila Networks-MPS should be based on the cost of
19 five combustion turbines on a site such as South
20 Harper owned by Aquila rather than the three
21 combustion turbines Aquila actually installed at
22 South Harper and purchased power agreements?

23 A. Somewhat familiar.

24 Q. Do you know if that issue has been
25 resolved?

1 A. I don't.

2 Q. Do you now have a plan as to what
3 Aquila's position would be on that issue if Great
4 Plains Energy acquires Aquila?

5 MR. ZOBRIST: I'd just object. I'm not
6 sure what the antecedent is, what the meaning of
7 issue is. Vague and ambiguous.

8 JUDGE DIPPELL: Can you rephrase your
9 question, Mr. Williams?

10 MR. WILLIAMS: Well, I'm -- okay.

11 JUDGE DIPPELL: I'm not sure I
12 understood it either. That's ...

13 BY MR. WILLIAMS:

14 Q. In Aquila's last rate case, the Staff
15 took the position that Aquila should own as part of
16 its generation assets, a site basically the
17 equivalent of the South Harper site except that it
18 would have five combustion turbines on that site as
19 opposed to the three that Aquila has actually built
20 and installed in lieu of, and Aquila actually
21 supplied power through the South Harper site with
22 three combustion turbines plus some purchased power.

23 My question is whether you know at this
24 point what position Aquila would take with regard to
25 that issue, assuming Staff maintains its position, if

1 Great Plains Energy acquires Aquila?

2 A. No, I don't know what our position would
3 be at that point in time.

4 Q. Do you know how this issue between Staff
5 and Aquila regarding South Harper, the treatment of
6 generation assets, would impact the regulatory
7 amortization that Great Plains Energy is requesting
8 be used in this case for Aquila?

9 A. I do not at this time.

10 Q. Do you know what witness in this case
11 might?

12 A. I think we'd be speculating. I mean,
13 one of the benefits that clearly could be brought to
14 bear here is the generating, particularly if you
15 combine cost of the generating assets of our own
16 existing fleet and the low cost of coal that we have.

17 So I think as we -- if we were to go
18 through with this transaction, one of the benefits
19 that might accrue out of that effort is a different
20 configuration. So I think we'd have to work through
21 that with the Commission Staff and figure that out.
22 I don't -- I don't have a set or stated position at
23 this point.

24 Q. How long have you worked for regulated
25 utilities in the United States?

1 A. 35 years.

2 Q. And where have you worked? Well, let's
3 start -- you're currently employed by Great Plains
4 Energy and Kansas City Power & Light Company,
5 correct?

6 A. Yes.

7 Q. And how long have you worked for Great
8 Plains Energy and Kansas City Power & Light Company?

9 A. Since September of 2000.

10 Q. And who were you employed by before
11 that?

12 A. A company now called Exelon, formerly
13 Unicom, formerly Commonwealth Edison Company.

14 Q. And how long did you work for what is
15 now known as Exelon?

16 A. I started with them in 1971.

17 Q. And you left?

18 A. I left in 1999.

19 Q. What did you do between when you left
20 Exelon -- what's now Exelon in 1999 and began
21 employment with Great Plains Energy/Kansas City
22 Power & Light Company?

23 A. My -- my last position with then Unicom
24 was as a corporate vice president of -- of
25 Commonwealth Edison Company, its regulated utility,

1 and I was also president of Unicom Energy Services
2 which was a startup unregulated energy services
3 company within our holding company, Unicom.

4 Q. I was asking what you did between 1999
5 and 2000 when you began employment --

6 A. Oh, I -- I was -- I was in between
7 positions.

8 Q. Unemployed?

9 A. Yes.

10 Q. And why was it that you left -- I
11 believe you called it Unicom at the time you left in
12 1999?

13 A. There were a series of high-level
14 management changes in the company. I had the
15 opportunity to take advantage of a retirement package,
16 and I was a fully retireable age and so I took it.

17 Q. So you voluntarily retired?

18 A. Yes.

19 Q. Were the utility properties of Unicom
20 bigger than the combined operations of Kansas City
21 Power & Light Company and Aquila?

22 A. Yes, they were.

23 Q. Have you been involved in utility
24 mergers in the past, aside from this case?

25 A. No.

1 Q. Do you know if any commission in this
2 country has authorized a regulatory amortization as
3 part of authorizing the acquisition or merger of a
4 regulated utility?

5 A. I'm not familiar with any.

6 Q. Were the board of directors of Great
7 Plains Energy repeatedly told beginning as early as
8 July of 2006 that there was a need to discuss the
9 acquisition of Aquila with regulators?

10 A. We certainly apprised our board of the
11 regulatory process that would be involved, this being
12 one of a number of regulatory approvals that we had
13 to get.

14 Q. My question is whether or not -- whether
15 the board of directors of Great Plains Energy was
16 repeatedly told beginning as early as July of 2006
17 that there was a need to discuss the acquisition of
18 Aquila with regulators?

19 A. I believe I answered yes.

20 Q. And who were the regulators that were
21 being referred to?

22 A. There were a number of state regulatory
23 bodies who -- whose approval would be required. This
24 was a complex transaction. We clearly had to get our
25 home-based state regulator, the Missouri Public

1 Service Commission. The Kansas Corporation Commission
2 was involved. The regulatory commissions in Colorado
3 and Kansas and Nebraska and Iowa had -- I had -- we
4 had to, through various ways, get approvals.

5 All of -- all of those approvals were a
6 condition of the successful -- we had to get FERC's
7 approval, we had to have SEC approvals, we had the
8 Hart-Scott-Rodino approval. There were -- there were
9 numerous regulatory approvals to go through in order
10 to get to a successful conclusion.

11 Q. And were those statements to the Great
12 Plains board of directors that there was a need to
13 discuss the acquisition of Aquila with regulators
14 made by the management of Great Plains Energy and
15 Kansas City Power & Light Company?

16 A. Yes.

17 Q. And were consumer interest groups or
18 representatives of ratepayers such as the Office of
19 Public Counsel in this state included within your
20 definition of regulators?

21 A. Well, with any regulator, there's a
22 regulatory process and there are parties to the
23 process, so would we have envisioned all of those
24 parties? Yes.

25 Q. And did those discussions with

1 regulators about the acquisition of Aquila take
2 place?

3 A. I'm sorry. Would you repeat that again?

4 Q. Did those discussions with regulators
5 occur?

6 A. In starts and stops. As I think has
7 been indicated, we -- we -- early on, when we were
8 allowed to and as a part of this competitive bidding
9 process, as soon as we were in a position to, we
10 began conversations with regulatory personnel in
11 Missouri.

12 Q. And when would that have been?

13 A. It would have been somewhere early in
14 2007 following -- or just ahead of the
15 announcement -- the public announcement that we would
16 be the successful bidder.

17 Q. Was that announcement in February of
18 2007?

19 A. Yes.

20 Q. And did those discussions take place in
21 January of 2007?

22 A. We -- we initiated education,
23 communication and discussion in January.

24 Q. Why didn't that discussion take place
25 earlier?

1 A. We would like to have, but the
2 competitive bidding -- bidding process precluded us
3 from doing so.

4 Q. How did the competitive bidding process
5 prevent you from doing so?

6 A. Aquila, as a part of the process,
7 required our signing of a confidentiality agreement
8 and prevented us from going forward ourselves
9 individually to begin communication with regulators.

10 Q. Did you request Aquila to allow you to
11 go speak with regulators?

12 A. Yes.

13 Q. And when did you make that request?

14 A. I don't recall the specific times. I
15 wasn't the person directly involved in the -- that
16 process.

17 Q. Is the person who was directly involved
18 in that process a witness in this case?

19 A. Well, I believe that Mr. Chesser was
20 asked with regard to his communication, and I -- I
21 know that Mr. Bassham will be on the stand later.
22 And Mr. Bassham was responsible at the deal -- at
23 deal time. As I'm sure you understand, we have a
24 broad set of things going on. He was given principal
25 responsibility for the deal.

1 Q. Do you know the earliest point in time
2 when Great Plains Energy/Kansas City Power & Light
3 Company made the request to Aquila to speak with
4 regulators?

5 A. I don't.

6 Q. Do you know when Great Plains Energy
7 made its final nonbinding bid to Aquila?

8 A. I don't have that in my head. As I
9 said, Mr. Bassham was the deal person. It was
10 sometime end of November, December of 2006.

11 Q. Do you know if as part of that final
12 nonbinding bid, Great Plains Energy included a
13 provision that it would need to talk to regulators
14 before it would execute a definitive agreement with
15 Aquila?

16 A. I believe that was the case.

17 Q. And when did those discussions with
18 regulators occur?

19 A. Again, I think not until Aquila released
20 us, and I think that was in January.

21 Q. Is it your approach to regulators on
22 matters such as this acquisition of Aquila to present
23 a hard and fast proposal and try to convince the
24 regulators on the proposal?

25 A. I don't believe that's the way we've

1 functioned as long as I've been with the utility. We
2 have made every effort to come in and define areas of
3 agreement. That's how we achieved our comprehensive
4 energy plan. It's the approach we prefer to take.

5 Q. So your approach is to engage in a
6 collaborative process; is that what you're saying?

7 A. Yes.

8 Q. Have you ever used the phrase, "The
9 devil is in the details"?

10 A. I might have. I can't remember exactly.

11 Q. What does that phrase mean to you?

12 A. It means that grand, sweeping statements
13 are great, but we have to go effort by effort, detail
14 by detail to make sure we succeed.

15 Q. Is the devil in the details of the
16 proposal that's before this Commission to -- for the
17 acquisition of Aquila?

18 A. I would tell you that I think that's the
19 case. It's -- it is an interesting juxtaposition as
20 to how overwhelming good -- good sense this -- this
21 whole -- bringing together these two organizations
22 makes for the -- the region of the state, and yet,
23 yes, I see that details could trip that up. That
24 would be incredibly unfortunate for the state, for
25 our customers, for Aquila's customers if that were to

1 occur.

2 Q. If those details are so important, why
3 didn't Great Plains Energy/Kansas City Power & Light
4 Company make more effort to work through those
5 details before it entered into a final agreement with
6 Aquila?

7 A. I believe we have made and continue to
8 make efforts, but we have to -- we are willing to
9 talk and we are looking for willing partners to talk
10 with.

11 Q. Did you originally plan to address those
12 details in a rate case that you requested Aquila to
13 file?

14 A. You know, there's been a lot of
15 discussion about a 2007 rate case, and there -- there
16 were many reasons to think about doing that. We
17 thought some of them were good. We attempted to
18 negotiate that and to cause that to occur because
19 this proceeding can only go just so far, and many of
20 the things we're talking about need to be affirmed in
21 a -- in a rate case.

22 The idea of the side-by-side in our
23 initial planning made a lot of sense to us. It
24 didn't make sense to the other side of the equation,
25 and so ultimately we didn't do that. If we could

1 have moved forward with a rate case and with this
2 hearing, we might have been able to consolidate a
3 number of things. We thought that made practical
4 sense. We weren't able to be successful in
5 convincing other parties to this deal that that made
6 sense.

7 There were -- they may have had good
8 reasons on their side for their position, but the
9 reality was, we were one part of this equation and we
10 did the best we could to move it forward. We weren't
11 successful.

12 Q. Well, if you were addressing a
13 regulatory amortization in the context of a rate
14 case, wouldn't you have gotten input from interested
15 parties such as the Office of Public Counsel and the
16 Staff of the Missouri Public Service Commission?

17 A. That would have been our desire and that
18 would have been the way we would have gone about it.

19 Q. And in the context of a rate case, would
20 you have more flexibility than you do in this case
21 now?

22 A. I -- I -- I guess I don't know how to
23 answer that question.

24 Q. Who was responsible at Great Plains
25 Energy/Kansas City Power & Light Company to initiate

1 the collaborative process with regulators?

2 A. Our regulatory team.

3 Q. And who are the members of that
4 regulatory team?

5 A. Mr. Giles and his organization,
6 Mr. Rush, who's here today.

7 Q. Anyone else?

8 A. There are a number of members of the
9 regulatory team. Those are the principals.

10 Q. Would you go ahead and give me the rest
11 of the team, if you know?

12 A. I -- there's a -- there's a --
13 there's -- in addition to the regulatory Staff, there
14 are members of our legal team, Mr. Riggins, our
15 general counsel for the utility as a part of that
16 effort. There are others. I just -- that's -- those
17 are the names that come to mind.

18 Q. Are those the primary people?

19 A. Yes.

20 Q. Are the applicants in this case
21 proposing that if Great Plains Energy is authorized
22 to acquire Aquila, this Commission assumes there will
23 be merger synergy savings of about \$305 million over
24 five years and that one-half of the annualized amount
25 of that -- those savings be included in Aquila's cost

1 of service as 50 percent of merger synergy savings
2 regardless of what synergy savings are actually
3 realized?

4 A. That is the proposal and -- and one
5 approach. We are -- we intend to and are fully
6 prepared to document those. The proposal does have a
7 stipulation as to amounts, but I believe we've
8 indicated our willingness and flexibility with regard
9 to how that might be dealt with.

10 Q. Have you put any other proposal on the
11 table lately?

12 A. The proposal as -- is on the table
13 regards to stipulating those savings. It's been
14 through discussion that we've indicated otherwise.

15 Q. Are the applicants in this case
16 proposing that if Great Plains Energy is authorized
17 to acquire Aquila, the Commission amortized the
18 amount of about 95 billion over five years --
19 \$95 million over five years for recovery of the
20 transaction costs of the acquisition and include the
21 annualized amount in Aquila's cost of service for
22 recovery in rates?

23 A. That is the proposal.

24 Q. Are the applicants in this case
25 proposing that if Great Plains Energy is authorized

1 to acquire Aquila, the Commission amortize the amount
2 of about \$45 million over five years for recovery of
3 the transition costs of the acquisition and include
4 the annualized amount in Aquila's cost of service for
5 recovery in rates?

6 A. That is the proposal.

7 Q. Did Great Plains Energy originally plan
8 in the summer of 2006 to have the issues of the use
9 of Aquila's actual debt cost, a regulatory
10 amortization for meeting credit metrics, sharing of
11 synergies and recovery of transaction costs be
12 addressed in an Aquila rate case that would be
13 pending at the same time that Great Plains Energy's
14 request for authorization to acquire Aquila was
15 pending?

16 A. Well, as I mentioned before, it was a --
17 it was a -- an option and a thought that we had. We
18 thought it would make sense to try to pull as many
19 things together as we could and to deal with them in
20 the appropriate venues. So that was a thought.

21 There were lots of thoughts, and this is
22 a constant -- when you embark on one of those
23 processes, it's a constant journey of discovery and
24 you have an idea, and then you find out it doesn't
25 work, you find you learn the facts, you get different

1 reactions, so that was part of a journey of thought
2 about how we might best accomplish this.

3 Q. Was that your preferred approach at that
4 time?

5 A. It was at the time.

6 Q. And did Aquila oppose -- oppose that
7 plan that it file a rate case in conjunction with the
8 sale of Aquila?

9 A. I wasn't directly involved in the
10 negotiation. I think that's better answered by
11 Mr. Bassham and the people who were involved directly
12 in the deal discussions.

13 Q. Do you know the answer to that question?

14 A. Clearly, we didn't go forward with it,
15 and my understanding was that there was objection
16 from Aquila.

17 Q. Is there any requirement that Kansas
18 City Power & Light Company and Aquila have common
19 ownership before their regulated -- regulated utility
20 operations in Missouri could be integrated?

21 MR. ZOBRIST: I just want to object to
22 the extent that calls for a legal conclusion.

23 JUDGE DIPPELL: I'll sustain that
24 objection.

25 BY MR. WILLIAMS:

1 Q. Is there -- to your knowledge is there
2 any reason why Kansas City Power & Light Company and
3 Aquila couldn't right now integrate their utility
4 operations?

5 A. I think there are a number of very
6 important reasons why we ultimately settled on -- on
7 this approach to bringing the organizations together.

8 Q. Well, my question is if you know of any
9 reason why they couldn't -- why those two companies
10 couldn't integrate their operations now?

11 A. Integrate their operations?

12 Q. Yes.

13 A. As opposed to their assets?

14 Q. Yes.

15 A. In some ways we already do those sorts
16 of things. For example, Iatan unit 1, Aquila
17 receives energy from it. We operate it, we built it.
18 I'm less clear when you get to, for example, a number
19 of corporate functions or you get to union
20 jurisdictions, that that would be so readily possible
21 absent the kind of merger that we're envisioning.

22 Q. Didn't Aquila and Kansas City Power &
23 Light Company seek to merge about ten years ago?

24 A. I was not here but that's my
25 understanding.

1 Q. Do you know if that merger closed?

2 A. I know that it didn't.

3 Q. Aren't the applicants in this case
4 asserting there will be many types of merger
5 synergies if Great Plains Energy acquires Aquila as
6 proposed in this case?

7 A. Yes.

8 Q. Wouldn't many of those same types of
9 merger synergies have been available ten years ago?

10 A. I can't speculate on the conditions ten
11 years ago.

12 Q. Is Great Plains Energy planning to spend
13 more capital on Aquila if it acquires Aquila than
14 Aquila plans to spend if it is not acquired?

15 A. Yes, right now Aquila is
16 cash-constrained, and as you look through the
17 synergies, for example, we feel that to really
18 maximize the environmental investment Sibley,
19 additional capital is required. Not only will it
20 improve the overall operation with that environmental
21 equipment on it, but it will gain more output.

22 And yet I believe right now there's
23 capital constraints. I know that Mr. Green talked
24 about discretionary investment as -- as we've
25 assessed in great -- in as great a detail as we can,

1 their system and the needs of their customers, we
2 clearly saw the need for more capital to improve
3 reliability on the system, to get better output out
4 of their fleet, to do a variety of things.

5 So, you know, we are suggesting that
6 because we think it's part of the important
7 investment in the regulated utility to do the kinds
8 of things we think we'd like to get done with
9 customers and to achieve levels of reliability and
10 service that we think are appropriate for the
11 customer base. We think that's part of the overall
12 benefit we're gonna bring to this merger and to the
13 region of the state.

14 Q. And if those capital expenditures in
15 excess of what Aquila's currently planning to spend
16 are actually made, will Aquila seek recovery of those
17 additional expenditures through the rates of Aquila
18 customers?

19 A. Yes, obviously we would once they were
20 in use and useful. There was a question yesterday
21 about 2009 and 2010 rate cases with, I think, an
22 implication that it was caused by this merger. It's
23 actually whether they're standalone or they're part
24 of us, there is a huge environmental retrofit
25 investment being made that should be concluded at the

1 end of next year, 2008, that -- that will -- would
2 cause either us combined or them alone to come in for
3 a rate case. That's why that's identified in our
4 schedule.

5 And then the 2010 one is the bringing
6 into service a major new plant addition which is a
7 regional asset which they own a share of, so they
8 would be coming in then. I think it was misleading
9 to suggest that those rate cases are a result of the
10 merger. In fact, the merger should help to mitigate
11 the amount of the rate increases that are caused by
12 those two plant investments.

13 Q. Do you know what rate increase would be
14 associated with those capital expenditures?

15 A. I don't have specific numbers in my
16 head.

17 Q. How would Kansas City Power & Light
18 Company and Great Plains Energy, Inc. be affected if
19 their short-term debt ratings are downgraded?

20 A. It would make our raising of capital
21 more expensive and possibly harder to get.

22 Q. If this Commission approves the
23 transaction as proposed by the applicants, will
24 Kansas City Power & Light Company's and Great Plains
25 Energy's short-term debt ratings be downgraded?

1 A. I don't believe so, but I -- I think
2 that those are questions better answered by our
3 financial experts.

4 Q. And who would those be?

5 A. Mr. Bassham and Mr. Cline.

6 Q. What steps have Kansas City Power &
7 Light Company and Great Plains Energy taken to assure
8 that service quality will not deteriorate for either
9 Aquila's customers or the customers of Kansas City
10 Power & Light Company if Great Plains Energy acquires
11 Aquila?

12 A. Well, we would follow very many of the
13 same practices that we already do at Kansas City
14 Power & Light which have led to very significant
15 positive results. Mention has been made, there's
16 testimony provided around our system reliability as
17 being top in the United States currently.

18 We do that through setting annual goals,
19 through benchmarking ourselves with other
20 organizations to make sure we're -- we have best
21 practices. We strive in our annual management
22 planning and goal setting to be the best that we can
23 be. We've gotten very positive results from that
24 process.

25 It is our absolute intent to bring that

1 process to bear on -- on the Aquila properties and
2 very -- in exactly the same way we do it in Kansas
3 City Power & Light. We've looked at both sides and
4 we've made a concerted effort to make sure if Aquila
5 had a best practice that we would take advantage of
6 that. If we had a best practice, we would take
7 advantage of that.

8 You can -- we've been making regular
9 announcements about the new teams as they would be
10 designed to make sure we have taken the best skills
11 in terms of management from each organization.
12 Specific examples, the call center. We've talked
13 about the fact that Jim Alberts at Aquila is
14 recognized by this Commission Staff as having done an
15 outstanding job. He will be the leader in our call
16 center operations.

17 They have learned how to deal with
18 customers with different rate structures within a
19 call center environment. We obviously are gonna have
20 different rate structures in the near term, so that
21 team would do that well.

22 Aquila's got a good combustion turbine
23 management team. We think that we can improve our
24 combustion turbine management through that. We think
25 we've got better fleet management on the coal plants

1 and a broader base of experience.

2 So there are very specific examples, and
3 have each functional officer look specifically and
4 take accountability for making sure that we deliver
5 top quality service, that we don't have a blip as we
6 make these transitions, that they built the right
7 team to cause it to occur.

8 And in their business planning for next
9 year and beyond, those officers will take the
10 analysis they've done and will own the accountability
11 for achieving the results. And that's a very clear
12 process that we've set out in this way. I oversee
13 that. I oversee the integration.

14 You mentioned my experience earlier with
15 a much larger organization. I've done process
16 reengineering with a group of 5,000 people in order
17 to improve service delivery to customers, and we're
18 bringing those kind of skills and approaches to this
19 effort.

20 Q. Are customers affected as service
21 quality deteriorates?

22 A. Yes.

23 Q. And if you're president of both Kansas
24 City Power & Light Company and Aquila
25 post-acquisition and service quality deteriorates,

1 how will you be impacted?

2 A. I will be impacted right here in this
3 hearing room, I'm sure. We would be reviewed
4 annually, I know that we'll be reporting regularly to
5 the Commission. These are very transparent
6 processes. Both Aquila and we currently have
7 reporting processes.

8 So, you know, we do it internally as
9 part of the management process. We have an absolute
10 obligation to report our service to this Commission
11 and to have our performance reviewed. So -- and
12 we'll be regularly before this Commission answering
13 for that service.

14 Q. How are Great Plains Energy shareholders
15 impacted if service quality deteriorates at Kansas
16 City Power & Light Company or Aquila?

17 A. Shareholders are affected by a negative
18 impact on their ownership value, whether it's, you
19 know, stock price being one, but a hostile
20 environment, a poor quality of performance. Low
21 satisfaction from customers translates into negative
22 regulatory and political action. And you know, this
23 is a state where that's fairly obvious these days.

24 Q. That wouldn't be an immediate impact,
25 would it?

1 A. It occurs over time. It's -- it's --
2 it's harder to build up a good reputation and takes a
3 lot longer. It's very easy and you can -- it's a
4 slippery slope to lose that reputation.

5 Q. Is Kansas City Power & Light Company
6 better at operating utility property than Aquila is?

7 A. Well, I think I've just said that I
8 think on balance our performance is strong, but there
9 are areas of strength and weakness, and we're
10 gonna -- we constantly work on the weakness side,
11 constantly try to reinforce the strength. We see
12 bits and pieces of both in each, and we're going to
13 continue our journey of improvement.

14 Q. Does Kansas City Power & Light Company
15 have better generation plant availability than
16 Aquila?

17 A. Yes.

18 Q. Who makes the ultimate decision that
19 Kansas City Power & Light Company will file a rate
20 case in Missouri?

21 A. Clearly, it's the responsibility of the
22 utility senior management to assess regularly its
23 need for rate treatment or rate change. Given our
24 ownership structure and the way we operate, we have a
25 senior leadership team that gets together. I would

1 make the ultimate recommendation to the holding
2 company that we do that and seek their approval to
3 move forward.

4 It's -- any time you come in for a -- a
5 regulatory rate case, an increase in rates, it's a
6 significant effort, it's a significant step for the
7 utility. We hadn't been in 25 years up until the
8 2004 time frame. So when we do it, it's of great
9 significance.

10 We're obviously going to be before the
11 Commission on rate issues between now and 2011
12 because of the significant bill program we have and
13 what's already outlined in the comprehensive energy
14 plan. So some of those things are now embedded as we
15 look at the next couple of years going forward. But
16 the process I mentioned is the one you'd normally
17 follow.

18 Q. You indicated you'd make the ultimate
19 recommendation to Great Plains Energy. Who would
20 make the ultimate decision if there is a person who
21 would do so or a group?

22 A. Well, clearly, Mr. Chesser weighs in on
23 our board.

24 Q. And when you say your board, are you
25 referring to the board of directors of Great Plains

1 Energy or the board of directors of Kansas City Power
2 & Light Company?

3 A. Both.

4 Q. If Great Plains Energy acquires Aquila
5 presently, who is the person to be ultimately --
6 person or group who ultimately decides when Aquila
7 files a rate case in Missouri?

8 A. The process I just mentioned for Kansas
9 City Power & Light would be the process we would
10 follow with Aquila.

11 Q. And the structure would be the same?

12 A. The people are going to be one and the
13 same. We will not have two presidents, we will not
14 have two vice presidents of transmission, two vice --
15 we're gonna have a single officer integrating the
16 operations for each of those functional areas.

17 Q. What are the rates of utility customers
18 that fit within Great Plains Energy's strategic
19 intent?

20 A. Top tier operations. We strive to --
21 strive to run our system well, to operate in a
22 positive constructive manner with our customers and
23 with the communities that we serve. All of that gets
24 to the issue of our cost structure and our ability to
25 operate successfully.

1 Q. What assurance can you provide this
2 Commission that within the time frame they set out in
3 their testimony, the merger synergy estimates that
4 the applicants' witnesses have provided in their
5 testimony will be met or exceeded?

6 A. Well, I know that Mr. Marshall's going
7 to walk through and others in detail the way we're
8 going about these synergies, and I've talked to you
9 about assigning accountability to individual officers
10 and incorporating the synergy plans into annual work
11 plans and accountabilities. And -- and we are
12 contemplating a transparent process certainly for our
13 own management obligations, but that transparent
14 management process for us is clearly gonna be
15 transparent to the Commission and the Staff.

16 Q. If the estimated merger synergy levels
17 are not achieved and reflected in future rate cases,
18 who suffers the consequences?

19 A. I believe that all of our key
20 constituencies suffer, our customers, our own company
21 and its employees, the region.

22 Q. How will your customers suffer?

23 A. Lower levels of reliability, less
24 service than we had contemplated.

25 Q. If those merger synergies are not

1 achieved within the time frames provided in the
2 testimony, what consequences will that have to
3 Aquila?

4 A. I believe I just went through those in
5 the last answer to the last question.

6 Q. What consequences will it have to Great
7 Plains Energy's shareholders?

8 A. A -- a poor performing utility would
9 appear to do less well with regard to share price and
10 interest in it as an investment. One of the key
11 things we obviously have to do is raise money, and
12 particularly when you're in a period of enormous
13 building and operations, being financially successful
14 is critical to attracting both equity and debt.

15 The implications of being less
16 successful, of not being able to demonstrate that you
17 can meet the challenges of all of those components of
18 a regulated environment and -- and doing first class
19 operations translates to less interest in -- in the
20 institution as an investment vehicle or as a place to
21 lend money.

22 Q. Will the impacts on customers be more
23 immediate than the impacts on shareholders?

24 A. They could be.

25 Q. In your synergy savings proposal, why

1 aren't all the costs to achieve subtracted from
2 synergies before being split 50/50?

3 A. I believe the theory is that the
4 transaction costs should be accounted for
5 differently. I think that Mr. Chesser -- again, it's
6 a proposal. It's not an unusual one with regard to
7 treatment, as I'm told by our regulatory people.

8 Or if you look around the country,
9 this -- it's not necessarily 100 percent occurring
10 but it's not at all unusual to deal with the
11 transaction costs the way we've proposed. As
12 Mr. Chesser said, obviously there's any number of
13 ways we could discuss that, but in the proposal we
14 treated them as being amortized and recovered first.

15 Q. Why did you elect that treatment?

16 A. I think Mr. Bassham is probably the
17 appropriate person to deal with that.

18 Q. What has Great Plains Energy done to
19 initiate a collaborative process involving
20 stakeholders with the goal of developing an
21 appropriate regulatory amortization for Aquila in the
22 event Great Plains Energy acquires Aquila?

23 MR. ZOBRIST: Judge, I think we've
24 already been over that so I'm gonna object as asked
25 and answered.

1 JUDGE DIPPELL: I missed the first part
2 of your question, Mr. Williams. What was the first
3 part of your question?

4 MR. WILLIAMS: I was asking what Great
5 Plains Energy has done to initiate a collaborative
6 process involving stakeholders with the goal of
7 developing an appropriate regulatory amortization for
8 Aquila if Great Plains Energy acquires Aquila. What
9 I asked earlier was about regulators. I think this
10 is broader.

11 JUDGE DIPPELL: I think this is broader.
12 We did talk some about the Public Counsel's office as
13 well as regulators -- state regulators. I'll allow
14 him to answer.

15 THE WITNESS: Would you repeat the
16 question?

17 BY MR. WILLIAMS:

18 Q. What steps has Great Plains Energy taken
19 to initiate a collaborative process involving all
20 stakeholders with the goal of developing an
21 appropriate regulatory amortization for Aquila in the
22 event Great Plains Energy acquires Aquila?

23 A. Well, I -- I know that Chris Giles has
24 been on the stand, but I will -- I will say to you
25 that it has been Mike Chessser's desire and mine early

1 on to engage parties in a conversation. My sense --
2 I rely on my regulatory team to understand how to --
3 how to ford the river here in Jefferson City and how
4 to engage in conversations.

5 And many of these parties are involved
6 repeatedly, and so I think they've -- they've used
7 their best judgment in terms of how to proceed, and I
8 know that they've -- they've not been particularly
9 successful in getting that conversation moving
10 forward.

11 But we've talked about the fact that we
12 were constrained prior to the actual announcement of
13 the deal because of the nature of the competitive
14 bidding process that went on and the requirements
15 that were attached to it. We've made repeated
16 efforts to get a conversation going and we haven't
17 had much luck. We'd love to do that. I know that
18 the Chairman of the Commission strongly encouraged
19 that this week. We agree with that.

20 As I said, I think it would be terribly
21 unfortunate -- this deal makes all the sense in the
22 world for this region of the state, for the service
23 to the customers, for local ownership, for an
24 organization committed to the well-being of that part
25 of the state that's demonstrated it can work well

1 with a lot of parties. We would very much like to
2 have that conversation occur.

3 Q. Has Great Plains Energy met with
4 Missouri Public Service Commission Staff to discuss
5 the methodology approach, measurement or details
6 regarding the cost in synergies of the proposed
7 acquisition of Aquila by Great Plains Energy?

8 A. I believe our regulatory team has made
9 those efforts.

10 Q. Does Kansas City Power & Light Company
11 plan to improve the productivity of its Missouri
12 electric operations if Great Plains Energy does not
13 acquire Aquila?

14 A. That's a constant journey that we
15 undertake every year. I've talked about our
16 management process, how we work with the regulators
17 to get better. That's a process that's ongoing.

18 Q. So your answer is yes?

19 A. Yes.

20 Q. Do the merger synergy levels that have
21 been reflected in the testimony of witness -- of
22 your -- of the applicant's witness in this case
23 reflect that assumption?

24 A. Would you repeat that, please?

25 Q. Do the merger synergy levels that appear

1 in the testimony of the applicants' witnesses in this
2 case reflect that assumption?

3 A. I believe that what -- that those --
4 that testimony reflects is something above and beyond
5 what we could achieve as an individual standalone
6 company.

7 I view this as an extraordinary
8 opportunity to unlock a group of things: combining
9 technology and software that Aquila has with other
10 things that we've got going, with size, that we can
11 have more of a voice at the table. Competitive
12 negotiations with vendors is a challenge at any point
13 in time. Size and strength there provides
14 opportunities, consolidations, fleet -- our fleet.

15 You know, I think -- I know that in
16 the -- just in the best practices side of things and
17 with the -- just the savings that are identified in
18 that testimony, half of those come from eliminating
19 duplication from the corporate level, from the A&G
20 level.

21 About 40 percent come from the
22 distribution organization, and I talked about the
23 fact that we have offices within minutes of each
24 other, I think of Lee's Summit, Raytown, Dodson.
25 Within 15 minutes of each other each of us has

1 facilities. So there are -- this -- this
2 consolidation just unlocks a tremendous potential
3 here that is above and beyond what we could do as a
4 standalone organization.

5 Q. So is it your testimony that the merger
6 synergy savings that the applicants' witnesses in
7 this case have proposed are above and beyond
8 productivity improvements that KCP&L and Aquila would
9 obtain if they remained standalone?

10 A. Absolutely.

11 Q. What types of levels of productivity
12 savings do you anticipate would be achieved for
13 Kansas City Power & Light Company -- project for
14 Kansas City Power & Light Company for the next year
15 or two if it does not acquire -- if Great Plains
16 Energy does not acquire Aquila?

17 A. I don't have a specific number in my
18 head. We're working on business plans for the next
19 year, and we, you know, we'll obviously wrestle with
20 that. We have productivity improvements that we
21 would target in our ongoing operations. We obviously
22 are in the process of a significant spend with regard
23 to our capital investment programs. We would be
24 looking to do that.

25 And I think if you'll -- if you'll

1 recall, we didn't include an awful lot of these
2 things. We didn't include the CEP program as a part
3 of the -- the benefit. We didn't include fuel
4 procurement. We didn't -- we took -- we were very
5 conservative in the approach that we took, and we
6 targeted only those things that related to the
7 integration.

8 So the ongoing things are things that
9 will be part of the business plan, and many of the
10 things that we'll deal with on a standalone basis
11 were not even contemplated in the synergy saving
12 estimate.

13 Q. Which witnesses in this case would be
14 able to testify -- or address -- would be able to
15 address whether or not productivity improvements were
16 considered in arriving at estimates of merger synergy
17 savings?

18 A. Probably a number of them. With regard
19 to the purchasing, I know that Mr. Zabors and
20 Mr. Buran will be testifying, Mr. Kemp will be
21 testifying. I know that from a -- we also tackled
22 this from a functional area. I know that
23 Mr. Herdegen will be on the stand talking about the
24 distribution area. I believe that Mr. Crawford will
25 be on the stand with regard to how we looked at this

1 from a generation perspective. Mr. Marshall will
2 probably introduce additional testimony.

3 This was an intense internal effort.
4 This is not -- I saw a reference to we did studies.
5 This was a lot more than study. This was hands-on, a
6 very deep review, and that's why we're gonna
7 incorporate this into our business plan, so, I mean --
8 and incorporate the accountability. So all of those
9 people, I know, will have components of this because
10 that's the way it's gonna get tackled as we go back
11 at it.

12 Q. Has Kansas City Power & Light Company
13 been working on improving its purchasing practices?

14 MR. ZOBRIST: Judge, I think that was
15 just asked and answered about five minutes ago.

16 MR. WILLIAMS: I don't believe it was,
17 not purchasing practices.

18 JUDGE DIPPELL: I believe he asked about
19 the amortizations and I'll let him answer.

20 THE WITNESS: I thought I did answer it.
21 We have a -- would you repeat the question?

22 BY MR. WILLIAMS:

23 Q. Has Kansas City Power & Light Company
24 been working on improving its purchasing practices?

25 A. Yes, we have and --

1 JUDGE DIPPELL: That's fine, Mr. Downey.

2 That's all you need to say.

3 BY MR. WILLIAMS:

4 Q. That's all I'm looking for. And was
5 Kansas City Power & Light Company able to achieve and
6 supply related cost savings in the year 2005 the sum
7 of \$2.5 million?

8 A. Yes.

9 Q. And was Kansas City Power & Light
10 Company's purchasing savings target for 2007 the
11 amount of 5 to \$7 million?

12 A. Yes.

13 Q. What were Kansas City Power & Light
14 Company's 2007 purchasing goals for, first, economic
15 value, then cost savings, then cost of materials and
16 services per unit; and second, purchasing, department
17 costs, expense; and third, supply or diversity?

18 A. I don't have those numbers in my head.

19 Q. Was Kansas City Power & Light Company's
20 2007 purchasing goal for economic value, cost
21 savings, cost of materials tier one?

22 A. I don't recall that we -- we were.

23 Q. Was that the goal?

24 A. That is our generically stated goal. In
25 any given year a specific goal might relate to where

1 we are within tiers. I don't believe that we were
2 tier one.

3 Q. Why not? Why were you not tier one?

4 A. The benchmarking indicated we weren't.

5 Q. Was it because you had not made efforts
6 to become tier one?

7 A. We're all -- as I've mentioned to you,
8 we make -- we have a continuous effort toward
9 improvement and we try to objectively benchmark
10 ourselves against others. And where we fall short,
11 we try to make a journey toward getting there.

12 Q. Have you found it to be difficult to
13 meet goals that have been set for purchasing savings
14 for Kansas City Power & Light Company?

15 A. Well, we certainly are in a period of
16 tremendous inflation and cost of all kinds, and --

17 MR. WILLIAMS: Judge, if you'd ask
18 the -- direct the witness to respond yes, no or I
19 don't know.

20 JUDGE DIPPELL: I'll ask the witness to
21 respond. If you -- if you need to have an
22 explanation, your counsel can do so on redirect.

23 THE WITNESS: Would you repeat the
24 question?

25 MR. WILLIAMS: If the court reporter

1 would read the question back.

2 (THE COURT REPORTER READ BACK THE
3 PREVIOUS QUESTION.)

4 THE WITNESS: It has been a challenge,
5 yes.

6 BY MR. WILLIAMS:

7 Q. Have any of the other jurisdictions
8 where the applicants have obtained approval of the
9 acquisition of Aquila by Great Plains Energy as a
10 part of that approval also approved the regulatory
11 plan that includes recovery from ratepayers of 100
12 percent of the transaction cost of the acquisition?

13 A. Would you repeat that for me?

14 JUDGE DIPPELL: Can -- Mr. Williams, can
15 you ask your question again? It was kind of long.

16 BY MR. WILLIAMS:

17 Q. Has any other jurisdiction where the
18 applicants have obtained approval of the acquisition
19 of Aquila by Great Plains Energy as a part of that
20 approval also approved the regulatory plan that
21 includes recovery from ratepayers of 100 percent of
22 the transaction costs of the acquisition?

23 A. I'm still not sure I understand your
24 question. Are you saying in the other regulatory
25 jurisdictions that this case -- that this --

3 A. I think that this jurisdiction is unique
4 in that this is a merger. There are assets -- I
5 don't believe that the -- that another jurisdiction
6 has dealt with it, but I think it's a very different
7 set of circumstances than the other jurisdictions.

14 MR. ZOBRIST: Well, Judge, I'm gonna
15 object. I think this calls for a legal conclusion,
16 and I also think that there is embedded within the
17 question a false premise, so I think it lacks
18 foundation.

25 JUDGE DIPPELL: I understand what you're

1 saying, Mr. Zobrist. However, I'll let him ask the
2 question. He can get his answer and then I'll let
3 you get it clarified on redirect. Even though it
4 seems like a waste of time, I'll allow it.

5 MR. WILLIAMS: If the court reporter
6 would read the question back if Mr. Downey needs it
7 repeated?

8 THE WITNESS: Please.

9 (THE COURT REPORTER READ BACK THE
10 PREVIOUS QUESTION.)

11 THE WITNESS: Not that I'm aware of.

12 BY MR. WILLIAMS:

13 Q. If Great Plains Energy acquires Aquila
14 and -- will current Aquila employees who become KCPL
15 employees, will their pension benefits accrue based
16 on their years of service with Aquila or will they
17 restart?

18 A. I believe, and this is an area for the
19 experts as opposed to myself so I'll give you my
20 general understanding of it, but I would -- there are
21 other witnesses who can more accurately testify to
22 this. My sense is that their -- their current
23 pensions freeze and stop and then they have to come
24 into our pension plan.

25 And we are working with their unions and

1 with our plan design as we speak to figure out how
2 that new one goes in, and I don't have the details in
3 my head about it. I believe there are witnesses -- I
4 believe our head of pension benefits is going to be
5 testifying later, and I'm having a mental blank on
6 his name. My apologies.

7 MR. WILLIAMS: You anticipated my last
8 question. No further questions.

9 JUDGE DIPPELL: Thank you. Are there
10 questions from the Bench for Mr. Downey?
11 Commissioner Appling?

12 COMMISSIONER APPLING: Thanks, Judge, I
13 think I have one question or two maybe.

14 QUESTIONS BY COMMISSIONER APPLING:

15 Q. Let's take two steps back to the meeting
16 that was conducted between you and the Commissioners
17 in January. How would you describe those meetings,
18 Mr. Downey?

19 A. I would describe them as formal, as an
20 effort on our part to outline the transaction that
21 was about to be announced. I would describe it as
22 typical whenever -- in my experience in our industry
23 if -- if you're a regulated utility and you're about
24 to embark on something that will have significant
25 impact on the institution and will ultimately involve

1 the regulator, that you would let them know.

2 It's always our desire not to surprise
3 either the Commissioners or the Staff with anything
4 significant. We don't find that that's in our
5 long-term best interest.

6 And so we -- we came over here to brief
7 the Commissioners, and we intended in parallel to
8 brief the Staff about what we were about and -- and
9 to listen for any -- anything that we might not have
10 thought about that might be problematic. That's how
11 I would describe those meetings.

12 Q. So would you add to it that it is a
13 matter of -- that those meetings took place as a
14 matter of courtesy and respect for the regulatory
15 process?

16 A. Absolutely.

17 COMMISSIONER APPLING: Thank you very
18 much. Good to see you.

19 JUDGE DIPPELL: Commissioner Jarrett?

20 COMMISSIONER JARRETT: Thank you.

21 QUESTIONS BY COMMISSIONER JARRETT:

22 Q. Good morning, Mr. Downey.

23 A. Good morning.

24 Q. In your direct testimony you discussed,
25 I think briefly, talked a little bit about the credit

1 ratings and the additional amortizations aspects of
2 this, and I just wanted to clarify in my own mind.
3 Is it your understanding that once the merger is
4 finalized, that based on the merger, that Aquila will
5 acquire investment grade credit rating?

6 A. We -- we will as a -- as a part of
7 bringing that all together, day one, make the Aquila
8 subsidiary investment grade. And the way we're going
9 to do that -- and I think it's -- I think it's been
10 largely missed in this first few days and I think
11 Chairman Davis tried to get at this in day one.

12 We are -- we're gonna reconstitute the
13 capitalization of Aquila day one to bring it to
14 investment grade through a combination of things, and
15 a lot of that has to do with the debt. We're gonna
16 refinance -- we're gonna retire and refinance a
17 portion of the debt.

18 We can't -- well, we -- we could, but it
19 would be prohibitively expensive to retire the half a
20 billion dollars that's been of interest with the high
21 coupon. We will be able to reduce by about 300 basis
22 points the cost of that debt on an annualized basis.
23 But we're gonna retire about \$400 million of existing
24 debt and refinance it, and so we -- we bring that
25 down.

1 The other thing that we're gonna do is
2 as we recapitalize Aquila, we'll put more equity into
3 it and we're gonna take some of that debt and hold it
4 back at the holding company, Great Plains. So the
5 Aquila regulated property will in all likelihood have
6 about a 55 percent equity, 45 percent debt structure.
7 That plus the parental guarantees from Great Plains,
8 day one, make it investment grade.

9 We're also infusing some of the cash
10 from the sale of the gas properties and the Colorado
11 Electric property to Black Hills into that
12 restructuring as we pay off and pay down debt. So
13 we're shrinking the total debt, refinancing as much
14 as we can on a cost-positive basis, and then we're
15 restructuring the balance sheet so day one Aquila
16 becomes investment grade.

17 And then on a going-forward basis, all
18 new financing into the Aquila property can be done at
19 that improved credit rating. So that's the idea.
20 And, you know, the challenge has been with this one
21 component. But on a going-forward basis, we're
22 greatly improving that.

23 And there's capital investment that's
24 needed as we've pointed out and there's funds that
25 need to be raised. Aquila in its current position is

1 incredibly cash-constrained. The current credit
2 crunch that we're seeing not only makes the cost
3 issue a big issue but makes the availability of funds
4 even more stressful. If you're in a difficult
5 financial situation to begin with, trying to go out
6 and raise capital in today's markets is a real
7 challenge.

8 So the idea here is to generally overall
9 improve the Aquila position, day one, and that's why
10 we -- you know, that's the position we maintain and
11 that's how we're going to do it.

12 Q. Right. And then I think under
13 questioning from Mr. Williams, you talked a little
14 bit about -- I don't know if restructuring's the
15 right term, but sort of the reforming Aquila, making
16 it more efficient from an operational and a service
17 standpoint --

18 A. That's correct.

19 Q. -- you plan on improving.

20 A. Absolutely.

21 Q. So -- so you're looking at, you know, a
22 better financial situation for Aquila because of all
23 of this restructuring of the debt and the -- and the
24 equity, and also the operational and service
25 improvements which make it a better company.

1 I guess my question is -- and maybe
2 Mr. Bassham and Mr. Cline can answer this question
3 too when they're on the stand -- what is the need for
4 the additional amortizations if Aquila's going to be
5 looking so good from day one?

6 A. When -- when we were in pulling the
7 comprehensive energy plan together with all of the
8 parties, remember that a major new base load power
9 plant at our company, and for that matter for most of
10 the country, had not been built inside a regulated
11 utility since the '80s.

12 The world has changed significantly;
13 independent power producers, wholesale markets,
14 differential allocations of risks, and we were trying
15 to find a path. In fact, the Commission Staff was
16 particularly urging us to build this regional
17 resource.

18 It's not -- it supplies not only us, it
19 supplies Aquila today, it supplies Empire Electric,
20 it supplies the municipals to the -- through the
21 Missouri municipal -- I can never get much -- my
22 letters and the words all together, but there were a
23 number of parties demanding in on this plant because
24 it would provide low-cost, long-term power.

25 So we had to find a financial path to

1 get that done, given 20 to 25 years of very few
2 people even trying to do that in the regulated
3 environment. And we were worried about the credit
4 strength of our company as we went forward. So, you
5 know, it emerged out of that.

6 Empire similarly, because they are
7 investment grade, had a concern about losing their
8 investment grade status, you know, because of this
9 tremendous cash requirement, you know, the building
10 program. It's a real strain in the short run to get
11 one of these built and then the benefits accrue over
12 30 and 40 years, as we're seeing with the plants that
13 were built 20 years ago.

14 So we were investment grade, Empire was
15 investment grade, and the Commission and the Staff
16 and all the parties agree that this vehicle could be
17 used specifically with regard to Iatan 1 and 2
18 investments for those who were investment grade.

19 Aquila at the time was not investment
20 grade, so it was a challenge to make an argument that
21 we ought to have amortization in their particular
22 part of this deal to keep investment grade status
23 because they weren't investment grade. And so they
24 didn't have it as a part of their regulatory
25 treatment.

1 What we're saying is that as we -- if we
2 were successful in pulling this deal together, we
3 have -- for the other investor-owns who are party to
4 this huge construction program, we have this
5 amortization tool in the toolbox. And it helps us
6 greatly with the -- the credit rating agencies, even
7 if you don't use it. The fact that it's there is a
8 really important thing to the credit rating agencies.

9 So if we bring Aquila investment grade
10 day one and we've got the major part of the building
11 and the spend on Iatan and -- and Iatan 1 and the new
12 Iatan 2 in the next three years, we felt it was
13 consistent and appropriate to ask for the
14 amortization given the fact that we've recapitalized
15 Aquila day one, made them investment grade, that we
16 have a similar vehicle for that, and that's why we've
17 put it into the proposal and asked for it.

18 Q. Okay. So if I'm understanding you
19 correctly, then, it's not something that's necessary
20 to make them investment grade, but you just want to
21 have it in your back pocket in case it's necessary
22 down the road?

23 A. It's -- it's -- it's -- we feel it's
24 important. This is a single plant being built,
25 single additional environmental. They're a party to

1 it. It is not necessary day one. I gave you the
2 path that the vehicle -- we're gonna make Aquila
3 investment grade by the set of transactions that we
4 do day one to recapitalize Aquila. It has not got
5 anything to do with the amortization provision.

6 Q. My final question is, I know Mr. Chesser
7 was on the stand on Monday and also yesterday, and --
8 and I think talked a lot about putting on the case
9 for the benefits that everyone is going to experience
10 as a result of this merger. What is your vision as
11 to how this will benefit Aquila's ratepayers?

12 A. I talked earlier -- well, first of all,
13 having this -- right now we have a company that
14 has -- has a sound financial footing, we're -- yes,
15 we're in a large construction program.

16 We -- we've found in our comprehensive
17 energy plan that a -- an approach that's been lauded
18 at a national level, at a state level, it has helped
19 to improve the image in our industry as we get
20 assessed by all sorts of audiences. This -- this
21 approach that we took with Staff and other parties in
22 2004 is roundly applauded in many venues. So it's
23 been a successful path.

24 We'd like to continue that. We think
25 that it's been helpful to our customers. We're

1 putting in place a long-term, low-cost regional
2 resource where we have a major commitment with
3 environmental groups in the Kansas City region on the
4 environmental investment. That was another key part
5 of this. We have broad support for the energy
6 efficiency work that we're doing in that plant.

7 We want to extend all of that to Aquila
8 customers. We intend to move aggressively with
9 energy efficiency with those customers. The
10 completion of this plant for KCPL is just as
11 important to the Aquila customers.

12 We've put the additional investment in
13 distribution system because we see a gap there. We
14 hear from customers about concerns around
15 reliability. We think there's more that can be done
16 and that's what we want to do. We want to get that
17 in place so that we can improve so that the system
18 reliability we have can be experienced by the
19 customers in the current Aquila portion.

20 There are -- there are a number of
21 reasons why they've not been able to make the
22 investments. We want to make those. We think that
23 the structure that bringing them to a financially
24 healthy state, putting that money in is good for the
25 customers. We think it responds to the concerns that

1 many of them have.

2 So, you know, there are -- there are
3 just a host of -- you know, economic development in
4 our region, we're committed to that, we're viewed as
5 a positive partner in that. We think we can bring a
6 consistency across this region. It is one region.

7 We spend a lot of time talking about the
8 fragmentation of the Kansas City region in a variety
9 of venues, and utilities being one of them. This
10 will bring, I think, a real focus to that part of the
11 state and why it's so critical to do this. I think
12 there's just tremendous benefits of putting this
13 together. And it's been an effort tried
14 unsuccessfully for a number of decades.

15 COMMISSIONER JARRETT: All right. Thank
16 you, Mr. Downey. I have no further questions.

17 JUDGE DIPPELL: Mr. Chairman?

18 QUESTIONS BY CHAIRMAN DAVIS:

19 Q. Good morning, Mr. Downey.

20 A. Good morning.

21 Q. Did GPE or KCP&L look at simply
22 purchasing the assets of Aquila?

23 A. I don't -- that might have been a
24 desirable thing to do. I don't know that it was a
25 possible thing to do. I don't -- having watched that

1 over time, you have a corporate entity. As you know,
2 Aquila placed a number of its assets up for sale.

3 Q. Uh-huh.

4 A. And a number of those were regulated
5 assets, and while those assets got sold off, you had
6 the remaining corpus there, and the unbundling of it
7 certainly was a challenge.

8 One of the reasons we have a -- a third
9 party to this in Black Hills was that we -- we
10 clearly wanted to focus on the Missouri properties.
11 We saw the benefits I've talked about with -- I just
12 mentioned to Commissioner Jarrett.

13 We -- we didn't want to spread our focus
14 to all these other things. We wanted -- we thought
15 it was -- the real benefit would come from focusing
16 on Missouri property, but we couldn't figure out a
17 way to get there.

18 When Aquila started to look at this
19 review of whether it ought to sell itself, we went in
20 search of a path, and this was the best path that we
21 could find at the time, which was to buy the -- bid
22 for the corporation, but to unbundle the things we
23 wanted versus what we didn't want.

24 And one of the challenges we've got
25 here, we talk about the regulatory savings, the

1 \$300 -- \$300 million of synergies with the regulated,
2 but we also have the obligation and the challenge of
3 disposing of it at a holding company level of a
4 number of the corporate things.

5 There's an additional set of synergies,
6 about another 300 million, that come from simply
7 shutting down the nonattributed to Missouri expenses
8 and Staff and corporate functions and all those
9 things, so we have to deal with both of those. That
10 was a part of the challenge here for us. And so
11 we're focused here about Missouri properties and
12 Missouri-allocated costs. There's another set of
13 issues and problems --

14 Q. Right.

15 A. -- that we're committed to tackling and
16 that we will eliminate very quickly as part of this.

17 Q. But --

18 A. We couldn't -- we could not find a way
19 to just get the assets we would have liked to. And
20 there were a lot of risks --

21 Q. Sure.

22 A. -- attached to that combined thing that
23 we've tried to deal with. And one of the reasons
24 we've kept the two regulated entities apart is to
25 protect KCPL, to deal with some of those risks away

1 from KCPL, and until we can get them done, to -- you
2 know, to keep them isolated. Did I --

3 Q. Doesn't have -- doesn't have anything to
4 do with the fact that Aquila has a fuel adjustment
5 and KCPL's unable to apply for a fuel adjustment for
6 several more years? Is that a consideration?

7 A. Well, I would -- I would tell you there
8 are a number of knotty issues that I don't know how
9 we could solve in the short term. First of all,
10 Kansas City Power & Light's comprehensive energy plan
11 itself, the protection of KCPL and -- and this huge
12 strategic investment that we're making in the region
13 and the agreement that we have. So -- so that's --
14 that's one. The --

15 Q. All right. I understand.

16 A. There are --

17 Q. Okay, okay, okay, okay, Mr. Downey, I
18 get it. No masse. Are you familiar with Empire
19 Electric?

20 A. Yes.

21 Q. Are they investment grade to the best of
22 your knowledge?

23 A. To the best of my knowledge they are.

24 Q. Do they have amortizations?

25 A. Yes.

1 Q. But they're substantially smaller than
2 the amortizations that --

3 A. They have a very much smaller portion of
4 the plan from the investment, and they only have a
5 part of -- they have a part of Iatan 1 and 2. There
6 are other investments that we've been making that
7 also involve the amortization, like wind, the
8 environmental retrofits of LaCygne, other things.

9 Q. If you were just going to put a value on
10 the Aquila assets that you want, what would that
11 value be?

12 A. I'm not the financial guy. I -- I think
13 of it in terms of the rate base and --

14 Q. Okay.

15 A. But that's different than the --

16 Q. So --

17 A. -- that's different than the balance
18 sheet structure that we -- we got into a conversation
19 the other day. There's -- you know --

20 Q. Well, wait. Let's just state for the
21 record, we haven't had any conversations, have we?

22 A. No, no. The conversation that was
23 occurring --

24 Q. Okay.

25 A. -- here in open public meeting between

1 you and Mr. Chesser.

2 Q. Okay. So you really weren't part of
3 that conversation?

4 A. That is absolutely correct.

5 Q. Okay.

6 A. I was sitting in the audience.

7 Q. Okay. So you got the rate base value of
8 the plant in service?

9 A. Which is north of a billion dollars. I
10 don't have an exact number in my head.

11 CHAIRMAN DAVIS: Okay. No further
12 questions, Judge.

13 JUDGE DIPPELL: Thank you. I just
14 wanted to state that Commissioner Murray has also
15 been listening to the hearing and doesn't have any
16 questions for Mr. Downey.

17 So I think what we'll do now is take a
18 short break and come back with cross-examination
19 based on questions from the Bench. And so let's
20 break until ten till, please. Let's go off the
21 record.

22 (A RECESS WAS TAKEN.)

23 (EXHIBIT NO. 13 WAS MARKED FOR
24 IDENTIFICATION BY THE COURT REPORTER.)

25 JUDGE DIPPELL: One housekeeping before

1 we go any further. This is Mr. Downey's only
2 appearance, correct?

3 MR. ZOBRIST: Correct.

4 JUDGE DIPPELL: In the skipping of our
5 preliminary questions, I think we skipped the part
6 where you offer the exhibit?

7 MR. ZOBRIST: I was gonna do that at the
8 end.

9 JUDGE DIPPELL: Or you were gonna do it
10 after -- after the testimony? Okay. That -- that
11 procedure is new to me so -- so, okay.

12 MR. ZOBRIST: We'll get it in.

13 JUDGE DIPPELL: We can save it for the
14 end. I just wanted to make sure.

15 MR. ZOBRIST: Thank you, Judge.

16 MR. MILLS: Judge, I have another
17 housekeeping matter --

18 JUDGE DIPPELL: Okay.

19 MR. MILLS: -- that I need to bring up
20 here, I think.

21 At some point this morning while we
22 were in the hearing, I'd had hand-delivered to my
23 office a request from the Attorney General that I
24 seek immediate recusal of Chairman Davis and any
25 other Commissioners whom I believe have shown their

1 inability to rule on this case in an impartial
2 matter -- manor. I'm sorry.

3 And while I really don't appreciate
4 the Attorney General trying to dictate my litigation
5 strategy, I think my hand is forced to a certain
6 extent, and at this point I think I need to say
7 that I do plan to seek dismissal of this case on
8 the basis that the tribunal cannot be impartial and
9 has shown that it cannot be impartial and it has
10 been influenced by outside communications.

11 I don't believe I'll have a chance to do
12 anything on that until this weekend, given the
13 hearing schedule and the fact that we've been going
14 into the evenings. But given that that letter was
15 delivered to me by the Attorney General, I'm having
16 it filed in EFIS in the case along with a notice
17 saying that I got it.

18 And in response to that, I think I have
19 to basically tip my hand and say that's my plan and
20 it's something I'm working on. I think until I got
21 through what as you know was a long and difficult
22 process of getting a lot of the documents declassified
23 and into the record, I couldn't really progress with
24 that. We finally finished that up yesterday afternoon,
25 and I think I can move forward now.

1 So that's -- that's a late-breaking
2 development in the case that I thought should be made
3 on the record, and in response, I think I have to
4 basically tell you what I'm gonna do in response --
5 or what I have been doing before I even got the
6 letter from the Attorney General's Office.

7 JUDGE DIPPELL: All right, then. We'll
8 keep that in mind as we continue to move forward
9 until we receive that motion.

10 Also as a matter of housekeeping, I did
11 last night after the hearing, I made -- I designated
12 the original exhibits to the deposition 17, 18 and 20
13 that I had issued, I designated that attachment in
14 EFIS as highly confidential again until this morning
15 at about 10:30 when they finally got the substitute
16 documents which are the ones that are similar to the
17 ones I issued that day with the e-mail addresses
18 redacted. And now that has been replaced and been
19 marked as public once again.

20 So there was a 14-hour period or so in
21 there where those documents, if anybody cared to look
22 at them in the middle of the night, were not
23 accessible to the public.

24 And I apologize that that had to occur,
25 but that seemed the best way to handle that.

1 COMMISSIONER JARRETT: Judge, I have a
2 question.

3 JUDGE DIPPELL: Yes, Commissioner
4 Jarrett?

5 COMMISSIONER JARRETT: Mr. Mills, for
6 clarification, do you know when that's gonna be filed
7 in EFIS?

8 MR. MILLS: The -- the -- my notice
9 which will just be a couple of lines and will say, I
10 received the attached at whatever time it came in. I
11 think we have a time stamp on it. And then the
12 attachment, that's being prepared right now. I would
13 imagine it will be filed within the next half an
14 hour, as quickly as it can be prepared and stuck into
15 EFIS which will be fairly quick.

16 COMMISSIONER JARRETT: Okay. Thanks.

17 JUDGE DIPPELL: Also along the lines of,
18 well, what I'm calling a hole in the record, there
19 was a period of time this morning, I don't know if
20 you-all noticed, that the recording somehow stopped
21 on -- I'm not sure if that meant the Internet
22 transmission was going forward or not. I assume it
23 was because no one e-mailed and said, what happened?

24 But the recording as far as our video
25 recording was -- is incomplete during part of the

1 cross-examination this morning of Mr. Downey, that --
2 Mr. Long came in, our -- one of our IS techs and
3 fixed that for me.

4 MR. CONRAD: Now, let me get this
5 straight, Judge.

6 JUDGE DIPPELL: Uh-huh.

7 MR. CONRAD: We were down for several
8 minutes and no one called?

9 JUDGE DIPPELL: Well, that's the
10 reason -- I think the Internet broadcast must have
11 been going forward because no one notified me
12 otherwise. Yes, Mr. Fischer?

13 MR. FISCHER: Judge, I was watching it
14 here. It was on but there was a big error message.

15 JUDGE DIPPELL: Right. And I -- so I
16 think it was just the recording of it if anyone gets
17 the video or anything later.

18 MR. CONRAD: Oh, well.

19 JUDGE DIPPELL: I just wanted to put
20 that on the record that there is a hole in that --
21 that.

22 MR. FISCHER: 18 minutes.

23 JUDGE DIPPELL: Okay. Let's go ahead,
24 then --

25 COMMISSIONER JARRETT: There goes our

1 Emmy.

2 JUDGE DIPPELL: Let's go ahead, then,
3 with further cross-examination based on questions
4 from the Bench. From Aquila?

5 MS. PARSONS: No questions.

6 JUDGE DIPPELL: Black Hills?

7 MR. BOUDREAU: No questions.

8 JUDGE DIPPELL: And I'm just gonna skip
9 the other parties. If someone's here and has
10 questions, please speak up. Ag Processing?

11 MR. CONRAD: Yes, your Honor, just
12 briefly.

13 RECROSS-EXAMINATION BY MR. CONRAD:

14 Q. Commissioner Appling, Mr. Chesser -- I'm
15 sorry, forgive me -- Mr. Downey, asked you about
16 meetings, and you had an extended response there. I
17 just was upstairs in an office and happened to check
18 an old quote that goes back to 1899 from a fella
19 named Vandiver who was a U.S. Representative from
20 Missouri.

21 And if I can remember it accurately, it
22 goes something like this: "I am from a state that
23 raises corn, cotton, cockleburs and democrats.
24 Frothy eloquence neither convinces nor satisfies me.
25 I am from Missouri. You will have to show me."

1 Now, my question to you prefaced by
2 that, sir, is we've heard a lot of talk about you
3 wanting to talk to us. When is that going to occur
4 and are you willing to recess these proceedings so
5 that that can occur if you want it to occur?

6 A. Well, I'm not -- we certainly are
7 interested in talking, and I'm not the lawyer in
8 terms of the process or how we proceed, and -- but we
9 certainly will be encouraging that. And the exact
10 form and timing of that I think is something I'll
11 look to my legal advisors to help me with.

12 Q. What does, "We will be encouraging that"
13 mean?

14 A. Mr. Chesser and myself.

15 Q. And to whom will you be encouraging it
16 and when?

17 A. The team that is here and actively
18 working on this process.

19 Q. And when?

20 A. I would expect in a very timely way. I
21 don't have an exact time.

22 MR. CONRAD: All right.

23 JUDGE DIPPELL: All right. Public
24 Counsel?

25 MR. MILLS: Thank you.

1 RE CROSS-EXAMINATION BY MR. MILLS:

2 Q. Mr. Downey, you had -- you had some
3 questions about the series of meetings that you had
4 with the decision-makers in this case. Do you recall
5 that?

6 A. Yes.

7 Q. Have you yourself ever been a party in a
8 court case?

9 A. Perhaps. I'm trying to recall. I
10 believe in Illinois maybe back in the late '80s,
11 early '90s, one case.

12 Q. And were you the plaintiff or the
13 defendant?

14 A. Defendant.

15 Q. Do you know in that case whether the
16 plaintiff went to the judge before he filed to check
17 to make sure that the plaintiffs' litigation strategy
18 wouldn't raise any serious objections to the -- to
19 the judge?

20 MR. ZOBRIST: Judge, I object first of
21 all that that's argumentative; secondly, it's an
22 entirely different context than normal contacts with
23 regulators in this state, and I object.

24 MR. MILLS: I think it's a useful
25 analogy to draw, and --

1 MR. ZOBRIST: Well -- pardon me.

2 MR. MILLS: -- I don't believe it's
3 argumentative which I think was the only valid
4 objection raised.

5 MR. ZOBRIST: Well, it's argumentative
6 because it sets up a different process. We are not
7 in a judicial process, we're in an administrative
8 process where this Commission has day-to-day
9 oversight of these companies, and there is nothing
10 improper about appropriateness --

11 MR. MILLS: Well, now -- now -- now
12 we're speechifying rather than objecting.

13 MR. ZOBRIST: I -- I object to standing.
14 It's an argumentative question, it lacks foundation,
15 it poses improper or incorrect facts within it, and
16 it's therefore argumentative.

17 JUDGE DIPPELL: I'm gonna overrule the
18 objection and let him answer.

19 THE WITNESS: I -- I played a limited
20 role in that proceeding. I was a minor witness, and
21 I don't know what the circumstances were.

22 BY MR. MILLS:

23 Q. Okay. Now, Commissioner Jarrett asked
24 you some questions about your comprehensive energy
25 plan. Do you recall that?

1 A. Yes.

2 Q. You do have a comprehensive energy plan,
3 correct?

4 A. Yes.

5 Q. Does Aquila?

6 A. I'm actually not sure of the form that
7 it takes of Aquila. I -- or if they have one that's
8 specific to it.

9 Q. Okay. In terms of your comprehensive
10 energy plan, is the regulatory amortization the most
11 important part of that?

12 A. No.

13 Q. Okay. What other parts have you asked
14 the Commission to approve in this case to use for
15 Aquila?

16 A. What other parts of what?

17 Q. Of your comprehensive energy plan.

18 A. I -- I can't think of another one.

19 Q. Okay. Now, I believe you said that you
20 don't believe that Aquila will need support from
21 regulatory amortizations on day one. Is that -- is
22 that what you responded to, to Commissioner Jarrett?

23 A. I said that we would, through the
24 financial restructuring of Aquila, make it
25 creditworthy -- make it investment grade, day one.

1 Q. Is it your projection that Aquila will
2 need amortizations in the first rate case it files
3 post-merger?

4 A. I don't know that and it's better asked
5 of our financial experts.

6 Q. So you think that's a possibility?

7 A. I would rather you address that question
8 to our financial experts.

9 Q. Now, do you talk directly to analysts at
10 rating agencies or is that Mr. Cline ordinarily?

11 A. It's fairly typical that our top
12 management team will, on an annual basis, go in and
13 talk to the rating agencies. They like to get a
14 sense of the management team and so we will do that
15 annually. But the day-day back and forth is with
16 Mr. Cline and his Staff.

17 Q. Okay. Well, let me ask it a little more
18 specifically: Did you talk to rating agencies about
19 the possible influence on your ratings or Aquila's
20 ratings as a result of this merger?

21 A. I did not.

22 MR. MILLS: Okay. Those are all the
23 questions I have. Thank you.

24 JUDGE DIPPELL: Thank you. Staff?

25 MR. WILLIAMS: No questions.

1 JUDGE DIPPELL: Is there redirect?

2 MR. ZOBRIST: I just have a couple
3 questions, Judge.

4 REDIRECT EXAMINATION BY MR. ZOBRIST:

5 Q. Mr. Downey, when you were being asked by
6 Mr. Williams about service quality, you indicated
7 that you had worked not in prior mergers, but involved
8 in the process of reengineering; is that correct?

9 A. Yes.

10 Q. Okay. And what did you mean by that?

11 A. In the late '80s while I was working at
12 Commonwealth Edison, I was in charge of the
13 transmission, distribution and engineering components
14 of the company that involved about 5,000 people and
15 about \$800 million of capital and O&M budget
16 responsibility, lots of specific processes.

17 And we were working on process
18 improvement, workflow redesign, trying to get more
19 out of the dollars that we had. And we embarked on a
20 review and a repositioning of the work processes, not
21 unlike what we're going to do here with regard to how
22 we would deal with the Aquila processes and the KCPL
23 processes.

24 Q. Do you believe that the experience that
25 you had in that matter will be directly applicable

1 post-merger if this transaction is approved by the
2 Commission?

3 A. Yes.

4 Q. There's an abbreviation that we often
5 use that's called "A&G." For the record, what does
6 that mean?

7 A. Administrative and general. That's
8 referring to the cost centers within the business
9 operation.

10 Q. Commissioner Jarrett asked you about
11 benefits to ratepayers of Aquila if this transaction
12 were opposed -- were -- were approved, pardon me.

13 Let me restate that: Commissioner
14 Jarrett asked you about benefits to ratepayers of
15 Aquila if this merger and transaction were approved.
16 What do you believe the rates will be, if you have an
17 opinion, to Aquila if the transaction were approved
18 versus if Aquila remained standalone?

19 A. My strong belief is that we will be able
20 to reduce the cost of operations at Aquila, and
21 therefore the increases that will be requested -- and
22 I pointed out that there are some very obvious rate
23 cases coming as a result of new capital construction
24 and its completion and being put into service and
25 used and useful. But on an ongoing basis on the

1 ongoing cost part of Aquila, I would expect that we
2 will be able to reduce costs and then lower the
3 impact of cost increases.

4 It doesn't mean we're not going to be in
5 for rate cases because we have to get this new plan
6 in service and get it reflected in rates. So there
7 will be rate cases one way or the other, whether it's
8 standalone or together. Together we think that the
9 rate increases we would be asking for would be lower
10 because of the efficiencies in the cost reductions
11 that are attributable to the synergy work that we're
12 talking about.

13 MR. ZOBRIST: Okay. Thank you. I offer
14 Exhibit 13, Mr. Downey's prefiled direct testimony,
15 at this time.

16 JUDGE DIPPELL: Would there be any
17 objection to Exhibit No. 13?

18 (NO RESPONSE.)

19 JUDGE DIPPELL: Seeing none, I will
20 receive it into evidence.

21 (EXHIBIT NO. 13 WAS RECEIVED INTO
22 EVIDENCE AND MADE A PART OF THE RECORD.)

23 MR. ZOBRIST: No further questions,
24 Judge.

25 JUDGE DIPPELL: All right, then,

1 Mr. Downey, I believe that that completes your
2 testimony and you may be excused.

3 THE WITNESS: Thank you.

4 JUDGE DIPPELL: Okay. My plan is to
5 proceed on until at least noon when the Commissioners
6 will adjourn for their agenda, so let's go ahead and
7 get started with the next witness.

8 MR. STEINER: William Kemp.

9 MR. WILLIAMS: Judge, I need a few
10 minutes to get a different attorney down here for
11 Mr. Kemp.

12 JUDGE DIPPELL: Okay. I will give
13 Mr. Thompson just a moment to --

14 MR. THOMPSON: Thank you, your Honor.

15 MR. WILLIAMS: Oh, he's here.

16 JUDGE DIPPELL: I will say that I
17 received EFIS notification that the Public Counsel
18 had filed a notice.

19 (THE WITNESS WAS SWORN.)

20 JUDGE DIPPELL: I think whenever you-all
21 are ready, we can go ahead and begin.

22 MR. STEINER: Thank you, your Honor.

23 DIRECT EXAMINATION BY MR. STEINER:

24 Q. State your name for the record, please.

25 A. William J. Kemp.

1 Q. Where do you work?

2 A. I'm employed by Black & Veatch
3 Corporation.

4 Q. What's your title there?

5 A. Managing director.

6 Q. Did you cause to be prepared what's been
7 marked as Exhibits 18 and 19 in this proceeding which
8 is your supplemental direct testimony and your
9 surrebuttal testimony?

10 A. Yes, I did.

11 Q. Do you have any corrections to that
12 testimony?

13 A. Yes, I have a number of corrections
14 which I will walk through, and I believe you have a
15 replacement page for one of my -- the corrections all
16 apply to my schedule WJK-5 which is a graphic
17 representation of some data on other transactions.
18 Do you want me to walk through those?

19 Q. That would be great.

20 A. Okay. The first set of numbers that
21 change are a result of my inadvertent failure to
22 carry through the final set of synergy estimates that
23 were filed by KCP&L. The WJK-3, which has the
24 synergy estimates in it, is correct and includes the
25 numbers that were ultimately filed by the applicants.

1 However, the blue triangles on WJK-5 are
2 off by 1 percent in several places to -- because of
3 the results of some last-minute changes there.
4 Specifically, the number for total nonfuel O&M, the
5 blue triangle which represents the KCP&L estimate,
6 should be changed from 11 percent to 10 percent.

7 Similarly, the blue triangle for
8 transmission O&M should be changed from 15 percent to
9 14 percent. The blue triangle for customer service
10 should be changed from 25 percent to 24 percent, and
11 the blue triangle for A&G, which is administrative
12 and general, should be changed from 19 percent to 18
13 percent.

14 And again, we will be supplying a
15 replacement page here, so if you're following along,
16 you don't necessarily have to mark up the old
17 exhibit.

18 There was one other -- two other sets of
19 changes. One was as a result of discussions with
20 counsel -- or public Staff [sic] -- excuse me --
21 member Kim Bolin, and she pointed out that in the
22 customer service set of numbers the uncollectible gas
23 accounts had not been excluded from my customer
24 service numbers. These were primarily electric,
25 electric transactions, so the uncollectible gas

1 accounts numbers are very small, but we did go
2 through and to be consistent we excluded from the
3 customer service costs both electric uncollectibles
4 and gas uncollectibles.

5 And that had the result of changing --
6 if you look at the customer service bar in WJK-5,
7 changed the number that's represented by 37 percent,
8 that should be 39 percent, negative 39, that is. And
9 the number that is at the top of the bar, 10 percent
10 changes to 11 percent. The median value of 17
11 percent did not change.

12 And finally, there were three changes to
13 the total nonfuel O&M bar at the far left of WJK-5 as
14 a result of a -- in error of one formula -- or
15 formulator in one cell. And also to exclude the gas
16 uncollectibles which flow up into the total nonfuel
17 O&M number.

18 The 42 percent at the bottom of the bar
19 changes to negative 28 percent. The 28 percent at
20 the top of the bar changes to 18 percent, and the
21 negative 2 percent represented by the horizontal
22 red dash, the median value, changes from minus 2 to
23 minus 1 percent. And those are the changes to that
24 chart.

25 Now, those result in -- if you want to

1 do a cleanup -- cleanup of the text in changes to
2 three places in the text of my testimony where I
3 mention those numbers, specifically in my
4 supplemental direct testimony, page 15, line 20, 55
5 million becomes 57 million. And the change also
6 messed up in my old direct, page 22, line 13. The
7 2 percent becomes 1 percent.

8 And finally, I repeat that 1 percent
9 number in a footnote in my -- on page -- page 10 of
10 my surrebuttal testimony. That also results in a
11 change from 2 to 1 percent. Those are all the
12 changes I have.

13 JUDGE DIPPELL: I'm sorry. A footnote
14 on page 10 of the surrebuttal?

15 THE WITNESS: Yes.

16 BY MR. STEINER:

17 Q. Mr. Kemp, any of the changes that you
18 just described affect your conclusions in your
19 testimony?

20 A. No, they do not.

21 MR. STEINER: Your Honor, I have the
22 updated WJK-5, and I would like to pass that out to
23 the Commission and the parties at this time.

24 JUDGE DIPPELL: Please do.

25 THE WITNESS: These changes, by the way,

1 were distributed to Staff on Monday, I think.

2 MR. MILLS: Judge, may I inquire of
3 counsel?

4 JUDGE DIPPELL: Yes.

5 MR. MILLS: If these changes were
6 available and distributed to Staff on Monday, why are
7 we just getting them now after we go through this
8 whole rigamarole on the record about how all these
9 numbers changed?

10 MR. STEINER: It was an oversight. I --
11 I guess I had it ready on Monday and Mr. Kemp didn't
12 go on, and they're fairly minor changes that didn't
13 affect his conclusion, so I apologize, Lewis.

14 MR. CONRAD: Your Honor, we also didn't
15 get it, and I guess I add to that question. When did
16 the -- maybe in the nature of voir dire, when did the
17 witness become aware of these changes?

18 JUDGE DIPPELL: The witness can answer.

19 THE WITNESS: Late last week we had
20 conversations with Ms. Bolin from Staff, and my Staff
21 cranked through the correct -- the corrections on
22 Friday, we finalized the changed exhibit on Monday.

23 MR. CONRAD: And was any notice given to
24 the parties other than Staff?

25 MR. STEINER: No.

1 JUDGE DIPPELL: Anything further before
2 we proceed?

3 MR. MILLS: (Shook head.)

4 MR. CONRAD: (Shook head.)

5 JUDGE DIPPELL: All right, then. Is --
6 BY MR. STEINER:

7 Q. With those changes, Mr. Kemp, are the
8 answers in your testimony true and correct to the
9 best of your knowledge, information and belief?

10 A. They are.

11 MR. STEINER: I would like to offer
12 Exhibits 18 and 19 into the record and tender the
13 witness for cross-examination.

14 MR. CONRAD: To the extent it includes
15 WJK-5 that we've just been handed, which
16 interestingly bears a corrected date of 30 November,
17 2007, and I believe today is the 6th, I would like to
18 reserve until we have a chance to review that.

19 MR. STEINER: I haven't offered that as
20 an exhibit, but we did make the changes on the
21 record.

22 MR. CONRAD: All right. That's fine.

23 MR. STEINER: Yes, you're right, Stu,
24 Mr. Conrad.

25 JUDGE DIPPELL: Well, since we've been

1 taking the exhibits at the end of the testimony,
2 proceeding with that, or keeping with that procedure,
3 we'll reserve the objections until the end of the
4 testimony and then -- then we will take up the offer
5 of the exhibit. Let's go ahead with
6 cross-examination. Is there anything from Aquila?

7 MS. PARSONS: No.

8 JUDGE DIPPELL: Black Hills?

9 MR. DeFORD: No questions.

10 JUDGE DIPPELL: Ag Processing?

11 MR. CONRAD: Yes, ma'am.

12 CROSS-EXAMINATION BY MR. CONRAD:

13 Q. Mr. Kemp, you've been involved with
14 several utility mergers; is that true?

15 A. That's correct.

16 Q. Are there any that you can recall that
17 were such a good deal for the customers that you had
18 to have a rate increase during the first five years
19 to support the combination?

20 A. Let me run through my list of
21 transactions. Yes, there were.

22 Q. Can you list them?

23 A. There were some rate increases
24 associated. There were rate increases in the first
25 five years after the transaction, and I believe in

1 the PacifiCorp and Utah Power & Light transaction,
2 PacifiCorp/Powercorp, Texas Utilities, Eastern
3 Energy, Australian Gas Light and Natural Gas Corp of
4 New Zealand. There may be others on the list. I'm
5 not 100 percent on my recall of how long the
6 regulatory treatment and -- and rate freezes that --
7 that applied may have lasted in some of the other
8 transactions.

9 Q. Do you recall any out of your
10 abbreviated list now that were such a good deal for
11 the customers that rate increases during the first
12 five years were a requirement of the merger itself
13 and were so announced to the regulators?

14 A. No, I don't.

15 Q. Now, if I understand, your argument with
16 Mr. Brubaker is that he is too cherry, and I think
17 you may have used the term "aggressive." You contend
18 that his criticism that your estimates of synergies
19 are too aggressive is unfounded; is that correct?

20 A. That's correct.

21 Q. Please refer to your schedule WJK-4.
22 Let me know when you're there.

23 A. I'm there.

24 Q. And are you there referring -- are
25 you in that exhibit referred to in your surrebuttal,

1 page 11, lines 9 through 13?

2 A. Page 11? No -- oh, surrebuttal. I'm
3 sorry. My mistake.

4 Q. All right. Let's look, then, at -- I'm
5 sorry. I got ahead of myself here. On page 11 of
6 your surrebuttal, line 9, does the statement there
7 appear that, "The total estimated level of synergy
8 savings are modestly above the energy -- the industry
9 average"?

10 A. That's my testimony.

11 Q. And you go on to say that you would
12 attribute that to the fact that KCPL and Aquila have
13 adjoining territories? So far, so good?

14 A. Yes.

15 Q. And therefore, I take it they can access,
16 in your testimony, higher levels of proximity --
17 can't even say it -- proximity-related synergies?

18 A. That's correct.

19 Q. All right. Now, with that behind us,
20 let's look, please, back at WJK-4. Is that a
21 graphical representation of that portion of your
22 testimony?

23 A. That refers to one measure of the
24 estimated synergies which is the total synergies that
25 were announced by the companies at the time of the

1 merger announcement.

2 Q. All right. Now, you have at the bottom
3 of your stack MidAmerican and PacifiCorp; is that
4 correct?

5 A. That's correct.

6 Q. MidAmerican is located somewhere to the
7 north of us, correct?

8 A. Primarily in Iowa, correct.

9 Q. Yeah. And PacifiCorp would suggest by
10 its name that it's located southern -- somewhere
11 other than Iowa?

12 A. That would be correct.

13 Q. Like California?

14 A. Only a minor portion of their territory
15 is in California. They cover parts of all the
16 northwest states.

17 Q. Oregon and Washington?

18 A. Yes.

19 Q. West Coast?

20 A. And Utah.

21 Q. So they wouldn't be contiguous, would
22 they?

23 A. No.

24 Q. How about PNM and TNP, what do those
25 stand for?

1 A. Public Service of New Mexico and
2 Texas-New Mexico Power Company.

3 Q. They show up here as somewhere -- looks
4 like about 2 percent on the synergies of nonfuel O&M?

5 A. Total amount synergies as percentage of
6 total amount O&M. You have to remember here on this
7 page the numerator we're calculating the percentage
8 is, is the total amount synergies, includes both
9 nonfuel and fuel savings.

10 Q. Right. I'm kind of looking at both
11 sides because -- well, I actually want to look at the
12 nonfuel O&M for the -- for the time being. Maybe
13 we'll come back to the others. We'll see. But PNM,
14 Public Service of New Mexico and the Texas utility
15 that you mentioned, they are contiguous, aren't they?

16 A. Not -- not substantially. Their --
17 the -- PNM --

18 Q. They are contiguous, aren't they?

19 A. Not all parts of them.

20 Q. Are they adjacent?

21 A. Not all parts of them.

22 Q. Are some parts adjacent?

23 A. Yes.

24 Q. Are some parts contiguous?

25 A. Yes.

1 Q. Now, the third one up from the list is
2 Ameren, and I believe IP stands for Illinois Power,
3 correct?

4 A. That's correct. That's correct.

5 Q. Were those utilities in contiguous or
6 adjacent service territories?

7 A. Yes.

8 Q. And the next one up is Ameren and
9 Central Illinois Light & Power, CILCORP, right?

10 A. Correct.

11 Q. That also is a contiguous or adjacent
12 service territory, isn't it?

13 A. That's correct.

14 Q. And ConEd and O&R, look at that one. Is
15 that contiguous or adjacent?

16 A. Partially.

17 Q. So that's a yes?

18 A. Yes.

19 Q. Pepco and Conectiv?

20 A. No.

21 Q. They're not contiguous or adjacent?

22 A. Excuse me if I look at my -- one of the
23 work papers that I've provided in the data response
24 does -- yes, I believe they were -- they are in the
25 contiguous category.

1 Q. Unicom and PECO, now, they are not; is
2 that correct?

3 A. That's correct.

4 Q. But Union and CIPSCO, they are?

5 A. Yes.

6 Q. And OE Centerior, they are also, aren't
7 they?

8 A. Correct.

9 Q. By that I mean that they are contiguous
10 or have adjacent service territories.

11 A. Yes, they are.

12 Q. Now, CP&L, to be fair, that's not?

13 A. Correct.

14 Q. But Wisconsin -- I believe that's
15 Wisconsin, WSP [sic] and Peoples, is that --

16 A. I would put them in the not-contiguous
17 category.

18 Q. And AEP and CSW?

19 A. Definitely not contiguous.

20 Q. How about National Grid which you
21 mentioned?

22 A. I believe they are contiguous in a minor
23 portion of their territory.

24 Q. And jump up to Delmarva and AE. They
25 are contiguous, are they not?

1 A. Yes.

2 Q. So in all of those that I mentioned and
3 that you confirmed were contiguous or adjacent,
4 including the Delmarva, I believe, which is right on
5 the line, that's your average, right?

6 A. Average for announced.

7 Q. Right.

8 A. Yes.

9 Q. And so all of those that I mentioned
10 that you agreed were contiguous or adjacent were all
11 below that, right?

12 A. Yes.

13 Q. Mr. Kemp, looking again at your
14 surrebuttal, and I believe the reference that you may
15 want is page 13, line 11. There's a reference --
16 actually, it's line 12, sir. You draw a distinction
17 between created and enabled synergies. Do you see
18 that?

19 A. In my surrebuttal testimony?

20 Q. I believe so, yes, sir.

21 A. I mention them but I don't think I draw
22 a distinction there.

23 Q. Well, the -- are you -- are you -- are
24 they the same thing, are created synergies the same
25 as enabled synergies?

1 A. I believe I defined them differently in
2 my --

3 Q. Okay. So you drew a distinction between
4 the two?

5 A. Not in my surrebuttal testimony.

6 Q. You drew a distinction between the two,
7 did you not?

8 A. I did so in my supplemental direct
9 testimony.

10 Q. And you make a reference to that
11 distinguished -- or nature of those synergies on
12 line 12, page 13 of your surrebuttal, correct?

13 A. Yes.

14 Q. Would you agree with me that the
15 applicants have not distinguished between created and
16 enabled synergies in this case?

17 A. I agree.

18 MR. CONRAD: Your Honor, thank you.

19 That's all.

20 JUDGE DIPPELL: Is there
21 cross-examination -- we seem to be missing Public
22 Counsel.

23 MR. CONRAD: Maybe he's working on a
24 motion.

25 JUDGE DIPPELL: Staff?

1 CROSS-EXAMINATION BY MR. THOMPSON:

2 Q. How you doing, Mr. Kemp?

3 A. Good morning.

4 Q. Now, you're here testifying as an expert
5 witness; is that right, sir?

6 A. I am.

7 Q. What is it that you are an expert in?

8 A. In this case I'm being sent as an expert
9 in synergies that can be realized between utility
10 companies when they merge.

11 Q. And is that a recognized area of
12 expertise? Can I find synergy experts in the Yellow
13 Pages?

14 A. No. It's not hard to locate them in the
15 consulting industry, however.

16 Q. Okay. And you work, I think, for Bridge
17 Strategy; is that correct?

18 A. No, it's not.

19 Q. Who do you work for?

20 A. Black & Veatch Corporation.

21 Q. Black & Veatch, I'm sorry. And who --
22 who's paying your bill in this case?

23 A. Kansas City Power & Light.

24 Q. So you're working for KCPL?

25 A. I was retained by them, yes.

1 Q. Okay. Just how much are they paying
2 you?

3 A. They're paying Black & Veatch. I'm not
4 getting paid personally by ...

5 Q. How much is Black & Veatch billing?

6 A. My billing rate is \$475 an hour for this
7 engagement.

8 Q. Do you know how much has already been
9 paid by Kansas City Power & Light by Black & Veatch
10 for your services?

11 A. I believe it's roughly \$125,000.

12 Q. How much more do you expect to bill?

13 A. I honestly don't expect a lot of work
14 after -- after this week, so not substantially more.

15 Q. Okay. Now, the purpose of your
16 testimony, sir, is to provide an independent review
17 of the merger synergies estimates and the methods by
18 which they were developed; is that correct?

19 A. That's correct.

20 Q. And I think you asked yourself three
21 questions, did you not? Is the method of estimating
22 synergies reasonable and consistent with accepted
23 practice? Is that a paraphrase of one of your
24 questions?

25 A. Yes.

1 Q. And are the estimates reasonable and
2 consistent with experience, is that another?

3 A. Yes.

4 Q. And is the proposed rate treatment of
5 the synergies consistent with established regulatory
6 practice, is that the third?

7 A. Yes.

8 Q. And you came out with a yes on each of
9 those three questions, did you not?

10 A. I did.

11 Q. Do you think you would have gotten paid
12 had you come out with a no?

13 A. Yes.

14 Q. Okay. Now, I think you say on page 8 of
15 your supplemental direct that, "An important measure
16 of the public interest test is the long-term impact
17 on rates to customers. Do the ratepayers receive a
18 price benefit from the transaction?" Do you recall
19 that?

20 A. I do.

21 Q. And as far as you know, sir, do the
22 ratepayers receive a price benefit from this
23 transaction?

24 A. I'm not an expert in the rate treatment
25 that's been proposed.

1 Q. Okay. Are you aware that the ratepayers
2 are being asked to pay what are called the
3 transaction costs which are estimated at \$95 million?

4 A. Yes, I've been in the hearing room all
5 week, so I think I've been aware of some of those
6 issues.

7 Q. And are you aware the ratepayers are
8 being asked to pay what are called transmission costs
9 which are estimated at \$45 million?

10 A. Yes.

11 Q. And are you aware that the ratepayers
12 are being asked to share 50 percent of the synergies
13 over the first five years, an amount that equals, I
14 believe, \$130 million?

15 A. Yes.

16 Q. Okay. And are you aware that the
17 ratepayers are being asked to pay a secret amount
18 which is the actual interest costs of Aquila?

19 MR. STEINER: I'm gonna object to the
20 characterization of "secret amount." There's no
21 foundation for that.

22 MR. THOMPSON: I'm sorry. Has that been
23 disclosed? I thought it was HC. I'm just trying to
24 protect your secrets, Roger.

25 MR. STEINER: If you can use the term

1 "highly confidential." I don't think that's the same
2 as secret.

3 MR. THOMPSON: Okay. Thank you.

4 BY MR. THOMPSON:

5 Q. Are you aware that the ratepayers are
6 being asked to pay a highly confidential amount that
7 represents the difference between the imputed cost of
8 debt of Aquila and the actual cost of debt of Aquila,
9 are you aware of that?

10 A. I am aware the applicants have requested
11 the recovery of actual interest costs, yes.

12 Q. Okay. And with all that in mind, do you
13 believe there is a price benefit from this
14 transaction to the ratepayers?

15 A. Yes.

16 Q. When will they see that?

17 A. I think as Mr. Chesser testified, that
18 that would be primarily -- the way the deal is
19 currently structured, primarily after the first five
20 years post-transaction.

21 Q. So starting in year 6. Do you think --
22 do you think there's going to be identity of the
23 customer base in year 6 to the customer base now? Is
24 it gonna be the same, 800,000 customers?

25 A. There would be some changes.

1 Q. Some will come and some will go, right?

2 A. Correct.

3 Q. Some will die, some will be born, right?

4 A. Yes.

5 Q. Okay. So what mechanism is there to
6 make sure that this benefit gets to the people who
7 move out before --

8 MR. MILLS: Or die.

9 MR. THOMPSON: Or die. Thank you,
10 Mr. Mills.

11 BY MR. THOMPSON:

12 Q. -- or die before year 6?

13 JUDGE DIPPELL: Mr. Mills, I would
14 appreciate it if you wouldn't comment during
15 questioning.

16 MR. MILLS: I apologize. I apologize.

17 THE WITNESS: Long-term rate mechanisms
18 have, by their nature, some mismatch of benefits and
19 payments. As you point out, customers change over
20 time.

21 BY MR. THOMPSON:

22 Q. Is it your opinion that the benefits
23 that this transaction will make available to
24 ratepayers are worth what ratepayers are being asked
25 to pay in the form of upfront costs taken right out

1 of their pockets?

2 A. Most definitely.

3 Q. So have you calculated or can you tell
4 me starting in year 6, will there be a rate decrease?

5 A. I would expect that in year 6, given the
6 synergies that would be realized and continue to be
7 realized, that rates would be lower than they would
8 otherwise be. As I think that's pointed out numerous
9 times this week, we are in a -- for better or worse,
10 a rate increase environment because of the heavy
11 capital expenditures that are required and --

12 Q. Okay. Thank you.

13 A. Yes.

14 Q. If I understand what you're saying is,
15 the benefit to the consumers will be they will not
16 see the increases they would have otherwise seen. Is
17 that a fair restatement of what you said?

18 A. That's correct.

19 Q. Okay. From the point of view of a
20 bill-paying member of the public, is that gonna seem
21 like much of a benefit, do you think?

22 MR. STEINER: I'm gonna object to this
23 line of questioning. Part of Mr. Thompson's question
24 involves the highly confidential cost, and this
25 witness has said that he's not addressing interest

1 savings which are covered by other witnesses. So
2 that's part of his questions, and this witness has
3 specifically excluded that from his analysis.

4 MR. THOMPSON: Well, Judge, I think this
5 witness has said that he thinks the benefit that this
6 transaction will confer on the ratepayers is worth
7 the upfront cash money costs that they're being
8 expected to pay. And what I'm trying to get to is
9 how are they going to know that they have been
10 blessed with these benefits?

11 JUDGE DIPPELL: I'm gonna overrule the
12 objection and allow the witness to answer if he knows
13 the answer.

14 BY MR. THOMPSON:

15 Q. If you know, sir.

16 A. I think managing ratepayer expectations
17 will be a challenge for both the Commission and for
18 the applicants. When you're in a rising rate
19 environment, I wish it were not so, but costs are
20 going up. There's not much you can do about changing
21 the external world.

22 If rates are lower than they otherwise
23 would be, I would tend to agree with you that it's a
24 harder sell to the public than a absolute rate
25 decrease. But from a public policy viewpoint, I

1 think it's incumbent on the Commission to look for
2 ways to reduce costs, especially in a rate increase
3 environment.

4 Q. Okay. And are you familiar with KCPL's
5 current construction program?

6 A. Only in very general terms.

7 Q. Are you aware that KCPL is constructing
8 a major coal-fired plant generally termed Iatan 2?

9 A. Yes.

10 Q. And do you know when that plant is
11 expected to go on line and thus into rate base?

12 A. Only from what I've heard in the
13 courtroom. I believe 2010 was the date that was
14 mentioned.

15 Q. And 2010 is, what, year 3 of the first
16 five years?

17 A. That would be correct.

18 Q. Okay. And if you know, what will be the
19 impact on rates of Iatan 2 going on line?

20 A. I do not know.

21 Q. Do you think a major addition to rate
22 base will have the effect of raising rates?

23 A. Other things being equal, that would be
24 true.

25 Q. Okay. Now, your analysis of the

1 proposed synergies concludes that they are
2 reasonable, does it not?

3 A. It does.

4 Q. And there are four lines of evidence,
5 excuse me, that you rely upon for corroboration; is
6 that right?

7 A. That's correct.

8 Q. I'm looking for those now if you'll just
9 give me a minute. The first one, if I'm correct, is
10 that the methodology is sound and unusually detailed;
11 is that correct?

12 A. Yes.

13 Q. Okay. What is it about the methodology
14 that led you to the conclusion that it was sound?

15 A. I believe I laid that out in my
16 supplemental direct testimony. I had seven -- I
17 believe it was seven criteria that I applied to the
18 methodology to determine whether it was sound and
19 reasonable, and it passed by all those criteria.

20 Q. Okay. And these are that the method was
21 comprehensive, correct?

22 A. Yes.

23 Q. That the data was current?

24 A. Yes.

25 Q. And the analyses were detailed?

1 A. Yes.

2 Q. And that benefits not fairly
3 attributable to the merger were excluded?

4 A. Correct.

5 Q. That quality was assured by thorough
6 review?

7 A. Yes.

8 Q. And that the method was conservative in
9 that only low end to middle range values were used;
10 is that correct?

11 A. That's correct.

12 Q. Okay. Now, your second line of evidence
13 was that the estimates are modestly higher than
14 announced synergies for 26 transactions; is that
15 correct?

16 A. Yes.

17 Q. And I think you made some adjustments to
18 these numbers, did you not?

19 A. Not for that particular measure, no.

20 Q. Not for that one. So 5 percent versus
21 3 percent for total O&M, correct?

22 A. Yes.

23 Q. And 11 percent versus 9 percent for
24 nonfuel O&M?

25 A. Correct.

1 Q. And I think you indicated that the
2 reason that modestly higher is to be expected is
3 because they're contiguous; is that right?

4 A. Yes, marginally.

5 Q. And that therefore a larger range of
6 synergies are available?

7 A. Yes.

8 Q. Okay. Then your third measure, as I
9 recall, or line of evidence, was that the estimates
10 for the nonfuel O&M are significantly higher than
11 realized synergies for 15 electric utility
12 transactions, correct?

13 A. That is correct.

14 Q. And did you adjust that number?

15 A. Yes, that was the 2 percent became
16 1 percent.

17 Q. Okay. So 10 percent versus 1 percent;
18 is that right?

19 A. Yes.

20 Q. That is significantly higher, isn't it?

21 A. For that particular metric, the total
22 nonfuel O&M number.

23 Q. And is that, again, based on the
24 contiguity? In other words, they're next to each
25 other, is that what's driving this significantly

1 higher range of synergies?

2 A. To answer that question, you'd have to
3 look at the functional detail. It is true for the
4 A&G, the customer service and the distribution
5 functions, if you look at the detail in my numbers,
6 the realized synergies for the average of the
7 transactions is only modestly above what KCPL is
8 projecting for this one.

9 It's -- the gap between the 10 -- the
10 1 percent is explainable largely because of the much
11 higher transmission costs after transaction that were
12 experienced by a relative handful of the utilities in
13 my comparison set, and that drove -- drove the total
14 nonfuel O&M down to 1 percent as opposed to 5 or
15 6 percent where it would have been without the -- the
16 transmission number.

17 Q. And are you confident that the
18 circumstances that cause those transmission costs to
19 be out of line for those other merging entities are
20 not applicable here?

21 A. Yes.

22 Q. Okay. And finally, you believe that the
23 estimates are at the upper end of the range which is
24 reasonable to expect in utility transactions; is that
25 correct?

1 A. Based on my experience, yes.

2 Q. Okay. What happens if the synergies
3 don't come out as high as projected?

4 A. KCPL's and Aquila's costs would be
5 higher than they would have been if the synergies had
6 been projected.

7 Q. And who pays those costs?

8 A. Well, that would depend on the decision
9 of the -- of the Commission as they process the --
10 KCPL's and Aquila's rate cases, I would think.

11 Q. So you agree with me, don't you, that
12 typically ratepayers pay the cost of service in cost
13 of service ratemaking?

14 A. As the Commission determines that cost
15 of service.

16 Q. Okay. So is it not fair to say that if
17 the synergies do not, in fact, come in at the
18 projected level, then the ratepayers will pay more;
19 isn't that right?

20 A. Are you drawing a distinction between
21 the specific synergy projects that were identified or
22 are you just talking about overall synergies?

23 Q. I'm talking overall.

24 A. Okay. Yes, on an overall basis, that
25 arithmetically is correct.

1 Q. Because these synergies are not
2 automatic, are they?

3 A. No.

4 Q. There's work that has to be done, isn't
5 there?

6 A. Certainly.

7 Q. Many of these synergies, in fact, come
8 down to people who are not gonna have jobs, don't
9 they?

10 A. Labor cost reductions are an important
11 part of the cost reduction.

12 Q. Labor cost reductions means people
13 without jobs, does it not?

14 A. Without their existing jobs.

15 Q. Without their existing jobs, very good.
16 Is there a program or plan in place to find jobs for
17 them all?

18 A. I don't know.

19 Q. Okay. To the extent that they're also
20 customers of KCPL or Aquila, do you think they're
21 going to feel benefited?

22 A. Yes.

23 Q. Okay. What measure is there whereby
24 these synergies can be tracked so that their actual
25 level can be determined?

1 A. It's been done in a variety of ways and
2 usually based on some adjustment to actual cost.

3 Q. Would you be surprised if I told you
4 that the proposal in front of the Commission does not
5 include any tracking mechanism?

6 A. No, I would not be surprised, then.

7 Q. Do you think this Commission should take
8 the projected synergies on faith?

9 A. I think they're very well supported and
10 I believe in the -- the estimates are a fair basis
11 for allocating the savings between the shareholders
12 and the -- and the ratepayers, yes.

13 Q. Would your company be willing to pay the
14 difference if there's a shortfall in the synergies?

15 MR. STEINER: I'm gonna object. Are you
16 speaking of Black & Veatch or KCPL?

17 MR. THOMPSON: I'm speaking of Black &
18 Veatch. And my next question is gonna be if he's
19 willing personally to pay the difference, so you can
20 object to that too.

21 JUDGE DIPPELL: Mr. Thompson.

22 MR. THOMPSON: Yes, Judge.

23 JUDGE DIPPELL: I'd like to maintain a
24 congenial -- congenial and professional attitude --

25 MR. THOMPSON: I apologize, your Honor.

1 JUDGE DIPPELL: -- in the hearing room,
2 and I think his objection was well founded in that it
3 was unclear from your question if you were referring
4 to Black & Veatch or KCPL.

5 MR. THOMPSON: Shall I reask the
6 question, Judge?

7 JUDGE DIPPELL: Yes, please.

8 BY MR. THOMPSON:

9 Q. Mr. Kemp, would Black & Veatch be
10 willing to pay the difference if the synergies do not
11 come in at the projected level?

12 A. Under our current financial policy we do
13 not accept consulting engagements on contingent
14 compensation, so regardless of the merits, I don't
15 think we would, no.

16 Q. Would you personally want to guarantee
17 the synergies?

18 A. I don't think that's the question you
19 asked originally. If there was a chance to share in
20 the upside and the downside, yes, I would if it was
21 properly structured.

22 MR. THOMPSON: I have no further
23 questions. Thank you, your Honor.

24 JUDGE DIPPELL: All right. Thank
25 you. Mr. Mills, you were absent when it was your

1 turn for cross-examination. Did you have
2 cross-examination?

3 MR. MILLS: I do. I apologize that --
4 for that, Judge. I was right outside the door
5 checking in periodically and I guess I missed the
6 switch between Mr. Conrad and Mr. Thompson. I'm
7 sorry. I do have just a few questions.

8 JUDGE DIPPELL: And before you get
9 started, I am planning to break at noon because the
10 agenda will be beginning. Are they few enough you
11 can get done in that time?

12 MR. MILLS: No. I probably have 20
13 minutes rather than five.

14 JUDGE DIPPELL: Okay. Let's just go
15 ahead and break for lunch, then --

16 MR. MILLS: Okay.

17 JUDGE DIPPELL: -- and return with those
18 questions. I don't think the agenda will be long, so
19 let's -- let's return at quarter after 1:00, 1:15.

20 Okay. We can go off the record.

21 (THE NOON RECESS WAS TAKEN.)

22 JUDGE DIPPELL: Okay. We're back on the
23 record after our lunch break, and we're gonna
24 continue, then, with cross from Public Counsel.

25 MR. MILLS: Thank you.

1 CROSS-EXAMINATION BY MR. MILLS:

2 Q. Mr. Kemp, have you ever worked or your
3 firm has ever worked for a company as a management
4 consultant to assist in finding ways where efficiency
5 of savings might be achieved by changing processes or
6 organization outside of the context of a merger?

7 A. Yes.

8 Q. And through those processes, have you
9 been able to assist companies in achieving savings
10 through management processes or procedures outside of
11 a merger case?

12 A. Yes.

13 Q. If KCPL in the absence of the proposed
14 merger of GPE and Aquila had come to you and asked
15 you to perform a detailed review, in your
16 professional experience would you have been able to
17 give them any guidance on how they could achieve
18 savings absent this merger?

19 A. We certainly have done our share of
20 management reviews and so forth, and typically, you
21 come up with something, but whether the level was
22 comparative to what you could -- would be able to
23 realize under the merger context, I couldn't draw a
24 conclusion on that.

25 Q. Do you charge the same hourly rate for

1 that kind of review that you're charging in this
2 case?

3 A. Typically the expert witness hourly
4 rates are a bit higher than normal consulting rates.

5 Q. Now, do you believe the same would be
6 true with respect to Aquila, that if you analyze
7 their operations outside of the context of this
8 merger, that you would be able to point certain
9 savings that they could achieve out to them?

10 A. Certainly possible, yes.

11 Q. Is it possible or is it likely?

12 A. It's likely. I mean, we probably
13 wouldn't be hired unless we thought we could identify
14 something.

15 Q. And that was gonna be my next question.
16 If they called you up to hire you, would you say,
17 well, it's possible or would you say, yes, it's
18 likely?

19 A. You know, it would depend on their
20 circumstances, but we would say, yes, it's likely
21 that we can find something.

22 Q. Okay. Well, you should know after your
23 review a fair amount about the circumstances of KCPL
24 and Aquila. Do you think knowing what you now know
25 about KCPL and Aquila that had you been retained to

1 find savings for each entity on a standalone basis,
2 that you would have been able to find substantial
3 savings?

4 A. Yes.

5 Q. Do you think that KCPL or Aquila or both
6 of them would have been prudent to have retained you
7 to look at their operation prior to the decision to
8 merge?

9 A. I can't make that judgment. They may
10 have had other initiatives going on, and we're not
11 the only consulting firm that provides operations in
12 prudent consulting services.

13 Q. If you had been able to identify savings
14 for either or both companies on a standalone basis
15 and the companies made those changes and achieved
16 those savings, would not those savings flow to
17 shareholders until such time as a rate case was
18 filed?

19 A. Depends on the regulatory mechanism, but
20 if it's a normal rate -- normal base rate
21 environment, the costs would have been borne by the
22 utility, the cost to achieve the -- also the --
23 whatever cost reductions would be retained.

24 Q. Do you know about the -- the regulatory
25 environment in Missouri?

1 A. I'm not an expert in that.

2 Q. Do you have any reason to think it's
3 anything other than a normal base rate regulation
4 environment?

5 A. No, it's a historical test year, as I
6 understand it.

7 Q. Okay. And in that type of regulation,
8 doesn't the ability to retain savings for a period of
9 time provide an incentive for a utility to implement
10 changes designed to save money?

11 A. To a degree, yes.

12 Q. Is there any reason why a utility would
13 not want to implement changes that would save them
14 money?

15 A. It's -- it's common knowledge that in a
16 regulated environment such as you were discussing for
17 Missouri, if the benefits of cost reductions are
18 passed through quickly to ratepayers without any
19 mechanism for any retention of benefits by
20 shareholders, then the incentives for cutting costs
21 are perhaps weaker than they would be in a
22 competitive environment.

23 Q. Okay. And how would they be passed
24 through to ratepayers quickly absent a rate case?

25 A. You would have to -- well, your question

1 before, I think, posited a rate case.

2 Q. So are -- is it your testimony that the
3 only way that they would be passed through to
4 customers would be through a rate case?

5 A. Through some sort of rate mechanism,
6 yeah. It might not be generated --

7 THE COURT REPORTER: I'm sorry, what?

8 BY MR. MILLS:

9 Q. I'm sorry?

10 A. Through some sort of rate mechanism,
11 yes, commonly a general rate case.

12 Q. Are you aware of any mechanism in
13 Missouri that would pass those savings through other
14 than a rate case?

15 A. No.

16 Q. Okay. Now, in your supplemental direct
17 testimony, and specifically at pages 7 to 8, you
18 define three types of synergies; is that correct?

19 A. That's correct.

20 Q. Well, actually, there are really two
21 types of synergies and another thing that you say is
22 not a synergy. Is that more accurate?

23 A. Three types of actions to reduce costs,
24 yes.

25 Q. And one of those, you say, is not a

1 synergy; is that correct?

2 A. Correct.

3 Q. Okay. And then on page 8 at line 3, you
4 talk about something different than the ones you've
5 just defined which is "operational synergies." What
6 exactly is operational synergies?

7 A. Synergies related to the operations as
8 opposed to the financing of the companies.

9 Q. Is that different than or a subset of
10 the two synergies you've defined on the previous two
11 pages?

12 A. It would be a subset of all of the
13 synergy types that we discussed on the prior two
14 pages.

15 Q. Now, given a certain piece of savings,
16 if you'll let me say that, would -- would all experts
17 be able to look at that and distinguish between
18 whether it's enabled or developed, to use your
19 definitions?

20 A. No. As I said in my surrebuttal
21 testimony, the distinction is difficult to make in
22 many cases.

23 Q. So, for example, some of the things that
24 you have considered in this case to be enabled,
25 another expert might consider to be developed?

1 A. That's correct.

2 Q. And in this case, you're recommending
3 that included in synergy savings should be the
4 enabled ones but not the developed ones; is that
5 correct?

6 A. No, that's not correct -- oh, developed,
7 excuse me. Yes, created. I recommended -- recommend
8 that both created and enabled synergies should be
9 included in the calculation of synergies, but not
10 developed benefits, correct.

11 Q. Now, let me -- let me give you a
12 hypothetical example. Utility A wants to merge with
13 utility B. Utility A owns its coal trains and
14 utility B leases them. As a result of the merger
15 investigation, B's management concludes that looking
16 at A, that B can save money by owning coal trains.
17 Would that be a developed savings or -- I mean a
18 developed savings or a enabled synergy?

19 A. Is this in the context of a merger, is
20 that your hypothetical?

21 Q. Yes.

22 A. It could be either, depending on whether
23 company B had the capability for adopting the
24 practice that they observed company A performing.

25 Q. So if they -- if they had the ability to

1 do that absent the merger, that would be a developed
2 benefit rather than an enabled synergy?

3 A. No. I believe it would be -- in my mind
4 if it's -- if they had -- did not have the capability
5 to adopt that practice, then it would be a created
6 synergy because the -- the merger makes it possible
7 for that operational practice to be adopted by
8 company B.

9 If by the -- the cooperation and
10 cross-learning in the -- in the merger process,
11 company -- company B is able, better and faster to
12 adapt that policy -- that practice and gain the
13 capability to do it, then that would be enabled
14 synergy.

15 Q. Okay. Let me -- let me add to my
16 hypothetical that -- that company B is -- is
17 perfectly capable of adopting that practice on its
18 own, just didn't realize that it was a good idea
19 until they got into the merger discussions. Does
20 that make it a developed benefit rather than an
21 enabled synergy?

22 A. No. It would still be an enabled
23 synergy.

24 Q. Okay. Then let me change the
25 hypothetical just a little bit. Same utilities, A

1 and B. A owns its coal trains, B leases. B sees
2 a -- an article in Public Utilities Fortnightly about
3 A owning its coal trains, discovers that it can save
4 money and does the exact same change. Outside of the
5 context of a merger, the exact same action would not
6 be an enabled synergy, would it?

7 A. It's not in the context of a merger, no.

8 Q. Now, in your testimony, have you
9 analyzed which utility will achieve more enabled
10 savings post-merger?

11 A. Which utility, between KCPL --

12 Q. Between KCPL and Aquila.

13 A. No. I believe we looked at the savings
14 for the combined entity.

15 Q. Okay. So is it, then, central to your
16 analysis that -- that there be a combined entity?

17 A. Operationally speaking, yes.

18 Q. Okay. Will there, in fact, be a
19 combined entity?

20 MR. STEINER: I'm going to object. The
21 question is vague. Do you mean from a legal sense or
22 from an operational sense?

23 MR. MILLS: Well, he's just said that
24 there will be one from an operational sense, so I'm
25 asking if there will actually be one in any other

1 sense.

2 JUDGE DIPPELL: You may answer that
3 question.

4 THE WITNESS: There will be a combined
5 holding company structure, as I understand the intent
6 of the parties, with Aquila and KCPL to be operating
7 utility companies under Great Plains Energy. That's
8 a common structure in the utility industry, and I
9 think, as other witnesses have pointed out, that does
10 not pose any barrier to being able to achieve
11 operational integration benefits.

12 BY MR. MILLS:

13 Q. Okay. Now, you just said that they will
14 be operating utility companies, is that what you
15 said? Is that the phrase you used?

16 A. I believe so, yes.

17 Q. Okay. Is an operating utility -- well,
18 define for me what you understand to be an operating
19 utility company.

20 A. A subsidiary of a -- of a parent company
21 that is an operating utility.

22 Q. Okay. It -- okay. Now, with respect to
23 the -- well, when were you hired in this case?

24 A. Early July, I believe, of 2007.

25 Q. Okay. So you were brought into the

1 process after the joint applicants filed their
2 initial direct testimony; is that correct?

3 A. That's correct.

4 Q. Was the process that you allot -- that
5 you outlined on page 10 of your supplemental direct
6 testimony before -- done before or after you came on
7 board, or both, I suppose?

8 A. Both. They had gone through several
9 iterations of estimates, is my understanding, and
10 continued to do so after I was retained.

11 Q. Okay. Were each of those steps
12 performed in order to prepare the direct testimony
13 that was filed in this case?

14 A. My direct testimony?

15 Q. No, the original direct testimony before
16 supplemental direct testimony.

17 A. I don't know.

18 Q. So when you -- when you say at line 1 of
19 page 10 that KCPL and Aquila formed joint teams, do
20 you know when those teams were formed?

21 A. Not precisely, but I believe it was in
22 the period of time prior to the filing of the
23 original direct testimony, so it would have had --
24 had to be very early 2007.

25 Q. Okay. And when at lines 2 or 3 you say

1 those teams followed the same general steps --

2 A. Uh-huh.

3 Q. -- when did they follow those steps?

4 A. Up to the time that I interviewed their
5 team leaders and reviewed their work papers and did
6 my other steps to review the methodology that they
7 followed, so that would be in the time period leading
8 up to my review in July of 2007.

9 Q. Okay. So they had followed those steps
10 before you came on board?

11 A. Yes.

12 Q. Okay. Now, a portion of your testimony,
13 at least, relies on an analysis of 15 utility
14 mergers; is that correct?

15 A. That is correct.

16 Q. Why did you pick those particular 15?

17 A. That is the complete set of
18 electric/electric enterprise level mergers in the
19 United States since 197 -- 1995.

20 Q. Okay. Are they as a group or
21 individually comparable to the merger under
22 consideration here?

23 A. Yes, that's why I selected them.

24 Q. Can I get you to turn, please, to
25 schedule WJK-5? And I think it would probably make

1 more sense to -- to look at the November 30 version
2 of this.

3 A. Okay.

4 Q. There you've shown seven categories of
5 costs; is that correct?

6 A. Yes, those are the seven functional
7 groupings in the FERC accounts.

8 Q. And you've shown with -- with the
9 horizontal mark, the median of the achieved level of
10 savings, I should say, in -- in those seven
11 categories; is that --

12 A. Yes. To be precise, it's the -- it's
13 the change in cost from the year prior with a -- with
14 a combination of the two utilities to the year three
15 years after the transaction, i.e. four years later,
16 of the combined company as adjusted for inflation and
17 CPF.

18 Q. Okay. You're right, that is a lot.
19 More precise than I was. I appreciate that. Now,
20 why did you choose the median as opposed to the
21 average or some other --

22 A. I chose -- I did the -- looked at the
23 mean -- the mean also for these distributions and the
24 story was very much the same. I chose median just
25 because of the -- the range of -- it was not a normal

1 distribution. Basically, there was quite a wide
2 variety of data points, and when you have a chaotic
3 distribution of data points, I think it's sometimes
4 more fair to look at the median as opposed to the
5 average because the average gets thrown out by all
6 others.

7 Q. Okay. What -- what exactly are the
8 kinds of costs -- and I think you talked a little bit
9 about this earlier -- that are -- that are entered in
10 the sales category?

11 A. Marketing, sales, that's -- well --

12 Q. So that -- sales there is not retail
13 rate revenues?

14 A. No, it's the cost -- the expenses of
15 running whatever the sales department was, sales
16 activities within the electric utilities which, as
17 you see, plummeted once the -- the prospect of retail
18 competition became less apparent from an --

19 Q. Okay. So -- so really, if you're
20 talking as we are here about two traditionally
21 regulated companies in a traditionally -- traditional
22 regulatory -- regulatory state, the level of sales
23 expense or savings is not gonna be terribly
24 significant?

25 A. That's why I didn't really discuss sales

1 very much.

2 Q. Other than the sales column, in -- in
3 which of these seven categories is the greatest --
4 was the greatest level of savings achieved from the
5 15 utilities that you examined?

6 A. Well, as you can see, in the -- just
7 from the data, the customer service area was the area
8 where the largest median level of real cost reduction
9 was achieved.

10 Q. And for KCPL, which is the one that you
11 anticipate the greatest level of savings?

12 A. Customer service which is the
13 combination of the customer accounting and customer
14 service functional groupings.

15 Q. Are you familiar with the synergy
16 savings that Missouri Gas Energy achieved in the
17 customer service area when it first came to Missouri?

18 A. No, I'm not.

19 Q. Do you know if this Commission is?

20 A. No, I don't.

21 Q. Now, are you familiar with the phrase
22 "known and measurable" as it is used in utility
23 regulation?

24 A. Yes.

25 Q. Okay. At page 24 of your supplemental

1 direct testimony, and I think on at least a few
2 instances following that, but in particular on -- on
3 line 10 of page 24, you use the phrase "hard synergy
4 benefits." What exactly are hard synergy benefits?

5 A. Benefits that are quantifiable and --
6 and reducible to dollar -- dollar terms as opposed to
7 more intangible types of benefits.

8 Q. And when you say "quantifiable," is that
9 the same as known and measurable?

10 A. I'd say that's largely the same, yes.

11 Q. So -- so these -- these are absolutely
12 known and measurable means known that you know that
13 they're going to happen; is that correct?

14 A. That's correct.

15 Q. And measurable means you know exactly
16 what they're going to be without having to estimate
17 it; is that correct?

18 A. That's correct. And if I may revise my
19 prior answer, when I had in mind known, I meant
20 sometimes in the retrospective perspective as not in
21 ratemaking, at least in historical test year states,
22 the known term typically refers to known on a
23 prospective basis.

24 Q. Okay. So at least with the way it's
25 used in a historical test year state like Missouri,

1 is your testimony that the quantifiable, as you use
2 it here, is the same as known and measurable?

3 A. No.

4 Q. Okay. Now, looking just at the first
5 five years post-merger if the merger closes, will
6 this particular merger help hold down rate increases
7 that would otherwise be required?

8 A. For KCPL and Aquila?

9 Q. Yes.

10 A. Yes, I believe so.

11 Q. Have you done an analysis by how -- by
12 the -- by the amount at which this merger will hold
13 down rate cases that would otherwise be required --
14 I'm sorry -- rate increases that would otherwise be
15 required?

16 A. No, I've not.

17 Q. And if other witnesses in the case have
18 testified that, in fact, the opposite is true, what
19 would be your response to that?

20 A. The witnesses that I heard talking
21 earlier were not talking -- it wasn't a
22 counter-factual example, it was just that the rate
23 impacts would be slightly net negative for the
24 customers in the first five years, I believe, is what
25 Mr. Chesser testified, and would be positive, i.e. a

1 net reduction to rates in later years.

2 I'm responding to the -- would otherwise
3 be a required piece of your question because I think
4 on a standalone basis, you'd have to compare what
5 would be achieved with the merger versus where their
6 cost trajectories would have been without them. And
7 at least in Aquila's case, I think it's arguable
8 about whether their rate trajectory would be higher
9 or lower absent the merger.

10 Q. Do you think that's questionable?

11 A. Yes. In the first five years is what
12 I'm talking about.

13 Q. Yes, that was the context of my
14 question. Now, with respect to the -- well, let me
15 ask you this: Have you identified anything that you
16 have defined as developed savings in your employment
17 in this case?

18 A. No, I did not attempt to make that
19 distinction.

20 Q. Did you run across anything that -- of
21 an -- so you're saying that wasn't the point of your
22 investigation?

23 A. I looked at the total pool of created
24 and enabled savings and compared that with the
25 industry experience.

1 Q. So you're saying that during your entire
2 employ in your analysis for this case, that you did
3 not cause -- come across anything that you would
4 identify as a developed benefit as you define that on
5 page 7 of your supplemental direct testimony?

6 A. I did not do an analysis to try to make
7 a distinction between those two types of synergies.

8 Q. What two types of synergies?

9 A. Created and developed -- created and
10 enabled, excuse me.

11 Q. I am not talking about --

12 A. I'm sorry.

13 Q. You have three different things.

14 A. Right.

15 Q. And you -- at one point you say three
16 are synergies, but then you say one is not; is that
17 correct?

18 A. That's correct.

19 Q. Okay. I'm asking about developed
20 benefits which you state on page 7 --

21 A. I'm sorry.

22 Q. -- "developed benefits are not
23 synergies." Did you identify any developed benefits
24 during your employ in the course --

25 A. No.

1 Q. -- of this case? None?

2 A. No.

3 Q. And what period of time did you look at?

4 A. In what sense? In --

5 Q. Over what period of time did you analyze

6 synergies?

7 A. For KCPL/Aquila --

8 Q. Yes.

9 A. -- or for the comparison companies?

10 Q. For KCPL/Aquila.

11 A. For the five years that were included in

12 the estimation of synergies performed by KCPL.

13 Q. Okay. So you only -- you only looked at

14 five years, you didn't look beyond five years?

15 A. I looked primarily at the first five

16 years, but I'm aware of the escalation factors that

17 were applied -- or that -- that retained -- your

18 estimates supplied also. But really, I focused on

19 the -- the third year because that was the data that

20 was comparable to my industry comparison utilities.

21 Q. And at whose direction did you look at

22 five years? Was that your idea or was that the

23 client's?

24 A. It wasn't under anybody's direction.

25 That was -- most of the data that I was asked to

1 review at the time -- five-year time frame as the
2 core of the analysis to the extent it went on to ten
3 years, I haven't reviewed the ten-year predictions.

4 Q. Asked to review by whom?

5 A. Excuse me?

6 Q. You said most of the data you were asked
7 to review, and my question is asked to review by
8 whom?

9 A. By KCPL.

10 Q. Okay. Thank you. Okay. So at least
11 for that five-year period that you analyzed --

12 A. Uh-huh.

13 Q. -- you didn't see any developed benefits
14 for that five-year period?

15 A. No. These teams were asked to look at
16 benefits that could be achieved by combining the two
17 companies, and that's what they focused on.

18 Q. Did they or you identify any cost
19 savings for the first five years that were not
20 identified as either enabled or created synergies?

21 A. Not that I'm aware of.

22 MR. MILLS: No further questions.

23 JUDGE DIPPELL: Thank you. Are there
24 any questions from the Bench for Mr. Kemp?

25 COMMISSIONER APPLING: No questions for

1 me, Judge.

2 JUDGE DIPPELL: No questions from
3 Commissioner Appling. Commissioner Jarrett?

4 QUESTIONS BY COMMISSIONER JARRETT:

5 Q. Good afternoon, Mr. Kemp.

6 A. Good afternoon.

7 Q. Were you here this morning when
8 Mr. Downey was on the stand?

9 A. Yes, I was.

10 Q. Do you recall he -- I believe he
11 testified that in -- in estimating the synergies, the
12 amount of synergies, that they took a conservative
13 approach?

14 A. I recall that, yes.

15 Q. All right. And I believe in your direct
16 testimony, you agreed --

17 A. Yes, I did.

18 Q. -- that that was the case as well?

19 A. Yes.

20 Q. Can you give me some concrete examples
21 of areas where they could have taken maybe a more
22 liberal approach? Just kind of give me some examples
23 where they were conservative.

24 A. Yes. There were -- in the distribution
25 area, for example, I interviewed the team lead there,

1 and he went through a description of the steps that
2 his team had followed to identify and -- and qualify
3 the types of savings that could be realized through a
4 number of different initiatives within the
5 distribution area.

6 And he said that their savings estimates
7 were based on what I would call better practice. In
8 other words, it was which -- which practice between
9 KCPL and Aquila was superior. And -- and the savings
10 were estimated by applying the better practice to the
11 combined company and seeing what fell out of that as
12 far as cost reductions, either through labor or
13 nonlabor.

14 And they did not go into what I would
15 call best practice reaching outside of the two
16 companies and looking to what could be done if you
17 were to be more aggressive about making prior changes
18 to the practices. I think that was true in a number
19 of other areas.

20 In the supply chain area, Mr. Buran, I
21 think, would be able to testify, but I had a
22 discussion with him and the supply chain team about
23 the level of savings that were assumed there, and
24 again, it was less than could be reasonably expected
25 if you were to pursue a very aggressive program of

1 cost cutting, and it was meant to be -- if you think
2 about the distribution of potential savings outcomes,
3 it was, you know, somewhat to the -- to the left of
4 where the average expected outcome would be.

5 I'm trying to think of other -- there
6 were a number of other ways that it was conservative
7 that I discussed in my testimony, and, for example,
8 the generation area where there were some -- you
9 know, for other reasons the benefits of joint
10 dispatch on the transmission distribution were not
11 included in the synergies estimates, you know,
12 pending the resolution of the ISO membership
13 activities and so forth.

14 That certainly has an -- has an area --
15 is an area that could produce potential benefits, but
16 until they're more clearly definable, I think KCPL
17 was keeping those off the table. So that's another
18 source of benefits that could be substantial.

19 Q. Okay. And I think you may have covered
20 this in the testimony when Mr. Thompson was asking
21 you some questions, so I apologize for asking you
22 maybe to go over some ground you had gone over
23 before, but I believe in your direct testimony,
24 even -- even with this conservatism in some of these
25 areas in estimating the synergies, overall it is

1 still -- the amounts are above average when compared
2 to other mergers that have occurred in the past ten
3 years?

4 A. Yes, and I think that's -- if you were
5 to ask me what I would have expected before I started
6 my review, I would have expected them to be somewhat
7 above average because of the -- looking at the map
8 there, just the natural synergies that are available
9 in the transmission and distribution and customer
10 service and some aspects of the administrative and
11 general functions from being neighboring utilities
12 overlapping in many cases.

13 If -- I did do a statistical analysis in
14 a different context of savings that were achieved in
15 distant versus what I would say -- distant meaning
16 separated by 50 or more miles as far as service
17 territory, and that versus contiguous pairs of
18 utilities, and as I expected there were significantly
19 higher savings in areas such as customer service
20 and distribution and A&G, and that's exactly -- if
21 you look at WJK-5, that's exactly where the
22 estimated synergies for KCPL/Aquila line up versus
23 the median for the -- the sample of 15 comparable
24 utilities which includes a mix of neighboring and
25 non-neighboring entities.

1 COMMISSIONER JARRETT: Thank you, sir.

2 Appreciate it. That's all I have.

3 JUDGE DIPPELL: Thank you. Is there any
4 further cross-examination based on questions from the
5 Bench from Aquila?

6 MS. PARSONS: No questions.

7 JUDGE DIPPELL: Black Hills?

8 MR. DeFORD: No questions.

9 JUDGE DIPPELL: South Harper Residents?

10 (NO RESPONSE.)

11 JUDGE DIPPELL: Ag Processing?

12 MR. CONRAD: Yes.

13 RE-CROSS-EXAMINATION BY MR. CONRAD:

14 Q. In response, sir, to Commissioner
15 Jarrett's questions, would you agree with me that the
16 best practices could be implemented by either company
17 even without a merger?

18 A. No, not in all -- not -- I should
19 qualify that. In many areas, no.

20 Q. And your analysis hasn't been that
21 detailed, I understand?

22 THE COURT REPORTER: I'm sorry,
23 Mr. Conrad.

24 BY MR. CONRAD:

25 Q. Your analysis has not been that

1 detailed, I'm given to understand.

2 A. I think I've gained enough understanding
3 of some areas to understand why -- why the individual
4 companies could not achieve best practice on their
5 own.

6 Q. But that would depend on the quality of
7 the consulting advice that they got, wouldn't it?

8 A. No. Just for example, what the --

9 Q. I didn't ask you for an example.

10 A. Okay.

11 Q. You've answered the question, thank you.

12 A. No, it would not depend on the
13 quality --

14 MR. CONRAD: Thank you. That is all.

15 JUDGE DIPPELL: Public Counsel?

16 MR. MILLS: I have no further questions,
17 thank you.

18 JUDGE DIPPELL: Staff?

19 MR. THOMPSON: No questions, thank you.

20 JUDGE DIPPELL: Is there redirect?

21 MR. STEINER: Yes, your Honor.

22 REDIRECT EXAMINATION BY MR. STEINER:

23 Q. I believe Mr. Thompson asked you some
24 questions about synergies that would not be achieved.
25 What is your experience as to why companies don't

1 achieve their synergy estimates?

2 A. There's probably two major categories
3 of -- of certain don't-do's when you're trying to
4 estimate synergies and you have to deliver on them.
5 One is to rely on high level sort of applying
6 industry average or industry cost distribution kind
7 of data, and depending on those, figuring out
8 synergies. I've seen that in a couple transactions.

9 And the company's failed to achieve
10 those synergies, number one, because the estimates
11 were prepared without much careful attention to the
12 actual circumstances of the companies, number one, so
13 the basis was flawed.

14 And number two, that the operational
15 organizations were not sufficiently involved in the
16 development of the synergies to take ownership over
17 the implementation of the improvement initiatives
18 that would be required to realize those synergies, so
19 that was another reason they failed. And well,
20 that's really both -- both of the grounds.

21 Q. Did you find those circumstances in this
22 case?

23 A. No.

24 Q. Mr. Mills was speaking to you about
25 utility investing in technology, making changes to

1 improve their level of service, even with or without
2 a merger. Do you recall that?

3 MR. MILLS: I didn't ever -- I never
4 asked him anything about investments in technology,
5 but I object to the question. It's ...

6 MR. STEINER: I believe you asked him
7 questions about whether they could do the same things
8 in this -- that they've proposed any synergies
9 outside the context of a merger; is that correct?

10 MR. MILLS: The question was Mr. Mills
11 asked you such and such, do you recall that, and I
12 object to the form of the question because I did not,
13 in fact, ask him those things.

14 BY MR. STEINER:

15 Q. Mr. Mills asked you questions about
16 synergies that were proposed in this transaction and
17 whether a company could do -- these companies could
18 do that outside the context of this merger. Do you
19 recall that?

20 A. Yes, I do.

21 Q. Would a utility that is experiencing
22 financial difficulties be able to implement the
23 merger synergy techniques that the companies proposed
24 in this case?

25 A. Certainly the financial strength is --

1 is helpful in being able to fund improvement
2 initiatives. We sometimes advise our clients to
3 don't -- don't starve the cash cow, basically, if
4 you -- if you expect to realize substantial savings
5 out of -- out of the synergy transaction. Don't
6 avoid -- hold back on spending what you need to in
7 order to achieve those synergies.

8 Q. Mr. Mills asked you some questions about
9 your schedule WJK-5. Do you recall that?

10 A. I do.

11 Q. What makes up the customer service
12 section on that graph?

13 A. It's two groups of FERC accounts which
14 is customer service which is trouble calls and -- and
15 answering calls to -- for customer service. In some
16 companies it also includes installing -- cost related
17 to installing and maintaining services -- the
18 physical services into the -- into the utilities --
19 into the customers, excuse me.

20 And it also includes customer accounting
21 which is the customer information systems and the
22 billing and so forth. Customer service also includes
23 the call centers, I should say.

24 Q. I believe you were asked some questions
25 about how you were being compensated in this case.

1 Do you recall that?

2 A. Yes.

3 Q. Have you ever given -- have you ever
4 advised clients that their synergy estimates were not
5 conservative?

6 A. Yes.

7 Q. Mr. Mills asked you about the FERC data
8 that you relied on to make -- to give your opinion.
9 What other sources of data did you rely on in making
10 your opinion?

11 A. I believe I listed those in the
12 introduction to my supplemental direct. The FERC
13 data was used mainly for the comparison of realized
14 synergies. I also looked at a wide variety of data,
15 SEC filings, public -- public release and so forth,
16 for information about announced synergies, and we
17 also relied on personal contacts --

18 MR. MILLS: Judge, I'm gonna have to
19 object. I never asked him about the sources of his
20 data, and I certainly never asked him about anything
21 having to do with announced synergy savings which is
22 where he seems to be going there. This is beyond the
23 scope of my cross-examination, is the nature of my
24 objection.

25 JUDGE DIPPELL: I believe the witness

1 has already answered the question about halfway, and
2 he did give some answers in regards to some of your
3 questions. I specifically recalled him speaking of
4 announced synergies, so I'm gonna allow the answer.

5 THE WITNESS: I'm trying to restrict it
6 to the -- your question. I looked at other sources
7 including publicly available information and personal
8 contacts with executives at some of the utilities
9 that merged.

10 BY MR. STEINER:

11 Q. And Mr. Mills was asking you questions
12 again about synergies that have been proposed by the
13 two companies and whether the companies could do
14 those -- could undertake those synergy advancements
15 on their own. Do you recall that?

16 A. I do.

17 Q. Is there any evidence that mergers
18 create circumstances where new ideas and processes
19 can be implemented?

20 A. Yes, there's lots of evidence about a
21 change in control creating opportunities for more
22 substantial improvement than continuation under
23 existing management.

24 MR. STEINER: That's all the questions I
25 have. Thank you.

1 JUDGE DIPPELL: Thank you. We have
2 pending a offer of Exhibits 18 and 19 with
3 corrections. Would there be any objection to those
4 items?

5 MR. MILLS: Judge, I have no objection.
6 Is the updated schedule WJK-5 marked separately or
7 will it --

8 MR. STEINER: No, I -- we made those on
9 the record and I gave it as a convenience. I'd be
10 happy to mark it as an exhibit so working through
11 this we could have that.

12 MR. MILLS: It doesn't matter to me.
13 I'm just trying to make sure that what I've got in my
14 stuff is gonna match what the court reporter has got
15 in her stuff. So if we're not gonna do it, that's
16 fine.

17 MR. STEINER: Let's mark it.

18 JUDGE DIPPELL: We can mark it as an
19 exhibit. The next is Exhibit No. 36.

20 (EXHIBIT NO. 36 WAS MARKED FOR
21 IDENTIFICATION BY THE COURT REPORTER.)

22 JUDGE DIPPELL: And I assume you're
23 offering them at this time as well?

24 MR. STEINER: That's right.

25 JUDGE DIPPELL: Okay. So now we have

1 Exhibits 18, 19 and 36. Are there any objections?

2 MR. CONRAD: With respect to -- well,
3 with respect to 18 and 19, no objection. With
4 respect to 36, we just got that this morning.
5 Whether it was done on the record or not, it still
6 came here this morning.

7 Now, we have had an opportunity to
8 re-review it and don't find the changes to be of such
9 significance that requires that we go -- you know, go
10 somewhere else with it, so I guess as to 36 as it's
11 offered now, I don't have an objection. That said,
12 there's -- as is often the case in these proceedings,
13 there appear to be two parties, the Staff and the
14 applicant utility, and I really don't like that.

15 And this was apparently dated correct on
16 30 November. We got no notice of it until this
17 morning that counsel walks in. Now, understand, I've
18 known Mr. Steiner for a long time and understand that
19 he would not do that deliberately or intentionally,
20 so I'm willing to accept it as an oversight. But I
21 guess I'd really like to flag that as not being the
22 way to go.

23 JUDGE DIPPELL: I think that's been
24 clear on the record and Mr. Steiner has apologized.
25 I will admit Exhibits 18, 19 and 36.

1 (EXHIBIT NOS. 18, 19 AND 36 WERE RECEIVED
2 INTO EVIDENCE AND MADE A PART OF THE RECORD.)

3 JUDGE DIPPELL: Okay. At this time I
4 have to leave and Judge Dale is going to take over as
5 the presiding officer of this portion of the hearing.
6 So we're gonna go off the record for just about five
7 minutes so we can switch places. Thank you. Let's
8 go off the record.

9 (AT THIS POINT JUDGE DIPPELL LEFT THE
10 HEARING AND JUDGE DALE PRESIDED.)

11 (EXHIBIT NOS. 20, 21 NP AND HC AND 22
12 WERE MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

13 JUDGE DALE: All right. We're back on
14 the record. As Judge Dippell announced, she had to
15 leave and I, Judge Dale, am going to be the presiding
16 officer for the remainder of the day. We have a
17 couple housekeeping items. The first is, Mr. Brown,
18 could you please make an entry of appearance?

19 MR. BROWN: Sure, your Honor. My name
20 is Scott Brown. I'm here on behalf of the labor
21 unions that represent workers at Aquila and KCP&L.

22 JUDGE DALE: Thank you very much. With
23 that, we will begin the examination of Mr. Marshall,
24 I believe.

25 MR. FISCHER: Yes, the Applicants would

1 call John R. Marshall.

2 (THE WITNESS WAS SWORN.)

3 JUDGE DALE: Thank you. Please be
4 seated. You may inquire.

5 DIRECT EXAMINATION BY MR. FISCHER:

6 Q. Please state your name for the record.

7 A. It's John R. Marshall.

8 Q. Mr. Marshall, just so you'll know, I
9 think your direct testimony has been marked as
10 Exhibit 20, your supplemental direct has been marked
11 in both the NP and HC versions as 21 HC and 21 NP and
12 your surrebuttal has been marked as 22. Do you have
13 any corrections that you need to make to any of those
14 exhibits?

15 A. I do not.

16 MR. FISCHER: Judge, we've been using
17 the shortened version of opening questions. With
18 that, I would tender the witness. I think I would go
19 ahead and move on the record for the admission of 20,
20 21 HC, 21 NP and 22.

21 JUDGE DALE: From listening upstairs, I
22 understand that Judge Dippell has been waiting until
23 the end of the testimony to rule on those motions, so
24 I'll do the same.

25 MR. FISCHER: That's fine.

1 JUDGE DALE: And we will then begin with
2 cross by Aquila.

3 MS. PARSONS: No cross.

4 JUDGE DALE: Black Hills?

5 MR. DeFORD: No cross.

6 JUDGE DALE: Is there anyone here from
7 the DOE? IBEW, do you have cross?

8 MR. BROWN: We do, your Honor.

9 JUDGE DALE: Proceed.

10 CROSS-EXAMINATION BY MR. BROWN:

11 Q. Good afternoon, Mr. Marshall. My name
12 is Scott Brown. I represent the local -- the various
13 local labor unions which represent employees at both
14 Aquila and KCP&L, and I have a few short questions
15 for you. Hopefully this won't take too much time.

16 I'm gonna first draw your attention --
17 and I'm not sure you have it in front of you, so let
18 me know if you don't -- to your supplemental direct
19 testimony.

20 A. I have it.

21 Q. Take a look at page 3. A question was
22 asked of you, "What do you see as the key operational
23 benefits of the merger?" Do you see that?

24 A. I do.

25 Q. Okay. I will direct your attention to

1 your answer on page 4, specifically lines 2 and 3.
2 And in response to that question, you stated that,
3 quote, From a workforce perspective, it is important
4 to note that no union employees will lose their job,
5 end quote. Do you see that language?

6 A. I do.

7 Q. Okay. Could you clarify for me what you
8 meant by "from a workforce perspective"?

9 A. Well, as you can imagine, the
10 opportunity of putting these two companies together
11 involves a wide variety of functions throughout
12 the -- the overall enterprise. Our objective is to
13 do that in such a way that we take advantage of
14 obvious opportunities and shared services, mainly the
15 back office functions of the company, to -- to get
16 immediate savings, accounting, finance, human
17 resources.

18 And our -- our promise and perspective
19 of how we'll manage the union employees is that no
20 individual union employee will be eliminated or their
21 job eliminated as a result of this -- this
22 transaction coming together and us putting the
23 company together on the -- on day one of the new
24 company.

25 Q. Okay. So --

1 A. But we'll achieve a number of reductions
2 throughout those functions that are primarily
3 professional management employees.

4 Q. Okay. So when you were talking about
5 the language in that sentence, you were referring to
6 all the union employees currently employed by Aquila?

7 A. That's correct.

8 Q. Okay. Based on your knowledge of
9 Aquila's union employees' positions, do you believe
10 that any of those current employees will be
11 reclassified as management in the event of a
12 successful merger?

13 A. We have active discussions going on with
14 814, 695 as well as our three locals, 412, 1613 and
15 1464 in terms of how might these five locals come
16 into a different structure, and that's an active set
17 of negotiations and discussions.

18 And in that there are some obvious
19 things that are mismatches between the workforce in
20 terms of what jobs are covered in Aquila from a union
21 standpoint, and then what jobs are covered within
22 KCPL from a union standpoint. There will have to be
23 some decisions made in terms of how might they fit
24 together, and that will be a part of the overall
25 discussions. And at the end of that, we'll have a,

1 you know, solution, so hopefully that will -- will
2 work for the -- for the combined workforce.

3 Q. Well, as of today, do you believe that
4 current union employees will be reclassified as
5 management?

6 A. There's a possibility. My -- my sense
7 is, is that it will go actually the other direction,
8 that we'll end up with a greater number of union
9 employees at the end of the day as opposed to the
10 reverse of that.

11 Q. Now, if it were to happen that union
12 employees were reclassified as management, were those
13 individuals included in the union employees who will
14 not lose their jobs as you referred to in your
15 testimony?

16 A. Yes.

17 Q. Now, in this pretty strong language, you
18 stated unequivocally that no union employees will
19 lose their job. Did you have a specific time frame
20 in mind when you made that statement, a month after
21 the merger, six months after the merger?

22 A. Well, you know, the emphasis is
23 primarily as we bring it together, but, you know, our
24 intent is to -- as we move forward there's obvious --
25 there's always gonna be changes and change in

1 management that's gonna occur throughout time because
2 of applications of technology that will cause jobs to
3 come and go, you know.

4 But for those things, if there's not a
5 catalyst to cause a change in characteristic of the
6 workforce, then our obligation is to -- as we have to
7 our current unions, is that we -- we respect the
8 skilled craftspersons and the -- the value that they
9 bring to our enterprise and value their contributions
10 significantly.

11 Q. So there really isn't a time frame?

12 A. No. In fact, we -- we -- we manage and
13 have a great relationship with our -- our current
14 locals and work collaboratively if there is changes
15 that come about to find the solutions that will match
16 the current situation with the people's needs to find
17 a way to manage, you know, a change that might
18 eliminate some particular roles because of just the
19 way the work is done, either process-wise or
20 technology-wise.

21 Q. Okay. So my understanding is your
22 intent at this point in time is that no union jobs
23 will be lost?

24 A. No employees that are currently employed
25 will lose their jobs as a result of putting these two

1 enterprises together.

2 Q. Okay. I'm gonna direct your attention
3 now to the same exhibit, page 9, specifically lines
4 15 through 18. You'll see there's a question on line
5 15, "What are the staffing implications?" And you
6 stated in your answer, "Almost 900 Aquila positions
7 will be included in the combined company. Over the
8 first five years the number -- number will drop to
9 843 positions as transitional roles are not needed
10 and integration projects yield results." Do you see
11 that language?

12 A. I do.

13 Q. Okay. So in the first five years,
14 you're anticipating a drop in approximately 57
15 positions, correct?

16 A. That's correct.

17 Q. Okay. And of those 57, how many of
18 those positions are currently held by union
19 employees?

20 A. I don't know exactly the number, but --

21 Q. Approximation?

22 A. -- but there are some that would be
23 associated with the automatic meter reading
24 application. But we believe that we have the
25 opportunity because of the length of time, and if you

1 think about the demographics of the workforce, that
2 we'll easily be able to manage through the current
3 workforce and not impact any individual union
4 employee even over that time frame.

5 Q. So of those 57, you're anticipating none
6 of them will be union employees?

7 A. Well, none of the individual employees
8 or people would lose their job as a result of the
9 actions that we would take over that period of time,
10 and as a result, that the count that you see there,
11 we might eliminate positions but we might -- and --
12 but would not eliminate an individual employee from
13 the workforce.

14 Q. Okay. I understand that, but of those
15 positions, those 57 positions, how many of those
16 currently are held by union employees?

17 A. I don't know the exact count, but our
18 witness, Bill Herdegen, who will come up later in
19 this series of synergy discussions, would have the
20 specific count associated with that.

21 Q. Can you give me an approximation?

22 A. I would just be guessing.

23 Q. Then I take it you cannot tell me how
24 many of those 57 positions are management?

25 A. The lion's share of them would be.

1 Q. When you say a "lion's share," do you
2 mean like a breakdown percentage, just an estimation?

3 A. I would probably say more than half.

4 Q. More than half. And in the second five
5 years of year 6 through 10, do you anticipate the
6 number -- which we began at 900, do you anticipate
7 that in the second five years to further drop?

8 A. We haven't made forecasts for the -- for
9 the people portion of that for the latter -- for
10 greater than five years, but we, KCP&L and Aquila
11 both face what the industry faces in terms of
12 staffing and workforce management. We've got an
13 aging workforce.

14 We've been working very, very diligently
15 over the last three or four years to put in
16 preapprentice programs, apprentice programs. We've
17 dropped our average age of line personnel, linemen and
18 people that are craft individuals from approximately
19 46 years of age on average in our workforce down to
20 40 -- 41. So we've got a track record of really
21 paying attention to trying to build the strength and
22 capability of our craft organization. If you look at
23 industry-wise, that age is around 50.

24 So we -- we believe that on a selected
25 basis, that you can build the long-term

1 sustainability aspect of our ability to meet our
2 customers' needs in a -- in a constructive and
3 efficient way by -- by preserving the craft
4 capability of this company and intend to do that --
5 do so.

6 Q. But do you anticipate that that number
7 would drop in the second five years?

8 A. It's just speculative. You know, we're
9 actually building workforce right now with -- in
10 terms of total numbers within KCPL, so --

11 Q. So you're just not sure?

12 A. Not sure.

13 Q. Okay. I'm gonna take you back to page 4
14 of the same exhibit. If you could take a look at
15 lines 8 and 9, and there you reference "Facility
16 consolation -- consolidation, excuse me, and the
17 rationalization across the service area." Do you see
18 that language?

19 A. I do.

20 Q. I'm pretty sure I understand what
21 consolidation means, but could you explain to me what
22 you meant by rationalization?

23 A. Well, if you look at our -- our projects
24 that we've got embedded into our synergy analysis and
25 operational outlook, is that we believe by taking

1 Platte City and Liberty and organizing it as a part
2 of our Northland facility that are just within a few
3 miles of each other, by rationalizing those
4 facilities and condensing them into a single
5 location, then we will be better able to serve our
6 customers more efficiently, more effectively as we
7 move into the future.

8 A similar situation is down in the -- in
9 the southeast portion of the service territory,
10 Dodson, Blue Springs, Lee's Summit and the Lee's
11 Summit garage has the same capability. We plan to
12 build a new campus there to house the collective
13 group of workers and capabilities so that we can have
14 a more responsive capability to the customers in that
15 particular area.

16 So rationalization to me means bringing
17 together the functions, the physical facilities, the
18 skilled labor and putting that in a structure so that
19 we can be as responsive to our customers and as
20 efficient in operation as we possibly can.

21 Q. So you're talking about taking disparate
22 facilities and combining them?

23 A. And, in fact, getting a greater value
24 out of the physical facility as well as the ability
25 to have greater coverage and a larger workforce in

1 a -- in a single area to get better coverage.

2 Q. Okay. So if there were three facilities
3 being used, you're talking about transferring maybe
4 operations from two of those facilities into one
5 large entity?

6 A. In fact, you know, we have -- those --
7 those are our two primary planned facilities
8 consolidations out in the district function. It
9 really gives us the fundamental capability to serve
10 our -- our customers at a lower total cost because we
11 get rid of the O&M cost, the telecommunications cost,
12 the radio infrastructure for those smaller facilities
13 and -- and collapse it back into a single facility.

14 Q. Now, what are the company's plans for
15 mobility of the crews? And what I'm meaning
16 specifically, the crews that are currently employees
17 of KCP&L, are the plans now to send those crews into
18 territory that currently belongs to Aquila?

19 A. If you look at the testimony of Bill
20 Herdegen, he is our VP of transmission distribution
21 operations, he will outline in that testimony the
22 configuration of the six districts as we -- we
23 foresee it going forward to more effectively serve
24 the metropolitan, more dense portion of our new
25 company service territory as well as strategically

1 deploying our resources around through the region.

2 We think as a -- as a common practice in
3 our metropolitan areas to provide 24 by 7 coverage.
4 We anticipate doing that for this broader
5 metropolitan area. In fact, it grows from today,
6 KCPL, of approximately 450,000 customers that are in
7 our metropolitan area to about 625,000 customers in
8 the new company of Aquila and KCPL's combined
9 operation facility. And then another 170 out through
10 the more rural aspects of capability.

11 And that's one of the real synergies of
12 putting these companies' capabilities together, is
13 that we bring the expertise of the urban management
14 more dense capability; Aquila brings the more rural,
15 less dense service capabilities, and the two together
16 make a great combination.

17 Q. But my question was, is KCP&L, are those
18 employees that are currently employed by KCP&L, those
19 crews, are they gonna be sent into territory that now
20 currently belongs to Aquila?

21 A. Yes.

22 Q. Okay. I'm gonna direct your attention
23 to pages 10 and 11 of the same exhibit, specifically
24 the top of page 11 beginning on line 1 where you
25 state that, "It's KCP&L's intention to pursue

1 negotiations that will result in the integration of
2 the Aquila employees currently represented by IBEW
3 695 and 814 into KCP&L's three existing bargaining
4 units pursuant to a negotiated agreement." Do you
5 see that?

6 A. I do.

7 Q. Okay. And that is a correct statement
8 of the plan, correct?

9 A. That's correct. We've -- we've been
10 very transparent with our interests and have said
11 that from literally day one of this initiative. And
12 the basis for it is -- just to add a little bit of
13 color, is that we believe it is important to do this
14 because of the -- the focus that we have on winning
15 culture making sure that each employee fills a part
16 of the broader enterprise, has value, has capability
17 plus just the fundamental opportunities that -- that
18 people would enjoy with a broader group of -- of
19 employees in these particular skilled areas.

20 Q. I'm gonna direct your attention to
21 page 11, lines 8 through 16. If you could just read
22 that to yourself and let me know when you're
23 finished.

24 A. Okay.

25 Q. And in that testimony, you're describing

1 some of the advantages that KCP&L will realize if the
2 local unions are combined, correct?

3 A. That's correct.

4 Q. And one of those advantages is that the
5 combined locals will have more flexibility in
6 aligning employees with customers' needs and will
7 provide better service. Can you explain how
8 combining the locals will provide more flexibility in
9 aligning employees' and customers' needs?

10 A. Because of the common work rules and our
11 ability to maximize the use of -- of the employees in
12 geographic locations to meet the needs of our
13 customers at the lowest possible cost, plus the
14 opportunity for those employees to progress through
15 the lines of progression in their particular skills
16 areas and to have promotional opportunities and to be
17 able to move throughout the greater Kansas City area.

18 Q. And are there any other ways that
19 combining the locals would provide better service
20 other than what you just stated?

21 A. Well, in the metropolitan area with our
22 current capabilities, we run 24 by 7 service
23 operations for that group of customers within the --
24 the new metropolitan area of 625,000 customers, so we
25 think that this is an immediate benefit from that

1 standpoint.

2 The call centers will -- will have a
3 larger workforce that will be able to enjoy the
4 benefits of meeting the -- the call demand and the --
5 and needs of our customers as a result of combining
6 the two groups, just the scaled aspects of having
7 that.

8 And then in addition to that, what we --
9 what we bring to the capability is some of the unique
10 technological capabilities that the company has that
11 leverages our employees to -- allows them to give
12 better service.

13 And a key example of that is our -- our
14 mobile devices that we have in our vehicles that our
15 employees can get information directly from our IT
16 systems to meet the needs of our customers out in the
17 field to better technology and the -- and the call
18 centers in terms of telephony capabilities as well as
19 E-services that allows our customers to do more
20 on-demand satisfaction of their needs without
21 interacting with a -- with a direct person.

22 Q. In lines 13 through 16 you discuss
23 alternative strategies in the event that the company
24 is unsuccessful in negotiating what you say or call
25 an "appropriate integration result." What do you

1 mean by an appropriate integration result?

2 A. Well, if we couldn't get an agreement
3 from 814 and 695 to find the means and ways to
4 integrate with the three locals that we have, then we
5 can always have -- there will be contract
6 negotiations that come up with each of those locals
7 in the -- in the coming months, years that we would
8 have individual negotiations that we could pursue
9 other alternatives. Other alternatives, things that
10 might make sense to 695 or 814 that might be unique
11 or different because of the geographic separation
12 that they have to do.

13 Q. By using the word "appropriate
14 integration result," is it your belief that KCP&L's
15 plan is the only appropriate plan?

16 A. No. We have been very collaborative on
17 this from the start, and the appropriate means that
18 we abide by our union contracts and hold them in high
19 value as well as the value that the union employees
20 provide to the combined capabilities of our company.
21 So appropriate means that we will -- we will do
22 everything within our power to find a collaborative
23 means to -- and a -- and a -- and a valuable outcome
24 that's good for all of us.

25 Q. Lines 14 through 16, you state that

1 these alternative strategies of the company would
2 consider to include integration of certain Aquila
3 functions and employees, continuing to operate under
4 the existing Aquila contracts for the remaining
5 employees. Do you see that language?

6 A. I do.

7 JUDGE DALE: Excuse me, Mr. Brown.
8 Could you make sure your microphone is on and you're
9 speaking into it? We've had some requests.

10 MR. BROWN: Is that better? I think
11 it's on.

12 JUDGE DALE: There you go.

13 BY MR. BROWN:

14 Q. I guess, could you expound on that
15 comment, that statement regarding integration of
16 certain Aquila functions and employees?

17 A. For instance, in the northern part of
18 the territory where we have plans to consolidate
19 Platte City and Liberty into Northland, we believe
20 that that would be consistent with the current
21 contract language. Then we could be able to manage
22 that because it would primarily cover the same
23 geographic area as the current local.

24 Q. Okay. So you're talking about when you
25 say "integrating employees," sending them from one

1 facility to another?

2 A. Exactly.

3 Q. -- or -- okay.

4 A. I mean, it's -- if we -- the ideal is,
5 is that we find the ways and means to get this into a
6 common set of work rules where we don't have those
7 complexities in managing the day-to-day operations,
8 and we believe it's in the best interest of all to do
9 that.

10 Q. Now, I know you've mentioned some
11 functions that would be integrated in your testimony.
12 The call center you mentioned. What other functions
13 would be integrated?

14 A. Well, you've got distribution
15 operations, transmission operations, substation and
16 relay. You know, the primary skilled functions
17 that -- that both Aquila and KCPL have today that
18 perform those critical skill level positions that we
19 have throughout the enterprise.

20 Q. And, of course, the employees that would
21 be integrated would be those who are currently
22 working at facilities which would be closed?

23 A. Exactly.

24 Q. And that would include union employees
25 and management?

1 A. Yes.

2 Q. Now, you stated that KCP&L would
3 continue to operate under the existing Aquila
4 contracts for the remaining employees. If these
5 certain functions in employees do not remain
6 operating under the existing Aquila contracts, where
7 would they fit?

8 A. Our -- our belief is, is that we'll find
9 a way to take the five locals and find a solution set
10 that, you know, ideally works back into the three
11 locals that we currently have today with a common set
12 of work rules is the -- is the ideal outcome that we
13 have in mind and -- and trying to find a solution
14 that works for 695 and 814 to cause that to happen is
15 the direction that we've been heading, you know,
16 since we began this.

17 Q. Okay. Direct your attention, same
18 exhibit, page 16, beginning on line 22 through
19 page 17, line 2, and you state that, "It should be
20 noted that while we expect significant labor-
21 efficiency-related NFOM reductions from the merger,
22 much of this is offset by wage increases needed to
23 bring some parallel Aquila positions in line with the
24 higher wage levels that currently exist at KCP&L."
25 Do you see that language?

1 A. I do.

2 Q. Specifically what parallel Aquila
3 positions are you talking about in this testimony?

4 A. Let me give you the broader category.
5 It's primarily the St. Joe workforce that is the
6 furthest away from our pay equity within the -- the
7 locals of Kansas City Power & Light. There is some
8 differential at Missouri Public Service, but not as
9 large as St. Joe.

10 What we've said also from the beginning
11 is that our objective is to have a winning culture of
12 our employees. That means that everybody is treated
13 as fairly and as equitably as possible. We want to
14 find a means -- a means and the ways to cause that to
15 occur and that's why we have been so upfront with the
16 interest to -- to get everybody integrated into the
17 three locals of our current unions.

18 JUDGE DALE: Mr. Marshall?

19 THE WITNESS: Yes, ma'am.

20 JUDGE DALE: While we appreciate you
21 answering the questions so thoroughly, could you be
22 more succinct?

23 THE WITNESS: I'll try.

24 JUDGE DALE: Thank you.

25 BY MR. BROWN:

1 Q. Does KCPL currently have a timeline for
2 bringing these wage levels into line?

3 A. We have offered some. I don't have them
4 off the top of my head, but we've -- we've met with
5 the -- the various unions and have talked through
6 that, so there is some data out there.

7 Q. But you're not sure what that is?

8 A. I don't have it off the top of my head.

9 Q. Okay. So you don't know if that would
10 begin on day one of the merger of this new company?

11 A. Right. That would be determined in the
12 negotiation to get to the -- you know, the three
13 levels.

14 Q. I'm gonna direct your attention to
15 page 20, the same exhibit. And if you could read
16 lines 3 through 11 to yourself and let me know when
17 you are done.

18 A. All right.

19 Q. You mentioned the consolidating
20 dispatch -- dispatch functions into KCPL's 801
21 Charlotte facility. What is the timeline for that
22 consolidation to take place?

23 A. Very near day one of the -- for the new
24 consolidated company.

25 Q. So your company's plan is to do it as

1 quickly as possible?

2 A. Absolutely.

3 Q. Now, local 695 has one system operator
4 dispatcher. What would be the future reporting
5 location for that position, if you know?

6 A. I don't know.

7 Q. You don't know?

8 A. I don't know.

9 Q. Okay. I'm gonna have you take a look at
10 another exhibit. I'm not sure if you have it yet or
11 not. It is schedule JRM-7. I don't know if that has
12 been marked or admitted as an exhibit as of yet.

13 JUDGE DALE: Do you know which testimony
14 it is attached to?

15 MR. BROWN: Yes, it's attached to, I
16 believe, the surrebuttal testimony of Mr. Marshall.

17 JUDGE DALE: Then it should be included
18 within Exhibit 22.

19 THE WITNESS: I've got it.

20 MR. BROWN: Okay. Does anyone need a
21 copy of that or does everybody have one? Okay.

22 BY MR. BROWN:

23 Q. That, of course, is Exhibit 22 and you
24 recognize this document, I take it?

25 A. I do. I do.

1 Q. I'm gonna draw your attention to the
2 first page under section 1 where it says, Automated
3 Meter Reading.

4 A. I have it.

5 Q. Could you please read aloud that first
6 paragraph where it says Item Description?

7 A. "Conversion of manually read meters to
8 automated meter reading system: KCP&L expects to
9 convert 310,000 to 330,000 Aquila customers to the
10 automated meter reading system."

11 Q. Over what period of time do you expect
12 such a conversion to take place?

13 A. Our project plan for this has the
14 beginning of the investment in the technology in the
15 2009 -- or excuse me, 2010 time frame. We would make
16 the selection on the technology probably over the
17 latter part of '08, '09, and then begin
18 implementation in 2010.

19 And it shows the early deployment of
20 that technology from 2010, 2011, 2012 which is the
21 period covered by the five-year game plan. It would
22 actually probably extend out for another year or two.
23 Our objective is to leverage the existing automated
24 meter reading system that we have within KCPL for the
25 metropolitan area. That's where we would get the

1 largest value with the shortest amount of time to
2 deploy.

3 Q. So it sounds like within the first six
4 years post-merger?

5 A. That -- that would be a good estimate.

6 Q. And I understand that the majority of
7 meter readers for Aquila are contract readers; is
8 that correct?

9 A. I believe that to be true.

10 Q. Okay. How does KCP&L intend to keep
11 those union members who are currently Aquila meter
12 readers employed?

13 A. As I stated earlier, if you think about
14 this time period over the next five to ten years, the
15 demographics of most utilities, not unlike what KCP&L
16 and Aquila face, there will be large numbers of
17 people retirement -- retiring. And, in fact, if you
18 look at KCPL today, we have 320 or so people eligible
19 for retirement right now. That's both management and
20 union. And so there's many opportunities for -- for
21 people as we make our way over the next few years.

22 Q. Okay. To your knowledge, if the
23 proposed acquisition takes place, does KCP&L intend
24 to hire some Aquila nonbargaining unit employees to
25 perform bargaining unit work on a part-time basis?

1 A. We will abide by our union contracts.

2 Q. So is that a no?

3 A. Well, I would -- I would say probably no
4 would be a more direct answer, but we will go by our
5 contracts.

6 MR. BROWN: Okay. I have no further
7 questions.

8 JUDGE DALE: Thank you. Before you go
9 on, I have a couple of housekeeping items. One is
10 that I neglected to say on the record that the
11 previous witness, Mr. Kemp, is excused, and also to
12 let you-all know that during this testimony, two
13 notices of recusal have been filed in this case, one
14 by Chairman Davis and one by his advisor, Mark
15 Hughes. Those are both already in EFIS.

16 So with that, we'll move on with cross.
17 Dogwood Energy, Joint Municipals?

18 (NO RESPONSE.)

19 JUDGE DALE: Cities of Kansas City,
20 St. Joe, Lee's Summit, Independence?

21 (NO RESPONSE.)

22 JUDGE DALE: Cass County?

23 (NO RESPONSE.)

24 JUDGE DALE: South Harper?

25 (NO RESPONSE.)

1 JUDGE DALE: And Mr. Conrad.

2 CROSS-EXAMINATION BY MR. CONRAD:

3 Q. Mr. Marshall, in response to a question
4 from counsel earlier, you used the term "collaborate"
5 or "collaborate"?

6 A. I probably did.

7 Q. And did you -- were you using that term
8 in the context of your dealings with your local
9 unions?

10 A. That's correct.

11 Q. And their bargaining units?

12 A. That's correct.

13 Q. Would you agree with me that if you fail
14 to do that by changes or terms -- changes in terms of
15 working conditions or breach of pay, that you might
16 very well find yourself in trouble with the labor
17 board?

18 A. I would refer that to our labor counsel
19 for disposition.

20 Q. Never heard of an unfair labor practice?

21 A. Absolutely I've heard of unfair labor
22 practice.

23 MR. CONRAD: Okay. Thank you.

24 JUDGE DALE: Public Counsel?

25 MR. MILLS: Thank you. I do have some

1 questions.

2 CROSS-EXAMINATION BY MR. MILLS:

3 Q. Mr. Marshall, at the bottom of page 6 of
4 your surrebuttal testimony --

5 A. I'm there.

6 Q. And just -- just to be -- just so I'm
7 sure, none of the numbers in your surrebuttal
8 testimony are highly confidential; is that correct?

9 A. That's correct.

10 Q. Okay. You discuss the fact that you
11 believe the customers will enjoy \$603 million of
12 synergy savings over the first ten years following
13 the merger; is that correct?

14 A. That's correct.

15 Q. And that number, 603 million, is
16 developed primarily at schedule JRM-8; is that
17 correct?

18 A. That's correct.

19 Q. In your calculations at schedule JRM-8,
20 have you subtracted out the transition cost that you
21 expect customers to pay in rates?

22 A. If you'll give me a second to go back to
23 that schedule, I'll verify that. I don't have it
24 listed and I don't recall what I took away from that
25 number, but that looks like the right level of

1 transition cost.

2 Q. Okay. Help me out. Is that a yes, no
3 or I don't know?

4 A. I don't know.

5 Q. Okay.

6 A. I won't speculate.

7 Q. Okay. Is it your understanding that the
8 company proposes to collect approximately 45.3
9 million of transition -- transition costs?

10 A. I believe our proposal today is that we
11 would subtract that from the \$305 million for the
12 synergies, and then that would essentially be shared
13 among customers and -- and the company.

14 Q. Okay. Well, we were just talking about
15 in the \$603 million figure. Can you identify for the
16 record what the \$305 million figure represents?

17 A. The 305 is the first five years' worth
18 of synergies, and then there is an additional \$450
19 million worth of synergies developed over the next
20 five years, 6 through 10.

21 Q. Okay. And the -- is the \$455 million
22 figure escalated for an inflation factor?

23 A. That it is, at 3.1.

24 Q. Is it de-escalated for any production
25 in -- productivity increases?

1 A. It is not.

2 Q. Okay. Now, where in your testimony
3 would I find a calculation of how you reduce the
4 305 million for things such as transition costs?

5 A. I believe I refer to Mr. Zabors'
6 schedules and to that witness for the specific
7 calculations.

8 Q. Okay. But specifically on page 6 of
9 your surrebuttal testimony, when you say -- and
10 perhaps I need you to help me out with this because
11 I'm not familiar with this usage of the word "occur,"
12 "603 million will occur to customers over the
13 ten-year period." What exactly do you mean by that?

14 A. It means that beyond the year 5, 100
15 percent of the savings or the synergies will go to
16 the customer.

17 Q. Okay. Then let's back up again. Do you
18 anticipate that there will be \$603 million worth of
19 synergy savings in the second five years?

20 A. No, it's -- it's -- it's the combination
21 of the -- of the first five years of the 305 with the
22 reduction of half of the transition cost, and then
23 that amount escalated out over the -- the balance of
24 the ten years, the 6 through 10, but there's no
25 additional cost that goes against that.

1 Q. So are you using the word "occur" in
2 this sentence sort of like accrue?

3 A. Or to the benefit of.

4 Q. Okay. And now back to the point, does
5 that 603 million include an offset for the costs to
6 achieve that 603 million?

7 A. I don't recall the specific costs that's
8 been taken away.

9 Q. Do you know if any costs have been taken
10 away from that number?

11 A. I do believe and -- there are costs
12 taken away. I don't know the level of costs that's
13 been taken away.

14 Q. Okay. What costs do you know have been
15 taken away?

16 A. I believe part of the transition costs
17 have been reduced. As I suggested earlier, it's 305
18 minus the 45 million in transmission cost, and then
19 the amount that's -- that's net of that assigned to
20 the customer and then assigned to the company.

21 Q. Okay. Let me ask you about a couple of
22 specific costs. Do you know whether or not
23 transaction costs have been subtracted from that
24 603 million?

25 A. No, it has not.

1 Q. How about the -- and I believe this
2 number is still highly confidential and I -- so I
3 won't say it, but the amount for the incremental
4 interest costs associated with Aquila's noninvestment
5 grade rating?

6 A. It has not been reduced.

7 Q. Is it the company's proposal that the
8 company will recover that increment from ratepayers?

9 A. Which increment are you referring to?

10 Q. The increment between Aquila's -- and
11 let me -- let me try out the shorthand and see if
12 you're familiar with it -- between the regulatory
13 cost of debt and the actual cost of debt?

14 A. I'll refer to our witness, Terry Bassham
15 who is up later in this schedule to respond to that.

16 Q. Okay. You don't know about that?

17 A. I do not know about that.

18 Q. Okay. Now, at the top of page 7 of your
19 surrebuttal testimony, you refer to what you contend
20 is, "OPC's statement that the synergies identified
21 are aggressive." Do you see that reference?

22 A. I do.

23 Q. And I assume there that you're talking
24 about OPC witness, Jim Dittmer; is that correct?

25 A. That's correct.

1 Q. Where in his testimony does he show
2 that -- does he say that you've characterized
3 synergies as aggressive?

4 A. Sorry for the delay. Digging through my
5 list of testimonies.

6 Q. Mr. Marshall, if it helps, I will
7 represent to you that Mr. Dittmer has undertaken a
8 word search of that document --

9 A. Oh.

10 Q. -- and the word "aggressive" does not
11 appear. So do you have some other indication that
12 there would -- that would back up your
13 characterization as OPC's statement that the
14 synergies identified are aggressive?

15 A. No.

16 Q. At the bottom of page 10 of your
17 surrebuttal testimony, do you take the position that
18 there is no merit to Mr. Dittmer's claim that merger
19 savings from the disposal of the 20 West Ninth
20 headquarter building have been overstated?

21 A. I disagree with Mr. Dittmer on that.

22 Q. Is that still the company's position?

23 A. It is.

24 Q. Now, on pages 10 and 11, you state that
25 the net book value of this property will be -- will

1 be written down to it's fair value --

2 (OVERHEAD INTERRUPTION.)

3 JUDGE DALE: Unless -- unless there's
4 someone here representing a party who needs for us to
5 break for the agenda session, I'm not planning to
6 break for it. You may resume.

7 BY MR. MILLS:

8 Q. Let me start that over. I'm not sure
9 how far I got that in that question before the
10 announcement beeped.

11 On pages 10 and 11, you state that, "The
12 net book value of the property will be written down
13 to its fair value at the time of closing"; is that
14 correct?

15 A. That's correct.

16 Q. And you state that, "The reduction of
17 the net book value will increase the acquisition or
18 goodwill recorded"; is that correct?

19 A. That's correct.

20 Q. So is it your understanding that GPE and
21 KCPL and/or Aquila will seek recovery from ratepayers
22 of the loss it expects to take on the sale of 20 West
23 Ninth?

24 A. We will assign it to goodwill and we
25 have not pursued collecting goodwill from the

1 customers.

2 Q. Are you willing to commit that you will
3 never seek to recover that amount of goodwill from
4 customers?

5 A. It's -- it's our plans not to seek for
6 the -- for the -- for the write-down of the 20 West
7 Ninth facility.

8 Q. Is that a yes to my question?

9 A. It's a yes to my -- or your question.

10 Q. Okay. Do you believe that your outside
11 auditors will allow you to carry an amount on
12 goodwill -- amount of goodwill on your balance sheet
13 that you've clearly indicated you will never ask for
14 in rate recovery?

15 A. I will defer the response to that to our
16 witness, Lori Wright, who is our controller.

17 Q. Does that mean that you don't know?

18 A. I do not know.

19 MR. MILLS: Okay. Judge, that's all the
20 questions I have.

21 THE COURT: Thank you. Mr. Thompson?

22 MR. THOMPSON: Why, yes, Judge.

23 CROSS-EXAMINATION BY MR. THOMPSON:

24 Q. Good afternoon, Mr. Marshall.

25 A. Good afternoon.

1 Q. It's true, is it not, that part of this
2 deal as proposed includes the provision of certain
3 transition services after closing to Black Hills; is
4 that correct?

5 A. That's correct.

6 Q. Now, of the entities GPE, KCPL and
7 Aquila, which of those entities are going to be
8 providing those transition services, if you know?

9 A. I do not know the legal entity that the
10 contract will be signed with.

11 Q. Okay. Has there been a contract signed
12 yet, if you know?

13 A. Not to my knowledge.

14 Q. And when, if you know, is that
15 particular loose end going to be tied up?

16 A. We are working toward a schedule of
17 specific services because, as you can imagine, we are
18 working to create a separate operation going forward
19 as possible. We have a scheduled meeting the end of
20 January to do a true-up on those particular services,
21 and at that time we'll build a schedule that would be
22 included in a contract.

23 MR. THOMPSON: Okay. May I approach,
24 your Honor?

25 JUDGE DALE: Yes, you may.

1 BY MR. THOMPSON:

2 Q. I'm gonna show you a document, sir. It
3 has not been marked as an exhibit as far as I know,
4 and I'll ask you to take a look at it and tell me if
5 you recognize that.

6 A. I do not.

7 Q. You've never seen that before?

8 A. I don't believe so.

9 Q. If you take a look, I think at the
10 second page, can you tell me what that document
11 appears to be?

12 A. The heading of it says Transition
13 Services Grid.

14 Q. And reading further into the recitals,
15 can you tell me who the parties to that agreement
16 are?

17 A. Are you referring to the first
18 paragraph?

19 Q. Yes.

20 A. Black Hills Corporation and Great
21 Plains.

22 Q. Okay. There's no mention of an entity
23 called Gregory Acquisition Corporation?

24 A. There is, in the third line.

25 Q. Okay. I'll recover that, if I may.

1 MR. FISCHER: Judge, just for the
2 record, I think that actually has been marked as an
3 exhibit. Part of the -- I think it's Exhibit 34 --
4 33 or 34.

5 JUDGE DALE: Thank you.

6 MR. FISCHER: Assuming that's the one
7 that we filed with our application.

8 BY MR. THOMPSON:

9 Q. Well, Mr. Marshall, who -- who would
10 know among the witnesses scheduled to testify as part
11 of this presentation? Who would know about the
12 transition services that would be provided to Black
13 Hills?

14 A. The contract itself and the agreement
15 would be Terry Bassham. In terms of the specific
16 services and in an operational sense of that, I would
17 be the person that would have an understanding of the
18 more broader aspects of it. But each of the
19 following witnesses, Bill Herdegen would have a view
20 of that as well as Lori Wright from a
21 finance/accounting perspective.

22 Q. So if I understand your answer, you have
23 some knowledge of it?

24 A. I do.

25 Q. Okay. And I think you told me you were

1 unable to -- to tell me which entity would actually
2 be providing the services?

3 A. I haven't focused on that aspect of the
4 business.

5 Q. Well, it's true, is it not, that this
6 transaction contemplates the migration of all Aquila
7 employees to the KCPL payroll; isn't that correct?

8 A. That's -- well, not all. Some.

9 Q. Well, leaving aside those who will not
10 be migrated into a job at all, correct?

11 A. There will be a group of employees that
12 will be assimilated into the KCPL organization.

13 Q. Okay. And are any going to become part
14 of Great Plains Energy?

15 A. Not to my knowledge.

16 Q. Are any going to become part of Great
17 Plains Energy Services if that's --

18 A. Not to my knowledge.

19 Q. Okay. So some will become part of KCP&L
20 and some will be let go?

21 A. Well, there is another category called
22 transition employees that we will have for a variable
23 period of time.

24 Q. So they will be employed temporarily?

25 A. Correct.

1 Q. And what will they be doing during this
2 temporary period of employment?

3 A. That specific set of initiatives is yet
4 to be determined in total, but in general, there will
5 be finance and accounting actions that -- our normal
6 course of business to close the books, get every --
7 everything tied down as the transaction goes through
8 and to make sure that we've got a good set of
9 financial information, reporting information.

10 There will be transition services
11 possibly in back-office customer service areas as we
12 make our way through the first few days and maybe
13 even a month or two of operation.

14 Q. Okay. And whose payroll will they be on
15 during this period of temporary employment?

16 A. They'll be on KCP&L's.

17 Q. Okay. So given that all of the
18 employees will be employed either by KCPL or Great
19 Plains Energy or Great Plains Energy Services, you
20 would agree with me, would you not, that the
21 transition services would have to be provided by one
22 of those entities?

23 A. I'll -- I'll defer to our legal counsel
24 in terms of the way the contractual and the purchase
25 agreements have been set up.

1 Q. Okay.

2 A. And I'll say I don't know.

3 Q. Okay. Do you know how much Black Hills
4 is gonna pay for those transition services?

5 A. The basic principle is cost of -- of --
6 whatever the services is will be the amount charged
7 for those services.

8 Q. Okay. Now, with respect to the
9 migration of employees of Aquila to KCP&L's payroll,
10 it's true, is it not, that the Aquila corporate
11 entity will continue to exist, correct?

12 A. That's correct.

13 Q. And the Aquila corporate entity, which I
14 understand will be renamed, will continue to provide
15 services in the Aquila certificated service areas in
16 Missouri to ratepayers; is that correct?

17 A. That is also correct.

18 Q. But it's going to do it, is it not, with
19 KCPL employees?

20 A. We are gonna run a combined operation to
21 serve the needs of both of the entities.

22 Q. What amount will the Aquila corporate
23 entity pay to KCPL for the use of its employees?

24 A. I'm sorry. Would you restate?

25 Q. What amount of money will the corporate

1 entity currently known as Aquila -- sounds kind of
2 like a rock star, doesn't it -- what amount will that
3 entity pay for the use of KCPL employees to provide
4 services to its ratepayers?

5 A. I don't know.

6 Q. Do you know if it will pay some amount?

7 A. Yes.

8 Q. Who would know? Who should I ask that
9 question to?

10 A. I'm not sure if we have a complete
11 cost-of-service profile built up, but I will -- I
12 will point you to Lori Wright in terms of the --
13 the -- the overall accounting for how the assignment
14 of costs will come about.

15 Q. Okay. And if you know, is this part of
16 the reason why the proposed transaction includes
17 waiver of the Commission's affiliate transaction
18 rule?

19 A. I don't know.

20 Q. You do not know. Who would know that?

21 A. Lori Wright.

22 Q. Lori Wright. Very well.

23 MR. FISCHER: Chris Giles also addressed
24 that.

25 MR. THOMPSON: And he's already been up,

1 right?

2 MR. FISCHER: Yes.

3 MR. THOMPSON: Okay. Thank you.

4 BY MR. THOMPSON:

5 Q. Now, in your direct testimony, if you
6 recall, on page 2 you indicated that the synergies
7 would equal about 500 million over the first five
8 years. Do you recall that testimony?

9 A. I do.

10 Q. And I think your testimony has since
11 changed; isn't that correct?

12 A. It is correct.

13 Q. What happened to that 500 million?

14 A. When we filed the initial direct
15 testimony which was in the April -- early April time
16 frame, we had gone through a process to determine
17 what we believed the overall synergy makeup was. We
18 had included basically four primary areas. One of
19 those was interest savings which was \$188 million.
20 Shared services was approximately \$143 million, and
21 operational savings was \$119 million. And then the
22 final category was supply chain at \$50 million.

23 What -- what occurred in terms of an
24 operational component from the initial direct filing
25 to the time that we -- there's actually a second step

1 when we filed the joint proxy, we had discovered that
2 Aquila had, through board action, funded an
3 initiative at Sibley 3 for their environmental
4 controls. And we had previously identified a synergy
5 that would come from investing in those environmental
6 controls and taking the -- the environmental credits
7 out of the ongoing operations, and that was
8 approximately \$48 million. So that reduced it to
9 452.

10 And then as we had more time to identify
11 how these synergies would come about as we worked our
12 way toward the August 8th filing, and we had gone
13 from approximately 20 people looking at synergies,
14 kind of doing a top-down perspective to get the
15 initial filing in, and then using 20 or so teams, 150
16 people plus a significant amount more access to
17 financial information in the functional areas, it
18 allowed us to refine our focus and develop the
19 synergies as you see them today and filed obviously
20 of \$305 million.

21 Q. Okay. That category, lower cost of debt
22 for Aquila, has that \$188 million, is that still
23 represented as part of the projected synergies?

24 A. It is not.

25 Q. In fact, ratepayers are expected to pony

1 up a certain amount of money, are they not?

2 A. We've asked for actual interest cost.

3 Q. Okay. And that amount, I believe, is
4 highly confidential; is that correct?

5 A. That's correct.

6 Q. Do you know why that amount of money has
7 been designated highly confidential?

8 A. I do not.

9 Q. Who would know that?

10 A. I'll point you toward Terry Bassham or
11 Chris Giles.

12 Q. Okay. Now, you are, yourself, a senior
13 vice president of Kansas City Power & Light Company;
14 is that correct?

15 A. That's correct.

16 Q. And do you also have an office within
17 the GPE structure?

18 A. I do not. I'm not an officer of GPE.

19 Q. Now, if this transaction goes through,
20 do you expect to retain that position in the new --

21 A. I do. In fact, on October the 1st we
22 made it a filing to show the organizational
23 structure, and I'm shown as the senior VP of delivery
24 as I am today.

25 Q. Okay. And you would be -- would you be

1 managing delivery not just for KCPL, but also for
2 what is now called Aquila?

3 A. I'll have both areas of responsibility.

4 Q. Okay.

5 A. In terms of the geographic area, not
6 from a legal entity standpoint.

7 Q. I understand. And whoever's doing that
8 for Aquila today, is that person going to be let go?

9 A. Yes.

10 Q. Exactly how many people will lose their
11 employment as a result of this transaction if it
12 occurs?

13 A. If you look at the overall structure of
14 staffing, for those people, if you take the Black
15 Hills element of this out, which is approximately
16 850, 900 people for the gas operations in Colorado
17 Electric and IO, gas operations in Nebraska, Iowa,
18 Kansas and Colorado which is 850, 900 people, then
19 what's left is approximately 1,254 people that are
20 currently within the Aquila organization, we expect
21 to keep approximately five -- or 900 as we assimilate
22 that first day one group of people into the structure
23 of the combined capability.

24 Q. So we're looking at about 350, 360?

25 A. Yeah, 300 -- actually, 355 is the

1 estimate, and that will grow to approximately 411
2 over the first five years.

3 Q. Now, the payroll and the benefits
4 associated with those 350-some people, those are a
5 large part of the projected synergy savings, are they
6 not?

7 A. That's correct. In fact, if you look at
8 our current schedule within the 305, 87 million is
9 nonfuel O&M reductions, and that's the lion's share
10 of the -- of the value there.

11 Q. Now, there is some capital spending that
12 will have to be done as part of this, is there not?

13 A. That's correct.

14 Q. You mentioned, for example, that a new
15 service center is going to be built?

16 A. That's correct.

17 Q. Now, the cost -- those capital costs,
18 are they part of the so-called transition costs?

19 A. They are not.

20 Q. Are they part of the so-called
21 transaction costs?

22 A. They are not.

23 Q. What are they part of?

24 A. They're part of the future capital that
25 we anticipate in terms of overall needs, and that

1 will be a part of future rate cases.

2 Q. Now, the transaction costs, if you know,
3 those are, for example, legal fees?

4 A. That's correct.

5 Q. And fees to banks and bankers?

6 A. That's correct.

7 Q. And fees to consultants?

8 A. That's correct.

9 Q. Now, were you here when Mr. Kemp
10 testified?

11 A. I was.

12 Q. And he is a consultant employed with
13 Black & Veatch; is that correct?

14 A. That's correct. I think R.J. Rudden is
15 technically who he works for.

16 Q. And I think he testified that he's
17 already billed some \$125,000; is that correct?

18 A. I don't know.

19 Q. You don't know. If I told you that
20 that's what he testified, would you be surprised?

21 A. No.

22 Q. Okay. And that sum, is that part of the
23 so-called transition fees?

24 A. It would be -- it will either be
25 assigned to a transaction or a transition.

1 Q. Okay. So does that mean that the
2 ratepayers are expected to pay for Mr. Kemp?

3 A. Under our current filing, yes, or a
4 portion thereof.

5 Q. If you're able to answer this question,
6 in what way can Mr. Kemp's efforts be characterized
7 as the provision of utility services?

8 A. I don't know.

9 Q. Okay. Fair enough. Now, we're gonna
10 hear in a little bit from Mr. Zabors; is that
11 correct?

12 A. I believe he's the next witness.

13 Q. If I pronounced his name correctly. And
14 he is also a consultant; is that right?

15 A. That's correct.

16 Q. And he works for Bridge Strategy Group;
17 is that correct?

18 A. That's correct.

19 Q. And I assume that he's being paid for
20 his efforts?

21 A. He is.

22 Q. Do you know how much?

23 A. I don't know his exact amount for him
24 individually.

25 Q. Who would know?

1 A. There's an individual that -- that works
2 on the transition team that handles the invoices. I
3 see them but I don't recall the exact numbers.

4 Q. Mr. Zabors is not the only consultant
5 with Bridge Strategy that's involved in this
6 transaction, is he?

7 A. That's correct.

8 Q. There's at least one or two others?

9 A. Actually, we have on a average basis
10 eight to ten people that have worked on the -- on the
11 course of this project over the last few months.

12 Q. Okay. And Bridge Strategy has itself
13 brought in some subcontractor consultants, has it
14 not?

15 A. We -- we view the -- I guess technically
16 that's correct.

17 Q. Okay. Like Mr. Steinke?

18 A. Yes.

19 Q. If I'm pronouncing that correctly?

20 A. That's exactly right.

21 Q. Do you have any idea how much is being
22 paid to Bridge Strategy overall?

23 A. I can give you a -- kind of a rough run
24 rate.

25 Q. Rough run rate would be great.

1 A. About half a million dollars, or
2 \$500,000 a month.

3 Q. Okay. For how many months?

4 A. We have been -- it has ramped up.
5 Obviously, when we first began there was the smaller
6 number, but the -- we've been working on this for the
7 last six months.

8 Q. Okay. So \$3 million?

9 A. That wouldn't be far off of the total
10 amount.

11 Q. Now, if you know, is that part of the
12 transaction costs or the transition costs?

13 A. It's partially assigned to each of
14 those.

15 Q. To each of those. Okay. And so am I
16 correct that the ratepayers are going to be expected
17 to pay for the efforts of Bridge Strategy Group?

18 A. I don't know, but it'll be a part of the
19 outcome of this proceedings.

20 Q. Okay. If you know, does the application
21 not request authority to defer transaction and
22 transition costs and to book them as a regulatory
23 asset and to amortize them to cost of service over
24 five years?

25 MR. FISCHER: Your Honor, I think I'd

1 like to object to this line of questioning. We, at
2 the request of Staff, have broken the issues down on
3 the basis of synergy costs, transition and
4 transaction costs. This particular witness is here
5 to talk about synergy costs, and I don't know that he
6 has foundation to really discuss the transition and
7 transaction costs. We've got other witnesses listed
8 in the future that are specifically designated as
9 transaction and transition cost witnesses.

10 JUDGE DALE: Mr. Marshall, if you don't
11 know -- you don't need to attempt to answer if you
12 don't know. Just say, "I don't know."

13 THE WITNESS: I'll do that, Judge.

14 BY MR. THOMPSON:

15 Q. Do you know?

16 A. I'm sorry. Repeat your question.

17 MR. THOMPSON: Boy, that's gonna be
18 impossible. Could you read it back, please?

19 (THE COURT REPORTER READ BACK THE
20 PREVIOUS QUESTION.)

21 THE WITNESS: I don't know.

22 BY MR. THOMPSON:

23 Q. Okay. Would you agree with me that in
24 ascertaining the value of this transaction to the
25 public, it's sensible to subtract from the projected

1 synergies the upfront costs that ratepayers are going
2 to be asked to underwrite in order to determine that
3 value?

4 A. I don't know.

5 Q. You don't know. Okay. Well, in your
6 surrebuttal testimony -- do you recall that?

7 A. I did file surrebuttal testimony.

8 Q. And you stated that you had three
9 purposes in filing that testimony, do you recall?
10 And I thought that one of those purposes was to
11 emphasize the reality of the projected synergy
12 savings. Is that not accurate?

13 A. Well, I do have three purposes.

14 Q. Did I get them wrong?

15 A. I'm not sure I'd characterize them the
16 way you have.

17 Q. Let's take a look at page 1 of your
18 surrebuttal because I don't want to misrepresent what
19 you actually said. Looking at line 7, I wonder if
20 you could start reading with the word "First ..."

21 A. "First, I will show how the synergy
22 values were derived using a comprehensive and
23 thorough process that engaged a broad constituency of
24 Kansas City Power & Light, Aquila and outside
25 resources."

1 Q. Keep going.

2 A. "The synergies are not simply a result
3 of high level estimates. They reflect operational
4 realities, a deliberate and extensive consideration
5 of the opportunities provided by the merger and are
6 grounded in the sound working knowledge of the people
7 who will actually lead the business going forward."

8 Q. Thank you. So one purpose of your
9 surrebuttal testimony, is it not, is to respond to
10 certain criticisms made, I believe, by Mr. Brubaker
11 and Mr. Dittmer and Mr. Schallenberg to the effect
12 that perhaps the projected synergy savings -- that
13 the projections are perhaps not reliable. Is that a
14 fair statement of your purpose?

15 A. I believe them to be reliable.

16 Q. And what do you base that belief on,
17 sir?

18 A. 20 teams of very good people led by the
19 business leaders in the functional areas that the
20 synergies that were focused on, and approximately 150
21 individual team members working for a few months to
22 dig into the areas where we believe that we can
23 deliver very specific value over the time frame of
24 the next five years.

25 Q. Okay. Fair enough. Let me ask you

1 this: It's true, is it not, that business and
2 operational conditions change from year to year?

3 A. Absolutely.

4 Q. And it's possible, is it not, just
5 possible, that business and/or operational conditions
6 might change over the next ten years such that the
7 full amount of those projected synergies might not be
8 realized?

9 A. I believe that the synergies that we
10 have put forward in this analysis are highly credible
11 and highly doable during the time frame, and that for
12 the most part, most of them occur in the first two or
13 three years of this process.

14 Q. Really? Well, isn't it true that the
15 projected levels of synergies for the first five
16 years is \$305 million?

17 A. That's correct.

18 Q. And isn't it true that the projected
19 level of synergies for the second five-year period is
20 \$450 million?

21 A. That's correct.

22 Q. How, then, can you say that most of the
23 synergies will occur within the first two or three
24 years?

25 A. Because what we've done is, we have

1 identified specific individual initiatives including,
2 as you suggested, in terms of Staff reductions, those
3 occur virtually immediately as we work our way into
4 the -- the combined company. Those occur very early
5 in the process.

6 And then we've got a specific and
7 economic value analysis for each of the individual
8 areas of synergies that show the -- the start of
9 those initiatives, when the dollars come about and
10 how they come about from what actions.

11 Those accumulate for -- to the 305, and
12 then for the 6 through 10, what we've done is simply
13 escalated the value achieved during the first five
14 years over those latter years.

15 Q. Okay. Do you have in front of you, by
16 any chance, schedule JRM-8?

17 A. I do.

18 Q. Now, I'm looking at the numbers at the
19 bottom in the table. These are cumulative, is that
20 it?

21 A. That's correct.

22 Q. So for example, for year 2 when it says
23 that the total synergies that will be realized by
24 year 2 equal 56 million, that also includes the
25 30 million in year 1?

1 A. Yes, that's correct.

2 Q. So that the synergies for year 2 really
3 by itself are only 26 million, is that it? Do you
4 have a chart that shows what the projected synergies
5 are for each year that does not accumulate them with
6 the prior -- prior years?

7 A. I will direct you to Mr. Zabors'
8 schedules. He does have that information.

9 Q. Okay. Let me give you a hypothetical:
10 Let's say a toilet gets stopped up at the Hawthorne
11 plant and an explosion occurs rendering one of the
12 units inoperable. Is that gonna have an effect on
13 the realization of these synergies?

14 MR. FISCHER: Your Honor, I'm gonna
15 object on relevance grounds here.

16 MR. THOMPSON: Well, I asked him whether
17 or not conditions might change such that the
18 synergies would not be realized at the projected
19 level. He responded, as I recall, that he didn't
20 think anything could happen that would prevent the
21 projected level of synergies from being realized.

22 So casting not very far back into the
23 past, I recalled the Hawthorne incident; hence, my
24 question.

25 MR. FISCHER: Your Honor, I still

1 question the relevance of this line of questioning.
2 That -- that -- that case has been before the
3 Commission, and it was decided there was no -- well,
4 the records are gonna speak for themselves on that.
5 I think -- I think Mr. Thompson may have been the RLJ
6 in that -- in a case involving that too.

7 MR. THOMPSON: That's true. My question
8 is, if something like that happened again during the
9 ten-year period that we're addressing here following
10 the closing of this transaction, would it affect the
11 level of synergies that are being -- going to be
12 realized. I think that's a fair question, your
13 Honor.

14 JUDGE DALE: I think if your
15 hypothetical were, in fact, more hypothetical rather
16 than reminiscent, it would ...

17 BY MR. THOMPSON:

18 Q. Well, let's take the toilet out.

19 Suppose an event occurred --

20 JUDGE DALE: Just -- how about a generic
21 catastrophic event.

22 MR. THOMPSON: Thank you, your Honor. I
23 appreciate your help.

24 BY MR. THOMPSON:

25 Q. If a generic catastrophic event were to

1 occur at one of your generating facilities such that
2 a unit became unavailable for a period of time, would
3 that have an effect on the level of synergies likely
4 to be realized?

5 A. It would be dependent on which specific
6 unit, because if you look at our individual synergy
7 projects, they are very unit-specific to Sibley 1, 2,
8 3, and -- in terms of heat rates at Lake Roads. So
9 they are very targeted, very precise. They're not
10 generic.

11 So it would depend on what hypothetical
12 situation you wanted to paint whether or not there
13 might or might not be an outcome that would influence
14 whether or not the synergies associated with that
15 specific area would be impacted.

16 Q. Fair enough. Who is Jim Alberts?

17 A. Jim Alberts will be the vice president
18 of customer service in the new organization. He's
19 currently the vice president of customer service and
20 central services for Aquila.

21 Q. Who is head of customer service at KCPL
22 today?

23 A. Currently with a combined function, it
24 reports to Bill Herdegen who is vice president of
25 what's called customer operations. It includes the

1 distribution function as well as the customer service
2 function.

3 Q. So if Jim Alberts is gonna be head of
4 customer service in the new entity, is someone at
5 KCPL going to lose their job?

6 A. No, they're not. We're building a
7 stronger organization because of the -- the terrific
8 resources that Aquila has in their customer service
9 organization.

10 MR. THOMPSON: Just a couple more, your
11 Honor.

12 BY MR. THOMPSON:

13 Q. Are you aware of any merger or
14 acquisition transactions similar to this one that
15 have been approved by any regulatory bodies in the
16 United States?

17 A. I don't know.

18 Q. Okay. Who would know, if you know that?

19 A. Mr. Kemp, I believe, is our witness on
20 that.

21 MR. THOMPSON: Boy, and I let him get
22 away. No more questions. Thank you, your Honor.

23 JUDGE DALE: Thank you. Questions from
24 the Bench, Mr. Jarrett?

25 COMMISSIONER JARRETT: No questions.

1 JUDGE DALE: Thank you. And we will
2 move to redirect.

3 REDIRECT EXAMINATION BY MR. FISCHER:

4 Q. Well, let's start from the back.
5 Mr. Marshall, you were asked about previous mergers,
6 I think similar transactions. Have you been involved
7 in some -- some merger activities yourself in
8 previous employment?

9 A. I have.

10 Q. Would you explain what -- what types of
11 merger transactions and where that was?

12 A. I worked for Entergy Corporation for
13 24 years in the 1992/'93 time frame. We acquired
14 Gulf States Utilities which was a utility in southern
15 Louisiana all the way over to the northwest part of
16 Houston. They had about 600,000 customers.

17 Q. And did you have the opportunity to
18 observe operational benefits from those -- that
19 merger?

20 A. I did. I was the -- the lead person for
21 the customer team that put together the call center
22 capability, billing capability, all of the things
23 that touch customers throughout the -- the merged
24 entity.

25 Q. Did you experience synergies as a part

1 of that process?

2 A. We did.

3 Q. Can you explain the nature of those,
4 whether they were real or pie in the sky?

5 A. They were very real, and it was a very
6 different set of circumstances at the time and very
7 different from this particular opportunity. Because
8 of the natural fit of the service territories we have
9 here, there's a significant -- more significant
10 opportunity for synergies.

11 Q. Did you have any similar experiences at
12 other utilities prior to that?

13 A. I did. I was the president of Dukane
14 Light Company in the early 1999/2000 time frame when
15 Pennsylvania was going into the deregulation of its
16 electric utility industry. I led the transformation
17 of Dukane Light from a vertically integrated utility
18 to a regulated wires business.

19 We were -- as part of the -- the
20 restructuring within the state, we had agreed to
21 divest ourselves of our generation. We did that in
22 the latter part of 1999, and I ran the -- the
23 restructuring of the utility to meet the needs of the
24 some 685,000 customers in the greater Pittsburgh,
25 Pennsylvania area over the next year and a half.

1 Q. Okay. Any other experience that might
2 be relevant to synergies?

3 A. In the mid -- in the mid '80s when I was
4 working with Arkansas Power and Light, a part of the
5 Middle South Utilities, subsequently the Entergy
6 Company, I led an initiative to reengineer the
7 company because of the exit from a major nuclear and
8 fossil building program and transmission build
9 program, and we reduced the overall staffing by about
10 20, 25 percent during that restructuring, so it was a
11 major-change management initiative.

12 Q. Were those savings real from your
13 perspective?

14 A. Absolutely. In fact, I got the
15 opportunity to cause them to occur for the most part.

16 Q. Okay. Mr. Thompson also asked you about
17 Jim Alberts, the vice president of customer service
18 at Aquila. Do you recall that line of questioning?

19 A. I do.

20 Q. And would you explain why KCPL has
21 chosen to hire Jim Alberts?

22 A. He is a very, very talented and
23 experienced customer service leader in the industry.
24 And one of the great benefits and synergies that's
25 not nec -- necessarily has a dollar figure on it with

1 this transaction is the opportunity to build
2 significant bench strength.

3 Jim and some of his key team will be
4 joining our team and building a much stronger
5 capability to meet the needs of our customers over
6 the coming years.

7 Q. Do you know if the Commission Staff
8 expressed thoughts about Mr. Alberts himself?

9 A. I understand his reputation is very
10 strong here with the Commission Staff, and I am
11 certainly looking forward for him to lead our
12 organization.

13 Q. I believe you indicated that -- I think
14 you said a terrific resource of Aquila's customer
15 service functions. Can you explain why you think
16 Aquila has good customer service functions and how
17 that might benefit KCPL as a part of the merger?

18 A. He brings a unique experience because of
19 the -- the significant expanse that -- that Aquila
20 had in multiple states and the challenge that they
21 face to bring together serving customers over not
22 only electric, but gas customers, and over multiple
23 jurisdictional capabilities. So he brings a very
24 significant benefit to us being able to serve the
25 needs of those joining us from the St. Joe and MoPub

1 organizations -- or customers as well as the KCPL
2 customers.

3 Q. Is that an area that KCPL expects to
4 realize a strength from Aquila, if you want to say it
5 that way?

6 A. Absolutely.

7 Q. Mr. Thompson also asked you about why
8 your projected synergies are not -- are reliable, or
9 maybe he said not reliable, and you -- and you
10 explained that there were 20 basis teams that -- and
11 I'd like for you to elaborate on that process that
12 you used to develop these synergies.

13 A. We -- we started off building a strong
14 base in terms of -- of cost and understanding the --
15 the cost assigned to the Missouri jurisdiction. And
16 we did that to build a benchmark so that we could
17 clearly understand change off of that baseline
18 because it's our intent to track these synergies who
19 report to our senior management and to our board as
20 we make progress to achieving these so that we can
21 build as much transparency to the performance
22 characteristic of our company. We focus a lot on
23 tier one performance, and you have to know from where
24 you're at to chart a course to where you want to go
25 from a performance and prudence standpoint.

1 We've invested a great deal of time
2 really understanding the 2006 baseline for Aquila,
3 mapping that to the -- the cost of service, the case
4 of -- that was approved by the Commission earlier
5 this year, I believe it was in May or June of this
6 year.

7 And then from that foundation, assigning
8 the teams to -- to bear down in those functional
9 areas from a finance and accounting from customer
10 service to the transmission distribution areas to
11 really understand cost and what are the opportunities
12 for the combination of this, whether it's facilities
13 cost and the consolidation of those facilities, or if
14 it was an application of a best practice from Aquila
15 like in the customer service area and revenue
16 enhancement, or whether it's the best practice from
17 an A&R standpoint with KCPL.

18 We map those individual nonfuel O&M
19 improvements, the specific initiative, how many
20 people and of what characteristic in terms of what
21 their skill sets and their cost structure would be.
22 We took that and built that into each of our
23 individual plans. We built a specific EVA analysis,
24 an economic value analysis of each of those to have
25 the discipline and the integrity to hold up to go

1 into our business planning process.

2 And then we've taken all of these and
3 are now starting the detailed assimilation of that
4 into our 2008 and five-year plan beyond that.

5 Q. Was that a more comprehensive and
6 thorough process than you've used in other situations
7 in your career?

8 A. Significantly greater.

9 Q. Both Public Counsel and Mr. Thompson
10 referred you to schedule JRM-8 in your rebuttal
11 testimony. It's entitled, I believe, Synergies Will
12 Be 755 Million Over Ten Years With Customers
13 Capturing 80 Percent of the Value. Do you have that
14 in front of you?

15 A. I do.

16 Q. Would you explain for the Bench what
17 this -- what this shows, and particularly what these
18 dark lines on the last six -- year 6 through 10 show?

19 A. The 6 through 10 shows the -- the
20 escalation of the accomplishment of the \$305 million
21 worth of synergies escalated at 3.1 percent to
22 reflect the value that will accrue to customers just
23 during that latter period of time. But many of these
24 synergies will continue for significantly longer
25 periods than ten years.

1 Q. And what would the -- in the year 1
2 through 5, there's a split of those synergies.
3 What's that designed to show?

4 A. It shows that during that period of
5 time, our proposal has been to share synergies of
6 50/50 with -- with our customers.

7 Q. So then at the -- at the end of the
8 tenth year -- there's a -- there's a column on the
9 far right-hand side. What is that showing? It
10 reflects 555 at the bottom and 603 right above that.

11 A. It shows the split over that period of
12 time of the value accruing to KCPL which is
13 152 million. 603 is that accruing to the customers
14 of -- of Missouri.

15 Q. Mr. Thompson did ask you some questions
16 about transaction costs, and although it's not a part
17 of this issue, do you know if these synergies can
18 occur without some transaction costs?

19 A. The ability to cause this -- to cause
20 these two companies to come together is prefaced on
21 the -- on the ability to spend money with the various
22 parties to make this happen. So if the transaction
23 doesn't occur, the synergies will not occur.

24 Q. Mr. Brown, I think, of the --
25 representative of the unions asked you about

1 automatic meter reading, I believe. Do you recall
2 that line of questioning?

3 A. That's correct.

4 Q. Would you explain to the Commission your
5 plans about automatic meter reading and why that
6 benefits -- why that's a benefit for the merger?

7 A. I will. We started as a very early
8 adopter almost ten years ago with Cellnet, one of the
9 first utilities in the United States to automate
10 it -- automate its meter reading. And over that
11 period -- over the initial years, we began to
12 develop -- develop competencies and additional tools
13 inside of our customer information system to leverage
14 just the information.

15 And you can imagine this, having our
16 customers meters read on a daily basis instead of
17 having a meter reader go out once a month and go
18 through a route and pick up those readings manually
19 and then assimilate that into your customer
20 information system and have one point per month. We
21 now have at least one per day.

22 And we've been able to leverage that
23 in our outage management capabilities to provide
24 more efficient, more responsive outages or outage
25 management. We've got more effective ability to

1 not roll a truck by having better information.
2 we can respond to a variety of initiatives that
3 are customer-oriented in efficiency in our back
4 office.

5 But more importantly, it's a platform
6 for what we've used and you see in our testimony
7 referred to as these services. It's the ability to
8 offer AccountLink services, and it's now populating
9 the capability to allow us to reach out to our
10 customers from an energy efficiency standpoint to
11 give them the ability to audit their usage and to
12 transform that data, raw data into useful information
13 so that they can use the electricity in the most
14 effective -- effective and efficient way.

15 And we see that as a great opportunity
16 for the future as we extend that capability to the
17 Aquila customers, and our plans are to cover
18 approximately 310,000 out of the 330,000 Aquila
19 customers.

20 Q. Does Aquila have AMR experience today?

21 A. They have none.

22 Q. Is that an example of what I think has
23 been referred to as enabled savings or synergies?

24 A. That is the created synergy as a result
25 of bringing these two companies together. We own

1 that know-how and competence and capability. We have
2 the ability to leverage the existing system. So I
3 would strongly suggest that is a created synergy as a
4 result of this transaction.

5 Q. Would -- would the Aquila customers
6 benefit from your sunk costs related to AMR?

7 A. No doubt, no doubt.

8 Q. Counsel for the unions also asked you
9 about facility consolation -- consolidation across
10 the service area. Can you explain what your plans
11 are for facility consolidation and why that will
12 benefit or will be a benefit from the merger?

13 A. I will. First, to the north, we plan to
14 take Platte City and Liberty to service centers that
15 are currently Aquila service centers, and -- and
16 they're fairly small, and consolidate that into our
17 Northland facility. It's a modern facility and
18 capability that we believe will provide a great
19 location to serve the needs of the northern portion
20 of the service territory.

21 We also plan to consolidate in the
22 southeast portion of the service territory. Our
23 existing facility, Dodson, Aquila's existing
24 facility, Lee's Summit, their Lee's Summit garage and
25 Blue Springs, and again, it will create a much larger

1 location for our workforce to work out of and to be
2 more responsive and locate it in a location that
3 we've got a spot to be very efficient in terms of
4 reaching out to the larger service territory.

5 Q. Does the fact that Aquila and KCPL have
6 adjoining and/or overlapping service areas make that
7 consolidation a possibility?

8 A. Absolutely. In fact, this is -- I
9 don't -- I know of no other merger except for LG&E
10 and KU that have similar footprints to -- to ours.
11 Ours is a very unique, significant opportunity to --
12 to combine these two entities.

13 Q. Would that help to explain some of the
14 level of synergies?

15 A. Absolutely.

16 Q. And how would that affect the level of
17 synergies?

18 A. Well, just the physical location, you
19 can see the map over here on the easel, it's kind of
20 hand-in-glove. We actually connect the -- the
21 St. Joe and MoPub service areas with our service
22 territory, a more constructive area, but the combined
23 set of these two territories and -- and the
24 opportunity to have a metro area -- and this is not
25 insignificant -- to have a metro area of 625,000

1 customers, that we can have the strength of our
2 capability and processes and know-how to service that
3 large group of customers, and then bring the Aquila
4 expertise that has been developed to serve the rural
5 areas in and around the greater Kansas City area,
6 170,000 customers in those other districts, is a
7 very, very unique, powerful outcome of putting this
8 two sets of capabilities together.

9 Q. I think counsel for the unions also
10 asked you about combining the locals and how that
11 might affect service. Do you recall that line of
12 questioning?

13 A. I do.

14 Q. How will combining these unions or your
15 goals for doing so affect service to the customer?

16 A. It's fundamental in terms of the -- the
17 winning culture initiative that we have within our
18 company is to create and engage workforce, and we
19 believe -- we believe that by combining gives us the
20 opportunity to have equal pay structures, equal
21 benefit structures, and more importantly, work rules
22 that are consistent across the area so that we can
23 work as a unified team and we can move swiftly to
24 meet the needs of the customers, but more
25 importantly, have a workforce that is competent, has

1 the -- has the strength of skills and also has the
2 strength of safety performance that creates a
3 long-term sustainable workforce that can meet the
4 needs of the future of the Missouri territory.

5 Q. You used that term when you discussed --
6 winning culture when you discussed some questions
7 from -- from labor counsel. What does that mean and
8 can you explain to the Commission what you're talking
9 about?

10 A. It's fundamental to what we're trying to
11 do to -- to -- to maximize the -- the -- the value
12 creation for our customers through the workforce that
13 is led by inspired leaders. It has engaged employees
14 that are focused on real results, that understand how
15 to get those results through a disciplined
16 performance management capability, and it's something
17 that -- that we have put a lot of time and energy
18 into. But it's just good sense to get the -- the --
19 the group of employees working together to create the
20 maximum leverage of what we can do to create a great
21 utility for this region.

22 Q. Public Counsel also asked you, I think,
23 to define the word "aggressive" in Mr. Dittmer's
24 testimony. Do you recall that line of questioning?

25 A. I did.

1 Q. Do you know if Mr. Dittmer suggests
2 your -- your synergies are not conservative?

3 A. I believe that's correct.

4 Q. Do you happen to know whether
5 Mr. Brubaker used the term aggressive?

6 A. I think Mr. Brubaker is the -- is the
7 party that referred to that.

8 Q. Do you believe your synergy estimates
9 are conservative?

10 A. I do believe that they are conservative.

11 Q. And why do you think that?

12 A. Fundamentally, as I mentioned just a bit
13 ago, is that we started with a strong understanding
14 of the cost base. We have scrubbed these through a
15 very disciplined performance management process. We
16 have had not just one or two principals working on
17 this, but 20 teams of people, 150 total people that
18 normally is KCPL folks, but KCPL plus Aquila.

19 And then we've gone through an extensive
20 review process. We've condensed each of those into a
21 formal economic value analysis, and we have scrubbed
22 that through the lead team of the integration process
23 plus the steering team of our -- of our governance
24 process that we use. And I believe that they are
25 conservative, they're doable and achievable, and we

1 intend to track these synergies for our senior
2 management team and workforce as well as for our
3 board to show that we do, in fact, perform them.

4 Q. Would you elaborate on that tracking
5 process?

6 A. We're working through a process to -- as
7 we do on our business plans, we're -- we're
8 integrating this into our forward business plans, and
9 we want to know specifically because we have another
10 fundamental trait of our company of seeking out
11 tier one performance across the board. This becomes
12 another component to that so that we want to clearly
13 understand the contribution of how these synergies
14 will lead us to higher levels of performance.

15 And we want to go beyond just achieving
16 the synergies, but to get to tier one performance in
17 each of the functional areas of the company. So
18 it's -- it's fundamental to our feedback and focus of
19 how we achieve greater performance.

20 Q. Would the company have any problem
21 sharing the details of that with Staff, Public
22 Counsel, other parties or even the Commission?

23 A. Absolutely not.

24 MR. FISCHER: Your Honor, that's all I
25 have. Thank you very much.

1 JUDGE DALE: Thank you. Are there any
2 objections to the admission of Exhibits 20, 21 HC, 21
3 NP or 22?

4 (NO RESPONSE.)

5 JUDGE DALE: Hearing none, then those
6 will be admitted.

7 (EXHIBIT NOS. 20, 21 HC, 21 NP AND 22
8 WERE RECEIVED INTO EVIDENCE AND MADE A PART OF THE
9 RECORD.)

10 JUDGE DALE: And Mr. Marshall, you are
11 excused.

12 THE WITNESS: Thank you.

13 JUDGE DALE: Is there any possibility
14 that we may finish with Mr. Zabors in the next hour?

15 MR. FISCHER: It's not up to me, but I
16 hope so.

17 JUDGE DALE: Do people know how -- how
18 extensive their questioning is?

19 MR. MILLS: I don't have a lot for
20 Mr. Zabors.

21 MR. CONRAD: Nor do we.

22 JUDGE DALE: Does Staff have --

23 MR. THOMPSON: I have questions of
24 Mr. Zabors. How extensive they will be depends on
25 the answers that he gives.

1 JUDGE DALE: Well, then, let's begin
2 with him. Oh, but before we do that, let's take a
3 ten-minute break. Off the record. I'm sorry.

4 (A RECESS WAS TAKEN.)

5 JUDGE DALE: All right. If we can come
6 back to order. And Mr. Zabors will come up and take
7 the stand, please.

8 MR. FISCHER: Judge?

9 JUDGE DALE: Yes.

10 MR. FISCHER: When counsel for Public
11 Counsel and the Commission return, I'd like to
12 suggest another alternative approach tonight. Would
13 that be all right?

14 MR. THOMPSON: I'm waiting to hear.

15 JUDGE DALE: Okay. Mr. Thompson, just
16 so you know, we're on the record.

17 MR. THOMPSON: Sorry, Judge. She wasn't
18 even sitting in her chair. You know, it's tempting
19 to go late in the evening, your Honor, since Mills
20 has already promised us his pink shirt if we do.

21 JUDGE DALE: And I'm sure he would cut
22 quite a dashing figure in it.

23 MR. STEINER: That's on the record.

24 JUDGE DALE: All right. Go back off the
25 record.

1 (DISCUSSION HELD OFF THE RECORD.)

2 JUDGE DALE: Back on the record. Thank
3 you.

4 MR. FISCHER: Judge Dale, I know you
5 haven't been in the hearing until this afternoon, but
6 earlier in the case, our CEO, Mr. Chesser, and
7 Mr. Downey both indicated that the company's CFO
8 or C -- the chief financial officer was working on an
9 alternative proposal that we would like to present it
10 later in the hearing.

11 We would like to propose that in order
12 to give parties more time to review that proposal,
13 that we take a break in the hearings. We're working
14 diligently to try to get that alternative done as
15 quickly as we can, but it doesn't look like we'll
16 have it ready to present to the other parties until
17 probably sometime next week. And we would therefore
18 propose that we take a break in order to give the
19 parties an opportunity to discuss that proposal,
20 collaborate, and that we -- that we postpone the
21 hearings until after the Christmas break.

22 And I believe that there might be some
23 hearing time on the calendar beginning the week of
24 January 7. We propose that we -- with the -- with
25 the concurrence of the other parties, of course, take

1 a break until that time with -- with leave of the
2 Commission.

3 JUDGE DALE: Is this also a surprise to
4 the other parties or have you all discussed this?

5 MR. MILLS: I -- I was apprised of this
6 during, I believe, our last break or shortly after
7 our last break, so it's not a -- it's not a total
8 surprise. I have not yet had a chance to check my
9 calendar for the time in January when they propose to
10 reconvene.

11 I don't know that I -- you know, it's
12 their case, they're the applicants, they've got the
13 burden of moving forward. If they -- if they want to
14 hold off for a while and see if they can negotiate a
15 better deal, I don't see that I have any reason to
16 stop them from trying that.

17 MR. CONRAD: I would echo that. We --
18 we were contacted about, oh, ten minutes ago or so,
19 so -- but I would -- I think I would confirm that
20 there's been some limited discussion of that from the
21 witness stand, and I myself asked the question when
22 that was going to occur.

23 I can't -- like Mr. Mills, I can't speak
24 to a setting in a week, but it is their case and
25 they, as he correctly points out, have the burden of

1 going forward. So if they want -- if they want a
2 break in the action to recook their deal, we're
3 not -- we're not gonna object to that.

4 I can't -- I can't speak to resetting
5 the date at this point in time, but that would be up
6 to the -- to the Commission and hopefully the
7 parties. I think the only add that I would make to
8 that is this is -- it's been there for a fair amount
9 of time, so what essentially we're doing is while
10 we're stopping the hearing or proposing to stop the
11 hearing, obviously it's up to the Commission.

12 I don't -- I don't know that I want to
13 necessarily invest all the Christmas holidays, so I
14 would hope we -- we would get whatever it is we're
15 going to get fairly quickly. Counsel seems to
16 indicate that that's gonna be next week and that's --
17 that's fine. I mean, that's a reasonable schedule.
18 We'll try to work with that, but I just can't commit
19 beyond that. But it is their case. We're not gonna
20 oppose if they want to -- if they want to have to
21 have a recess or hiatus, however you want to phrase
22 it, that's fine.

23 JUDGE DALE: Mr. Thompson?

24 MR. THOMPSON: I learned of this
25 proposal at the same time Mr. Conrad did, and I think

1 my response is essentially the same as his.

2 JUDGE DALE: Well, with that, then, I
3 think the most reasonable way to proceed is to recess
4 these proceedings. I will advise Judge Dippell of
5 the developments. If nothing else is issued by the
6 Commission before then, it will be the Commission's
7 expectation that a new proposal will be distributed
8 to all the parties no later than the end of next week
9 and that you will all get to Judge Dippell your
10 available dates in January so that she can begin to
11 work again on the procedural schedule.

12 At this time, based on the proposal,
13 what the parties' responses thereto are, I will leave
14 it to Judge Dippell to make any changes to the filing
15 of additional testimony or anything of that nature.
16 So hold all of that in abeyance until you get a
17 written order from Judge Dippell.

18 MR. FISCHER: Thank you, Judge. We
19 appreciate your accommodation and the parties as
20 well. I would note we do have some Kansas hearings
21 later in January, so earlier would be more workable
22 for us, but we would certainly like to work with
23 everybody's schedules.

24 JUDGE DALE: If everyone will go ahead
25 and -- and get their available dates in to Judge

1 Dippell, that would be delightful.

2 And if the moving parties here could
3 also take it upon themselves to notify all of the
4 other parties that this proceeding has been
5 suspended. Thank you.

6 Is there anything else before we go off
7 the record?

8 (NO RESPONSE.)

9 JUDGE DALE: Then we're off the record
10 and in recess until we reconvene again in
11 January-ish.

12 (WHEREUPON, the hearing of this case was
13 recessed until further notice.)

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1 I N D E X

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3

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15 (AT THIS POINT JUDGE DIPPELL LEFT THE HEARING AND
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17

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26	Exhibit No. 207 HC and NP		
27	E-Mail sent from Christopher		
28	Reitz to Richard Green and		
29	other board members	*	905
30	* Marked for identification in Volume 5.		
31	** Premarked by the party but not stamped by		
32	the court reporter.		

1 CERTIFICATE OF REPORTER

2 STATE OF MISSOURI)
3) ss.
4 COUNTY OF COLE)
5

6 I, PAMELA FICK, RMR, RPR, CSR, CCR #447,
7 within and for the State of Missouri, do hereby
8 certify that the foregoing proceedings were taken by
9 me to the best of my ability and thereafter reduced
10 to typewriting under my direction; that I am neither
11 counsel for, related to, nor employed by any of the
12 parties to the action to which this hearing was
13 conducted, and further that I am not a relative or
14 employee of any attorney or counsel employed by the
15 parties thereto, nor financially or otherwise
16 interested in the outcome of the action.

17
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21 _____
PAMELA FICK, RMR, RPR, CSR, CCR #447
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