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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

SURREBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
November 2007

"[redacted]**" Designates "Highly Confidential" Information**
Has Been Removed.
Certain Schedules Attached to This Testimony Designated ("HC")
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Date 4-21-08 Rptr PF

SURREBUTTAL TESTIMONY

OF

MICHAEL W. CLINE

Case No. EM-2007-0374

Q: Are you the same Michael W. Cline who submitted Direct and Supplemental Direct Testimony in this proceeding?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: My testimony is divided into three sections. In Section 1, I summarize the proposed strategy of Great Plains Energy Incorporated ("Great Plains Energy" or the "Company") for managing the debt anticipated to be assumed through the acquisition of Aquila, Inc. ("Aquila"), as well as the credit rating implications and the key regulatory elements of the strategy. In Section 2, I focus on a number of considerations related to the Company's intention to recover Aquila's actual interest costs in future rate cases. Section 3 is devoted to responding to interest, credit rating, and Additional Amortizations-related issues raised by four parties to the case in their respective Rebuttal Testimonies.

SECTION 1

Q: Staff raises questions concerning the impact of Aquila's debt on Great Plains Energy's financial condition. Please summarize Great Plains Energy's planned strategy for managing the debt anticipated to be assumed as part of its acquisition of Aquila.

A: In my Supplemental Direct Testimony, I described in some detail Great Plains Energy's strategy to manage the debt to be assumed from Aquila. Essentially, the strategy involves Great Plains Energy, following the merger closing, using a combination of approximately $**[redacted]** of hybrid debt issued by Great Plains Energy and $**[redacted]** of cash remaining from the asset sale to Black Hills to target retirement of **[redacted]** Because the hybrid debt would be structured in a fashion so as to garner 50% equity credit from the credit rating agencies, the strategy would result in a net reduction in Aquila's debt of approximately $**[redacted]** from the rating agencies' perspective in evaluating Aquila's and Great Plains Energy's credit metrics.

Q: **Please summarize the implications of this strategy for the credit profiles of Aquila and Great Plains Energy.**

A: I discussed this topic at length on pages 7-8 of my Supplemental Direct Testimony. I concluded that the combination of (a) the reduction in Great Plains Energy's business risk that would result from the Aquila acquisition and (b) the projected credit metrics that would result from the proposed strategy appeared "sufficiently strong to maintain an investment-grade rating for Aquila and Great Plains Energy over the 2008-2010 period." I also indicated that the rating agencies were comfortable with the strategy. Great Plains Energy reviewed the approach with the agencies prior to the announcement of the merger.

Q: **What key regulatory elements to this strategy did you identify?**

A: As described on page 11 of my Supplemental Direct Testimony, Great Plains Energy views three regulatory assumptions as key to achieving our credit objectives: (1) Recovery in rates of actual interest costs on any Aquila debt remaining after execution of the strategy; (2) Recovery in rates of amortized debt retirement costs reflected in interest expense going forward; and (3) the availability of an Additional Amortizations mechanism for Aquila.

SECTION 2

Q: The recovery of actual interest costs on Aquila's debt would represent a significant change from how interest is treated from a regulatory perspective today. Did you address this in your testimony?

A: Yes, I did. In particular, I discussed the $**[redacted]** that would remain in place following the merger. I also discussed how, despite the projected 300 basis-point reduction in the coupon rate on this debt that would result from Aquila achieving investment-grade credit metrics after being acquired by Great Plains Energy, the rate would still be 488 basis points above the 7% pre-tax level assumed to be allowed in rates (the "Regulatory Rate"). That differential, for this single issue that matures in July 2012, is $24.4 million per year. Since the Direct Testimony, I have further clarified that Aquila actually recovers interest on these Notes at a rate lower than 7%, as I will discuss in greater detail later in this testimony. In my Direct Testimony, I described Great Plains Energy's view of recovery of actual interest cost as follows (see Supplemental Direct Testimony, page 11, line 14 and page 11, line 23 through page 12, line 7):

> *Great Plains Energy is acquiring all of Aquila's debt through the merger ... Going forward, Aquila customers will derive*

> *considerable long-term benefits from Aquila achieving and maintaining investment-grade status as a result of this transaction. Interest costs will be significantly lower as a direct result of Great Plains Energy's actions and will ultimately reflect Aquila's true financing costs to the entity following continued de-leveraging to improve Aquila's financial prospects. Therefore, Great Plains Energy believes that actual interest cost is an appropriate cost for Aquila's customers to bear in the short-run in order to achieve the long-term objective of financial stability and rates that reflect actual cost of service.*

Q: Several parties to this proceeding have objected to Great Plains Energy's expectation to recover actual interest costs. In the Company's view, would such regulatory treatment of interest represent an additional cost to Missouri ratepayers?

A: As the above excerpt from my Supplemental Direct Testimony reflects, Great Plains Energy acknowledges that recovery in rates of actual interest cost would represent an additional cost to Missouri customers. However, this must be considered in the proper context. *First, it is not appropriate to view actual interest cost in isolation.* This is one component of an overall transaction that, as discussed further in the testimony of Company witnesses John Marshall and Terry Bassham, results in significant long-term benefits to Aquila's Missouri customers. *Second, how to address actual interest costs should be considered a short-term issue.* The outstanding debt that is of greatest concern, the $500 million Senior Notes, matures in July 2012, or just over four years into the life of post-acquisition Aquila. Moreover, beyond the first five years following the merger, the benefit of Aquila's ability to raise capital at investment-grade rates will accrue virtually *entirely* to ratepayers.

Q: Has the Company quantified the estimated impact of recovery of actual interest rates compared to Regulatory Rates for the first five years after the merger?

A: Yes, and this quantification is attached as Schedule MWC-13. In summary, Schedule MWC-13 apportions a share of the Aquila debt that Great Plains Energy is acquiring in the transaction to the projected rate base (as outlined in Schedule MWC-14) in Missouri assuming a weighting of 45% debt in the capital structure. Accordingly, about $560 million of debt is assumed to be apportioned to Missouri ratepayers in 2008, growing to about $860 million by 2012 as a result of projected rate base increases. The actual interest cost of the apportioned debt is then calculated, as is the regulatory interest cost. For the $500M senior notes, the regulatory interest cost is calculated based on (1) the apportioned amount and regulatory interest cost of $336.3 million and 5.98%, respectively, incorporated in Aquila's 2007 rate case; and (2) additional pro-rata apportionments based on rate base increases at an assumed pre-tax regulatory rate of 7.0%. As the Schedule indicates, the pre-tax difference between actual and regulatory interest over the five-year period is $113.7 million. To determine the full impact of actual interest costs, the debt retirement costs as outlined in the Company's response to Praxair Data Request No. 32 must also be included. As Schedule MWC-13 reflects, the total impact of these two components is approximately $145 million pre-tax and $90 million after tax over the five-year period following the merger.

Q: Did the Company provide Data Request responses related to quantifying actual interest cost?

A: Yes, specifically in response to OPC Data Request No. 5018 and Staff Data Request No 0324. The Company acknowledges that its responses to these data requests did not reflect the proper methodology as outlined in Schedule MWC-13.

Q: Schedule MWC-13 indicates that the Company's estimate of the difference between actual interest cost and regulatory interest cost over the five-year period following the merger is approximately $145 million on a pre-tax basis. Are there factors that could potentially reduce this impact that should be considered?

A: Yes. This analysis includes no benefit to ratepayers from reduced financing costs for Aquila on future borrowings it will incur.

Q: What would cause Aquila's future financing costs to be lower?

A: As described in my Direct and Supplemental Direct Testimony, the Company expects that Aquila will achieve investment-grade credit metrics as a result of Great Plains Energy's acquisition. There is no question that Aquila's future financing costs will be significantly lower as a result. Ratepayers would be expected to realize some degree of benefit because the expected credit ratings at Aquila post-merger (senior unsecured ratings of BBB at Standard & Poor's ("S&P") and Baa2 at Moody's Investors Service ("Moody's") are one notch better than the lowest investment grade ratings used to establish the actual interest cost allowed in rates.

Q: Please provide an example.

A: Great Plains Energy has not yet prepared financial models that, in detail, determine the borrowing needs of the Missouri assets to be acquired by Great Plains Energy for 2008 and beyond. However, Great Plains Energy's financial advisor on the transaction has prepared an indicative model that reflects cash requirements for these assets of approximately $**[redacted]** in 2008 and $**[redacted]** in 2009. This model is attached as Schedule MWC-15. Great Plains Energy has also not yet made any definitive determinations as to how the funding needs of the Aquila properties will be met;

however, it is reasonable to assume that Aquila being able to borrow at a senior unsecured debt rating of BBB / Baa2 would result in interest savings compared to equivalent borrowings at BBB- / Baa3, whether the borrowings were short or long-term in nature. As an example, Schedule MWC-16 reflects the historical borrowing spreads, assuming issuance of 10-year debt, for utilities with a rating of "BBB" compared to those rated "BBB-" over the past nine years. As the Schedule indicates, the average benefit to the higher rating over the period has been 25 basis points; on an assumed $**[redacted]** issue, the difference would be $**[redacted]** in annual pre-tax interest, or $**[redacted]** over an assumed 10-year issue life. Also, short-term borrowing facilities are frequently structured such that, within the investment grade spectrum, an upgrade of one notch reduces the borrowing cost. Great Plains Energy's revolving credit facility, as an example, contains a "pricing grid" that reflects a difference between a senior unsecured credit rating of BBB / Baa2 and BBB- / Baa3 of 10 basis points. Assuming a facility for Aquila could be structured similarly, on a $**[redacted]** borrowing, this difference would be $**[redacted]** in annual pre-tax interest. This reflects a difference in the interest cost only and does not take into account any other fee reductions, *e.g.*, commitment or facility fees that would result from the upgrade.

Q: **Why hasn't Great Plains Energy attempted to quantify this favorable effect in its discussion of the impact of actual interest cost on ratepayers?**

A: Unlike the other synergies Great Plains Energy has outlined in this transaction, and the interest impacts that have been focused on Aquila's current actual long-term debt portfolio, looking at future borrowing cost impacts introduces a considerable degree of subjectivity. At this point, it is impossible to identify with precision what the forward-looking cash needs of the Aquila assets will be, how those needs will be met, or what the cost of obtaining that capital will ultimately be. That being said, the inability to precisely quantify this benefit does not mean it should not be a qualitative consideration in evaluating the impact of the transaction on Missouri ratepayers. Not only will Aquila be able to finance its operations at a lower cost going forward as a result of Great Plains Energy's acquisition but it is reasonable to assume that Missouri rate ratepayers will benefit from reduced interest costs compared to the current interest determination method as described above.

Q: Are there qualitative benefits beyond lower interest costs that ratepayers will derive from Aquila achieving investment grade status as a result of Great Plains Energy's acquisition?

A: Yes, two in particular beyond those discussed in my Direct Testimony. First, the impact of the sub-prime mortgage crisis on global credit markets in recent months has reinforced the importance of access to capital that a higher credit rating supports. Difficult credit market conditions since late June 2007 have created challenges for even credit-worthy borrowers to access long-term debt capital on attractive terms, but this has been even more problematic for borrowers with equivalent credit ratings to Aquila's current levels. While Aquila has short-term credit facilities that it could utilize for liquidity purposes in difficult markets, ratepayers need to have confidence that their utility has sufficient financial strength to access on reasonable terms the long-term capital it needs under all market conditions. This access could be compromised at Aquila's current ratings. Second, a higher credit rating will enable Aquila to achieve attractive costs on future short-term borrowing facilities on an unsecured basis, i.e., without the need to pledge

Missouri assets as collateral to creditors to support the transaction as is the case today with its credit line to fund expenditures on Iatan 2 (where Missouri Public Service assets are pledged).

Q: **Do the other parties to this case appear to have taken these benefits into account in evaluating the merger generally or Great Plains Energy's position with respect to actual interest recovery in rates?**

A: No, they do not. These benefits are not specifically mentioned in the testimony of Mr. Dittmer on behalf of the Office of Public Counsel ("OPC"), Mr. Brubaker on behalf of Ag Processing, Inc., Praxair, Inc. and the Sedalia Industrial Energy Users Association, or in the Staff Report sponsored by Mr. Schallenberg.

SECTION 3

Q: **What is the purpose of this section of your testimony?**

A: In this section of my testimony, I will address interest, credit rating, and Additional Amortization-related points raised in the Rebuttal Testimony of Mr. Dittmer, Mr. Brubaker, the Staff Report, and in the Rebuttal Testimony of Mr. Russell Trippensee on behalf of the OPC.

James R. Dittmer

Q: **What is Mr. Dittmer's overall conclusion?**

A: Mr. Dittmer's testimony can be summarized in the following excerpt from page 15, line 20 to page 16, line 9 of his Rebuttal testimony:

> *In summary, as much as I, Public Counsel, or this Commission might desire GPE / KCPL to maintain their investment grade rating and Aquila to return to an investment grade rating, it is difficult to envision any set of conditions that would facilitate such result given 1) the price being paid for Aquila's Missouri electric properties, 2) the significant level of transaction and transition*

> *costs estimated to be incurred, 3) the high cost of Aquila's debt – even after expected debt retirements – versus the amount of regulatory interest expense that should be allowed in retail rates, all relative to 4) estimated "true" or "created" merger savings. Because of these hurdles, the Public Counsel cannot envision enough conditions or safeguards being implemented as to adequately protect ratepayers from likely detriments stemming from the transaction. Accordingly, Public Counsel's position is to simply reject the entire merger and attendant regulatory plan.*

Q: How do you respond?

A: In their respective Surrebuttal Testimonies, Company witnesses Terry Bassham and John Marshall strongly refute Mr. Dittmer's overall conclusion that the transaction represents a net detriment to Aquila's Missouri customers. I will therefore limit my comments to Mr. Dittmer's statements regarding interest expense and his comments related to the impact of the transaction on the credit ratings of Great Plains Energy, Kansas City Power & Light Company ("KCPL"), and Aquila.

Q: What is Mr. Dittmer's position concerning whether Aquila should be allowed to recover actual interest costs in rates in a future rate case.

A: Mr. Dittmer takes the position that Aquila should not be allowed to recover actual interest costs from Aquila's Missouri customers.

Q: Does Mr. Dittmer accurately quantify the short-term impact of actual interest costs to the overall transaction?

A: In three places in his testimony – page 10, line 15, in the table at the top of page 12, and in the table on page 25 – Mr. Dittmer references a net incremental pre-tax cost of $113.6 million over the first five years following the merger. He cites the Company's response to OPC Data Request No. 5018 in using this figure; as acknowledged earlier, Schedule MWC-13 is the correct approach. He also does not include the impact of debt retirement costs which, as outlined earlier in this Surrebuttal Testimony and in Schedule MWC-13, should have been reflected.

Q: Does Mr. Dittmer discuss, qualitatively or quantitatively, any potential interest cost, market access, or collateralization benefits from the merger on Aquila's future financing requirements, either in the first five years following the proposed merger or beyond?

A: No. Mr. Dittmer limited his assessment to the impact of actual interest cost on Aquila's current debt portfolio in the first five years following the merger.

Q: Does Mr. Dittmer make comments concerning credit ratings?

A: Yes. Mr. Dittmer cites two individual items that, in his opinion, could result in a downgrade of Great Plains Energy's and KCPL's credit ratings (by extension, this would preclude Aquila from attaining investment-grade status as well). The items are (a) a write-off of merger "transaction costs" (pages 15 and 48); and (b) an inability to collect actual interest costs from ratepayers (pages 15, 48, and 49).

Q: How do you respond?

A: The items Mr. Dittmer cites are important, but it is impossible to predict the reaction of credit rating agencies to a single component of a transaction. S&P and Moody's will assess the credit ratings of Great Plains Energy, KCPL, and Aquila based on the impact of the merger *in totality*, not on any individual element. In doing so, they will be assessing the reduction in GPE's business risk that results from the transaction, the projected quantitative impacts, *i.e.*, the financial results and credit metrics, of the transaction over the next 3-5 years and the qualitative attributes of the deal, particularly their views of regulatory support for post-transaction Aquila. As described at length in my earlier testimony, prior to announcing the merger Great Plains Energy had extensive dialogue with both rating agencies about a potential transaction that, in totality, accomplished its objectives in terms of maintaining Great Plains Energy's and KCPL's current investment-grade ratings and successfully brought Aquila to investment grade as well. Recovery of transaction costs and actual interest costs are key assumptions of the transaction; however, in the final analysis, the assessment will be made on the deal in its entirety.

Maurice Brubaker

Q: What is Mr. Brubaker's overall conclusion?

A: Like Mr. Dittmer, Mr. Brubaker concludes, as outlined on page 3, lines 28-30 of his Rebuttal Testimony, that "the merger proposal and regulatory plan would be a detriment to customers and create unacceptable risks," therefore "the proposed merger and regulatory plan should be rejected."

Q: How do you respond?

A: As with Mr. Dittmer, I defer to Company witnesses Terry Bassham and John Marshall to refute Mr. Brubaker's claim of a net detriment to Missouri customers. I will address only Mr. Brubaker's comments regarding interest.

Q: What is Mr. Brubaker's position concerning whether Great Plains Energy should be allowed to recover actual interest costs in rates?

A: Mr. Brubaker does not challenge, in concept, the Company's proposal to recover actual interest costs from Aquila's Missouri customers. The quantitative impact of actual interest is, however, a key element in his determination that the transaction is a net detriment to customers.

Q: Does Mr. Brubaker accurately quantify the short-term impact of actual interest costs to the overall transaction?

A: In Schedule 1 to his Rebuttal Testimony, Mr Brubaker calculates the impact of actual interest, including debt retirement costs, as $30 million annually for five years, or approximately $150 million in total. This is relatively close to the Company's figure of $145.3 million outlined in Schedule MWC-13, though Mr. Brubaker uses a far less detailed analysis to derive his figure.

Q: Does Mr. Brubaker discuss, qualitatively or quantitatively, any potential interest cost, market access, or collateralization benefits from the merger on Aquila's future financing requirements, either in the first five years following the proposed merger or beyond?

A: No. Like Mr. Dittmer, Mr. Brubaker limited his assessment to the impact of actual interest cost on Aquila's current debt portfolio in the first five years following the merger.

Commission Staff's Report

Q: What is Commission Staff's overall conclusion?

A: Like Mr. Dittmer and Mr. Brubaker, Staff concludes, as outlined in the opening sentence of their report, that

> *The proposed transaction ... will cause a net detriment to the public interest because the cost of service to establish rates for Missouri ratepayers of Aquila and KCPL, as a direct result, will be higher than the rates would be absent the proposed transaction.*

Q: How do you respond?

A: As with Mr. Dittmer and Mr. Brubaker, I will defer to other Company witnesses to refute Staff's overall conclusion that the transaction represents a net detriment to the public interest. My comments will be focused on Staff's assertions with respect to interest, credit ratings, and Additional Amortizations.

Q: **What is Staff's position concerning whether Aquila should be allowed to recover actual interest costs in rates?**

A: Pages 54-57 of Staff's report are largely devoted to their rationale for rejecting Great Plains Energy's proposal to include Aquila's actual interest cost in rates. My earlier comments in this testimony reinforce the Company's view that since Aquila's Missouri customers will reap substantial benefits from Great Plains Energy acquiring Aquila, the actual cost of the assumed debt is a cost appropriately borne by customers.

Q: **Does Staff attempt to quantify the short-term impact of actual interest costs to the overall transaction?**

A: Yes, they do. Page 59 of the Staff Report indicates that if actual costs were included in rates, Missouri customers would be liable for an additional amount of $205.9 million in pre-tax interest over the five-year period following the merger. This amount does not include any impact of debt amortization costs over the period, which Staff does not address. That notwithstanding, comparing Staff's amount to the Company's equivalent amount shown in Schedule MWC-13 indicates that Staff's estimate of the impact to ratepayers is over $90 million higher over the 5-year period ($205.9 million - $113.7 million).

Q: **To what can this difference be attributed?**

A: Pages 57-59 of the Staff Report recount the methodology used by Aquila in its recent rate case (ER-2007-0004) to assign outstanding debt issues and related interest expense to its MPS and L&P Missouri operations. This results in a total assignment of $590 million of debt and $40 million of annual pre-tax interest expense to these entities. Staff then applies this methodology to the merger, essentially saying that the "baseline" level of interest for which Missouri customers are liable over the 5-year period is $200 million ($40 million * 5 years). Using an expected actual pre-tax cost of Aquila debt of $406.1 million for the five years following the merger (provided as part of the Company's response to Staff Data Request No. 324, acknowledged earlier to be in error) Staff finds a net detriment of ($406.1 million - $200.2 million), or $205.9 million.

Q: Do you agree with Staff's approach?

A: No, I do not. In their analysis, Staff holds the amount of Aquila debt apportioned to Missouri constant over the 5-year period. As Schedules MWC-13 and MWC-14 reflect, however, Aquila's rate base is projected to increase by about 85% over the period and an assumption should therefore be made to reflect a portion of that increase being funded with debt. To hold debt constant for five years understates the amount of debt and, as a result, the level of regulatory interest they are using as the baseline for comparison and s.

Q: Does Staff discuss, qualitatively or quantitatively, any potential interest cost, market access, or collateralization benefits from the merger on Aquila's future financing requirements, either in the first five years following the proposed merger or beyond?

A: No. Like Mr. Dittmer and Mr. Brubaker, Staff limited their assessment to the impact of actual interest cost on Aquila's current debt portfolio in the first five years following the merger.

Q: What comments does Staff make with respect to credit ratings, and how do you respond?

A: The report's Executive Summary contains a number of statements regarding the impact of the transaction on credit ratings. For ease, I will repeat them here and respond individually:

<u>Staff Assertion #1 (Page 1)</u>

> *GPE does not have the financial strength to acquire Aquila and absorb Aquila's financial difficulties without seriously weakening GPE's financial condition.*

<u>Company Response</u>:

As noted earlier, Great Plains Energy discussed, in advance of announcement, a merger transaction with the rating agencies that, in totality, would accomplish its objectives to maintain Great Plains Energy's and KCPL's current investment-grade ratings and to bring Aquila to investment grade as well. On page 2, the Staff Report includes an excerpt from the Standard & Poor's ("S&P") Ratings Evaluation Service ("RES") assessment done prior to Great Plains Energy's announcement of the Aquila merger (included as Schedule MWC-4 to my Supplemental Direct Testimony), which lists several regulatory support considerations deemed important by S&P in achieving the indicated rating outcome. Staff's implication appears to be that the need for strong regulatory support of a merger with Aquila is only a direct result of Great Plains Energy's financial condition. On the contrary, the Company strongly believes that an equivalent degree of regulatory support would be required for <u>any</u> company that seeks to acquire Aquila.

<u>Staff Assertion #2 (Page 1)</u>

> *GPE's acquisition of Aquila will weaken KCPL's financial condition at a time when KCPL is committed to significant capital expenditures.*

<u>Company Response</u>:

Upon Great Plains Energy's announcement of the Aquila acquisition on February 7, 2007, S&P placed the ratings of Great Plains Energy and KCPL on CreditWatch – Negative, which is a customary action for S&P to take with respect to an Acquiror upon the announcement of a merger. Notwithstanding its ratings being on CreditWatch, KCPL readily accessed the long-term debt markets for $250 million in June 2007 and the tax-exempt debt markets for nearly $150 million in September 2007 on attractive terms in both cases. As S&P indicated in their RES analysis contained in Schedule MWC-4 of my Supplemental Direct Testimony, following the successful acquisition of Aquila, KCPL would be taken off CreditWatch-Negative and assigned a Negative Outlook. These points notwithstanding, KCPL's experience under CreditWatch over the past nine months is not consistent with a "weakened" financial condition as posited by Staff. Notably, Staff has ignored the fact that KCPL's credit ratings at Moody's have been entirely unaffected by the Aquila announcement.

Staff Assertion #3 (Page 2)

> *The GPE acquisition of Aquila will expose Aquila to GPE's current non-utility risk caused by GPE's affiliation with an unregulated competitive supplier of electricity, Strategic Energy, L.L.C.*

Company Response:

As Aquila's operations will be separate and distinct from Strategic Energy, Staff is apparently referring to a potential risk to Aquila's credit rating that might arise from S&P's "consolidated rating methodology" whereby subsidiary credit ratings can be influenced by changes in the credit rating of the parent company. There is nothing in the S&P assessment provided in Schedule MWC-4 of my Supplemental Direct testimony that supports Staff's assertion of an increase in Aquila's risk related to Strategic Energy. In particular, S&P indicated on page 5 of Schedule MWC-5 that Aquila's Business Risk Profile, currently "6", would remain "6" post-merger. It is also possible that Staff's concern on this point could be further mitigated or eliminated, depending on the outcome of Great Plains Energy's evaluation of strategic options for Strategic Energy that was announced on November 5, 2007.

Q: What is Staff's response to Great Plains Energy's request to extend the Additional Amortizations mechanism to Aquila, as described by Company witness Terry Bassham in his Direct Testimony and further described in your Direct Testimony in this proceeding?

A: Staff characterizes the use of Additional Amortizations for Aquila as contributing to their view of the merger as detrimental to the public interest because it would result in:

> *Aquila's Missouri customers ... subsidizing Aquila's non-Missouri jurisdictional activities though the obligation to pay higher rates to fund an 'additional amortization' required to* restore (emphasis added) *Aquila's investment grade debt rating ...*[1]

Later in the report, Staff states the following on the topic of Additional Amortizations:

> *...GPE seeks Commission approval to require an 'additional amortization' from Aquila's ratepayers to provide debt rating agencies the level of assurance these agencies have indicated that they require to* restore (emphasis added) *Aquila to an investment grade debt rating. The Staff entered into separate experimental regulatory plans with KCPL and The Empire District Electric Company (Empire) that each contained an 'additional amortization' component designed to assist those two utilities in maintaining their investment grade ratings during a period of time when they are making significant capital expenditures in a new generating plant. Since Aquila's debt was already non-investment grade ... Staff did not enter into an experimental regulatory plan with Aquila, with or without an 'additional amortization' component ... GPE is seeking from Aquila customers an 'additional amortization' as a backstop from Aquila's ratepayers to* restore (emphasis added) *Aquila's investment grade rating lost*

[1] Staff Report, page 14

by Aquila as a result of Aquila's non-utility operations. This condition of the merger amounts to Aquila ratepayers subsidizing Aquila's non-utility operations.[2]

Staff, in discussing the "unprecedented" nature of the Additional Amortizations request, goes on to say the following:

There has not been a merger case in Missouri where the Commission was requested to obligate Missouri customers to *__restore__* (emphasis added) *a utility's investment grade financial condition for the benefit of the new owner.*[3]

Q: How do you respond?

A: As shown by the emphasis-added portions of the preceding question, Staff incorrectly believes that the Company's request for Aquila to utilize an Additional Amortizations mechanism is the means of <u>restoring</u> Aquila's investment-grade rating. Rather, the Company intends Aquila to use the mechanism to <u>maintain</u> investment-grade metrics as reflected in clause 1 of the "Wherefore" clause of the Joint Application:

... including Aquila's use of the Additional Amortizations mechanism in its next general rate case *__after achieving the financial metrics to support an investment grade rating__* (emphasis added).

This is also reflected in the Direct Testimony of Company witness Terry Bassham:

The Joint Applicants request that the Commission authorize Aquila, once it has achieved the financial metrics necessary to support an investment-grade credit rating, to utilize Additional Amortizations in its next general rate case to *__preserve and maintain__* (emphasis added) *that rating.*[4]

The Company clearly acknowledges that Aquila must first achieve investment-grade credit metrics before it would be able to use an Additional Amortizations mechanism in a subsequent rate case. The intended use of the Additional Amortizations mechanism to

[2] Staff Report, pages 19-20.
[3] Staff Report, page 28

maintain, rather than ***restore*** investment-grade credit metrics negates Staff's primary opposition to the mechanism.

Q: Does Staff list other reasons for rejecting the use of Additional Amortizations for Aquila?

A: Yes, on pages 62-63 of their report, Staff lists two additional reasons for rejecting the mechanism. First, Staff argues that, unlike the Commission-approved plans for KCPL and Empire, the mechanism "is not being used to support acknowledged prudent improvements in infrastructure."[5] Company witness Chris Giles addresses Aquila's planned post-merger capital spending in greater detail, but the fact that Aquila is an 18% partner in the environmental retrofits at KCPL's Iatan 1 plant and the construction of the Iatan 2 coal plant – two very significant components of KCPL's Comprehensive Energy Plan, which is supported by a Regulatory Plan that includes Additional Amortizations, casts serious doubt on Staff's rationale. The other objection cited by Staff is the following:

> *... there is no evidence provided by the Joint Applicants that the additional amortization is needed for Aquila to provide utility service to its Missouri customers at current safe and adequate service levels and a current just and reasonable rates.*[6]

This is addressed in the Surrebuttal Testimony of Chris Giles.

Russell W. Trippensee

Q: What is the essence of Mr. Trippensee's testimony?

A: Mr. Trippensee's testimony is focused primarily on recounting the history of Aquila's pursuit of a Regulatory Plan similar to KCPL's. This process ultimately led to a

[4] Direct Testimony of Terry Bassham, page 15
[5] Staff Report, page 62
[6] Staff Report, page 63

Stipulation and Agreement in Aquila's Case No. EO-2005-0293, but not to a Regulatory Plan. Mr. Trippensee's key concern regarding Great Plains Energy's acquisition of Aquila is reflected in the following Q&A from his Rebuttal Testimony at page 6, lines 12-16:

> *Q: Have the Applicants requested that all components of the [KCPL] regulatory plan be applied to Aquila if the merger is approved?*
>
> *A: No. The Applicants have completely ignored the components of the Regulatory Plan that provide benefits to the consumer and result in a fair and balanced treatment of all stakeholders.*

This is addressed in the Rebuttal Testimony of Company witness Chris Giles.

Q: With what elements of Mr. Trippensee's testimony do you take issue?

A: Mr. Trippensee makes the statement, on page 3, lines 12-14, that "*... the Regulatory Plan Amortization [requested by the Joint Applicants] would likely result in the ratepayers backstopping the adverse financial impacts of Aquila's forays into unregulated activities that proved disastrous.*" He does not elaborate, but appears to be echoing Staff's primary objection to the mechanism that I addressed earlier. He also echoes Staff's concern with a statement he makes regarding regulatory interest from page 7, lines 7-10:

> *Q: Does the cap on interest expense in setting rates for Aquila's provide [sic] a vital protection for ratepayers?*
>
> *A: Yes. Removing the cap would cause ratepayers to underwrite the failed non-regulated operations of Aquila and thus result in rates that are not just and reasonable.*

Again, I have addressed this in detail previously in this testimony.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy Incorporated and for Other Requester Relief	))))))	**Case No. EM-2007-0374**

AFFIDAVIT OF MICHAEL W. CLINE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Michael W. Cline, being first duly sworn on his oath, states:

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as Vice President – Treasury and Investor Relations.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of twenty-one (21) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

Michael W Cline
Michael W. Cline

Subscribed and sworn before me this 13th day of November 2007.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

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

SCHEDULES MWC-13 THROUGH MWC-15

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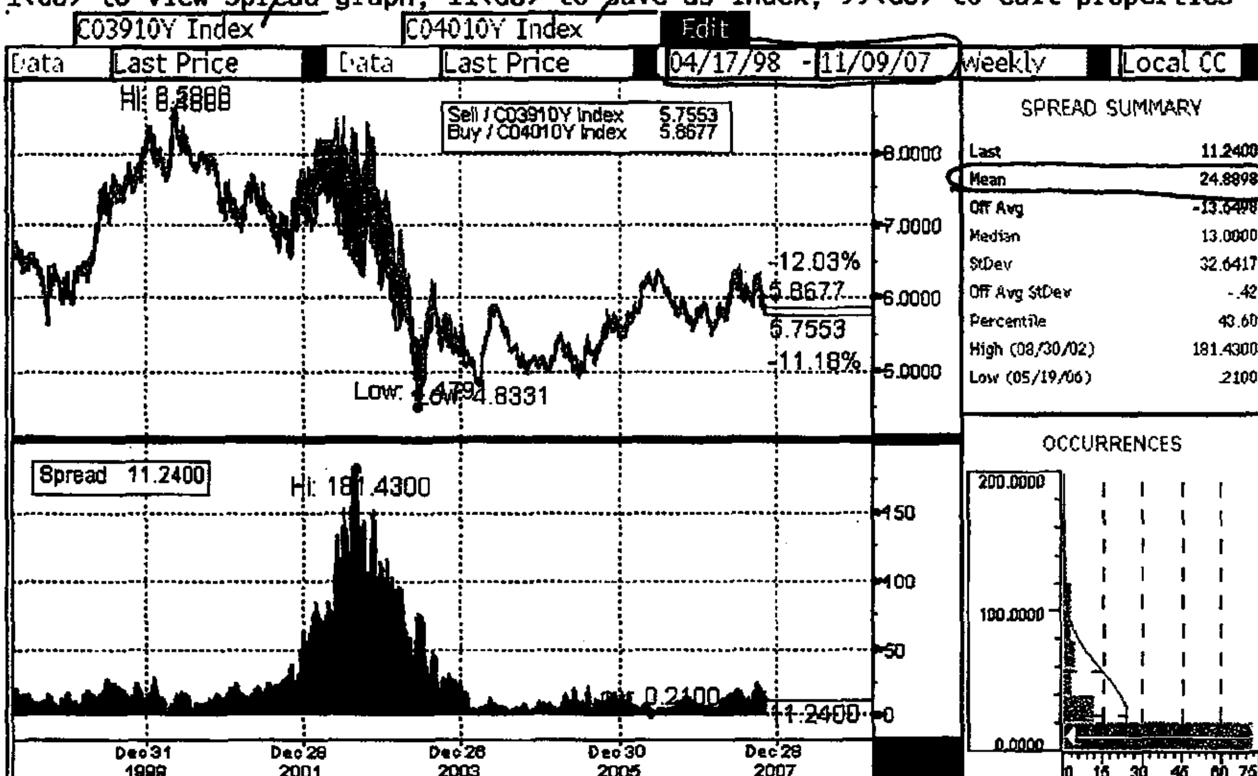

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