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Issue: Transaction and Finance
Witness: Terry Bassham
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Great Plains Energy Incorporated and Kansas City Power & Light Company
Case No.: EM-2007-0374
Date Testimony Prepared: November 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

SURREBUTTAL TESTIMONY

OF

TERRY BASSHAM

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
November 2007

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Q: Are you the same Terry Bassham 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 addresses policy issues in rebuttal to the testimony of witnesses for the Missouri Public Service Commission ("Commission") Staff, Praxair, the Office of Public Counsel ("OPC"), and the City of Kansas City, Missouri related to the benefits of the merger of Great Plains Energy Incorporated ("Great Plains Energy" or the "Company") and Aquila, Inc. ("Aquila"), and the application of the Commission's historical precedent test of no detriment to the public interest.

Q: Does it appear that all of the parties are opposed to the Merger between Aquila and Great Plains Energy under all circumstances?

A: No. It does not appear that all the parties are opposed to the merger of Aquila and Great Plains Energy as a matter of principle. Witness James R. Dittmer, in response to the question *"Are you or the Public Counsel in any way fundamentally opposed to a transaction wherein GPE/KCPL would acquire Aquila's electric property*?" states in his Rebuttal Testimony at pages 46-47 *"No. With adjoining service territories,* *GPE/KCPL's acquisition of Aquila's Missouri electric properties should be expected to generate real and fairly significant synergy savings."* Witness Robert Janssen, in response to the question *"What is Dogwood's position concerning the proposed merger?"* replies at pages 8 and 9 of his Rebuttal Testimony *"Based on its current understanding of the materials that have been made available to it, Dogwood generally supports the merger as being in the best interests of both Aquila and KCPL, as well as customers."* Instead, the parties appear to have various concerns about the short-term impacts that some of Great Plains Energy's cost recovery requests may have on rates.

Q: What is your understanding of the legal standard to be applied by the Commission for the approval of this merger?

A: My understanding is that the Commission's approval of a proposed merger is dependent on its determination that the proposed merger is "not detrimental to the public interest." The "public interest" necessarily must include the interests of both the rate paying public and the investing public.

Q: Is there a specific time frame that the Commission must use for this analysis?

A: No. I understand that the Commission is required to evaluate all necessary and essential issues, including the likely costs and benefits, which requires that it consider both short-term and long-term effects of the transaction. The purpose of this merger is to build a strong regional utility that brings benefits to customers, the community, and shareholders for many years to come. Witness Dittmer repeats several times that under his view of the Company's proposal, the transaction is detrimental to customers during "the first five years." Although I do not agree with the context in which he describes the benefits of the merger, even assuming he were right, the first five years is not the proper timeframe for the Commission's review.

Q: Does Mr. Dittmer address benefits beyond the first five years?

A: Somewhat. In addressing synergy savings over a longer period he simply states that it is "difficult to envision" how the transaction will not be detrimental. He then addresses on page 13 of his Rebuttal Testimony his view of the nature of some of the Company's synergies and criticizes them as "enabled" synergies that could be generated without a merger. Witnesses John Marshall and Robert Zabors support the nature and characterization of these savings as merger synergies. Mr. Dittmer goes on, however, to also criticize the remaining $246 million of savings as "estimates," but makes it clear he does not believe it possible to "track" merger savings. As a result, it appears Mr. Dittmer does not believe it appropriate to estimate or track actual synergies.

If this logic were adopted by the Commission, no synergies could ever be considered in a merger review.

Q: Why have the Company and intervenors focused on a five-year period?

A: Great Plains Energy has discussed the five-year time period in the context of the shared benefits and proposed time period for recovery of costs relating to the transaction. Great Plains Energy has not suggested that a five-year analysis be used exclusively because an assessment of the costs and benefits of this transaction over only a five-year time period clearly does not tell the full story. The benefits of this merger will continue for customers, for shareholders, and for the general public for many years to come. Company Witness Robert Zabors calculates an additional $450 million in additional benefits to customers in the second five years alone. The Commission should take a broader, long term view of the benefits and costs of a utility merger of this type, rather than restrict its view to the short-term rate impacts.

Q: **Do you believe the benefits of the merger between Great Plains Energy and Aquila outweigh the costs to achieve the transaction?**

A: Yes. Although there are significant costs to achieve any transaction of this type, the long-term benefits of combining these companies in the manner we propose are clearly in the public interest. As acknowledged by the testimony of intervenor witnesses, Aquila has suffered and continues to suffer from its past. The Staff, OPC, and other intervenors seem to argue that Aquila and its shareholders should continue to operate indefinitely under the current construct of high-cost, non-investment grade debt and rates that do not reflect actual debt expense. This is an unrealistic assumption. A chronically weak, non-investment grade utility is not in the long-term best interests of both customers and shareholders.

Q: **Did Aquila have a stand-alone plan to continue its effort to rebuild its financial health?**

A: Yes, it did. Aquila outlined in the joint Aquila/Great Plains Energy proxy statement, which was sent to shareholders before the shareholder vote on the transaction, its expectations for a stand-alone Aquila. However, both the Aquila Board of Directors and its shareholders did not see that option as the company's best opportunity for the future. Even Great Plains Energy was uncomfortable at the prospect of attempting to absorb the entirety of Aquila while maintaining its investment-grade credit rating for the merged entity. That is why Great Plains Energy chose to work with Black Hills Corporation ("Black Hills") to achieve a more optimal solution to produce the final offer made to

Aquila. The Aquila auction process established, as acknowledged by Mr. Dittmer in his Rebuttal Testimony at pages 17-18, that no other bidder made an offer superior to what Great Plains Energy and Black Hills offered.

Q: Mr. Dittmer suggests that the transaction costs are incurred for the benefit of shareholders, not customers. Do you agree?

A: No, I do not. Obviously, the transaction costs incurred to complete this merger were necessary to create the shareholder and customer benefits generated by the merger.

Q: Does Mr. Dittmer agree that the price paid by Great Plains Energy for Aquila is in the range of reasonableness?

A: Yes. On pages 20-21 of his Rebuttal Testimony he states that "…even after considering the transaction costs associated with the merger…" the price paid for Aquila's Missouri assets appear "to be in the range of reasonableness." Additionally, it should be noted that on the day the final offer of $4.54 per share was made to Aquila, that offer was actually below the current market price.

Q: Do you believe a transaction would have occurred if Great Plains Energy had further discounted its offer for no recovery of transaction costs?

A: No. Great Plains Energy's offer was below market price and was reasonable. Further discounting of that price would have likely been rejected by the Aquila Board of Directors as unreasonable.

Q: The Commission Staff takes the position that there are no benefits to customers as a result of this transaction. Do you agree?

A: No. As I noted above, the Staff has taken a short-term view of the benefits provided by the transaction. The Staff, OPC, and other intervenors take a restrictive view of the recovery of actual interest expense and focus only on rates during the first five years of the transaction. The benefits of bringing these two adjacent service territories together cannot be accurately measured in a five-year period. In its witnesses' Direct and Supplemental Direct Testimony, Great Plains Energy has clearly established that there are significant benefits to this transaction for customers of both Kansas City Power & Light Company ("KCPL") and Aquila, including:

1. *Improved quality of day-to-day utility service*

William Downey, President, Chief Operating Officer, and a member of the Board of Directors of Great Plains Energy, and President and Chief Executive Officer of KCPL testified that *"KCPL has achieved an impressive history of providing low-cost, reliable electric service to its customers and communities. It is recognized throughout the communities it serves as an innovative and high-performing utility. ... It is Great Plains Energy's and KCPL's objective to combine management practices and resources to achieve significant reduction in costs and further enhance reliability and customer satisfaction, with rates lower than they would have been had the Merger not occurred."* In October 2007, the PA Consulting Group awarded its highest honor, the 2007 National Reliability Excellence Award, to KCPL for "sustained leadership, innovation and achievement in the area of electric reliability." It also named KCPL the winner of its 2007 Reliability One Award in the Plains Region. Following the closing of the transaction, KCPL will establish business plans to provide Aquila customers the same level of exemplary reliability and service presently enjoyed by KCPL customers.

2. *Improved customer service*

Company witness William Herdegen, Vice President Customer Operations, testified that integration efforts in the customer service area will focus on the best practices of KCPL and Aquila, with the expectation that customer satisfaction levels at both companies will reach Tier 1 as the complementary strengths of both companies are combined. Several of the Aquila employees who were instrumental in achieving Aquila's high level of customer service have agreed to stay on following the merger. Great Plains Energy intends to create a single call center for customers of both KCPL and Aquila, which will leverage the two companies' strengths. Great Plains Energy is also reviewing the Customer Relations area in consideration of the expanded customer base and service territory, including expansion of its metering technology to the Aquila service territory. It is also reviewing billing services at both Aquila and KCPL to ensure easy and efficient payment options for customers throughout the service areas.

3. *Significant synergies, economies of scale, and efficiencies will ultimately result in lower cost of operations.*

Company witnesses John Marshall and Robert Zabors testified as to the significant savings to be realized following the merger resulting from shared services, operational efficiencies, and a more favorable procurement position. Witness Robert Zabors calculates these synergies after the five-year sharing period proposed by KCPL to be $450 million.

4. *Extension of Energy Efficiency and other Initiatives to Aquila customers*

Company witness Kevin Bryant, Vice President of Energy solutions at KCPL, testified that Great Plains Energy intends to make all KCPL Affordability, Energy Efficiency, and Demand Response programs available to Aquila customers following the merger. Great

Plains Energy is committed to ensuring that all KCPL and Aquila customers will have access to a comprehensive portfolio of affordability, energy efficiency and demand response programs.

5. Community Service

Company witness John Marshall testified that Great Plains Energy and KCPL support community initiatives targeted at (i) improving the lives of vulnerable youth; (ii) environmental programs that build on our current business practices, including energy efficiency/weatherization, tree care and plantings and conservation; and (iii) agencies and initiatives focused on retaining and stimulating economic and community development, as well as utility-related workforce development. This community strategy is supported by financial contributions, as well as a volunteer program that enables employees to participate with partner agencies both during company and personal time. Great Plains Energy will review and assess the effectiveness of Aquila's community support activities with a view to continuing and enhancing those programs that offer best value and effectiveness for the communities of the expanded service territory.

Q: Staff and other parties assert that it would be improper to allow Aquila to fully recover its actual interest expense costs in future rate cases after the merger closes. Do you agree?

A: No. These parties have wrongly focused primarily on one debt issuance of $500 million that currently carries a 14.875% coupon. This will likely be the only material piece of outstanding debt that Great Plains Energy cannot economically refinance because of the substantial costs associated with its repurchase.

Q: Will this outstanding $500 million continue to maintain the extraordinary interest rate after the close of the Merger?

A: No, it will not. As Witness Michael Cline discusses in more detail in Direct and Surrebuttal Testimony, in working with the rating agencies, we believe that post-closing Great Plains Energy will achieve an investment-grade credit rating for Aquila. As a result, the interest rate on the outstanding $500 million issuance would improve to 11.875%--a 300 basis point decrease. Although this would remain a more expensive part of Aquila's overall portfolio, it would be dramatically improved by the merger. Any company attempting to acquire Aquila would face this same issue. This merger will bring Aquila back to investment grade, and as a result, the additional costs of the interest rate expense will be part of an investment-grade portfolio and should be viewed in the context of the overall merger which generates far greater synergies. A merger with Great Plains Energy will bring enough synergies to the Aquila properties to outweigh the actual interest costs associated with this one debt issuance when compared to current rates.

Q: Certain parties have opposed Great Plains Energy's request that the Commission authorize Aquila to utilize an Additional Amortizations mechanism because they believe it will be used by Great Plains Energy to enable Aquila to achieve investment-grade status. Is that Great Plains Energy's plan?

A: No. Staff and others have misunderstood and mischaracterized the Applicants' request regarding the use of the Additional Amortizations mechanism in Aquila's next general rate case. During our due diligence work in the preparation of our bid for Aquila, we utilized the advisory services of the rating agencies, Standard & Poors and Moody's. In both instances we received confirmation that based upon the credit metric created by the merger of the two companies, Great Plains Energy would remain investment-grade. Our request for Aquila to have use of the additional amortizations mechanism would serve to support that investment-grade rating, just as it does at KCPL, not to achieve that rating. Company witnesses Chris Giles and Michael Cline address the issues regarding the Additional Amortizations mechanism in greater detail.

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 TERRY BASSHAM

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Terry Bassham, being first duly sworn on his oath, states:

1. My name is Terry Bassham. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Executive Vice President – Chief Financial Officer.

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 ten (10) 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.

Terry Bassham

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

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