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 Related Relief.	))))))	Case No. EM-2007-0374

STAFF RESPONSE TO COMMISSION ORDER

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and states that on April 4, 2007, Great Plains Energy Incorporated ("GPE"), Kansas City Power & Light Company ("KCPL"), and Aquila, Inc. ("Aquila") filed a Joint Application for approval of a merger of Aquila with a subsidiary of GPE and for other related relief. Among other things, as a result of the proposed transactions GPE will acquire Aquila's Missouri electric and steam operations, as well as its merchant services operations (primarily the 340 MW Crossroads generating facility in Mississippi and certain natural gas contracts). On April 9, 2007, the Commission issued an Order Directing Notice And Order Directing Filing. In said Order, the Commission directed the Staff to no later than May 9, 2007 file a recommendation, a statement indicating when it expects to file such a recommendation or a request for an early prehearing conference. In response, the Staff provides the following recommendation that the Commission should schedule a technical conference and a prehearing conference on May 23 and 24, 2007, respectively, and the Staff also provides a status report below regarding its review of the Applicants' April 4, 2007 filing:

1. The Staff did not receive any GPE/KCPL or Aquila workpapers supporting the Applicants' filing or pro formas for the surviving corporation. Paragraph 27 of the Joint Application filed on April 4, 2007 states GPE will submit a late-filed exhibit containing the

balance sheet and income statement of both GPE and Aquila as of and for the twelve (12) months ending December 31, 2006, showing the pro forma effect of the Merger. No date for such filing was provided in the Applicants' April 4, 2007 filing. Such pro formas are covered by the Commission's rules for mergers and the sale/transfer of assets, 4 CSR 240-3.115(1)(C) and 4 CSR 240-3.110(1)(E), and there are provisions for variances, 4 CSR 240-3.015 and 4 CSR 240-2.060(4). It has been indicated to the Staff by GPE/KCPL that (1) workpapers have not been provided because KCPL personnel have been working on GPE/KCPL's federal Hart-Scott-Rodino Act filings, but said workpapers are purportedly to be made available shortly to the Staff, and (2) pro formas are being produced for GPE/KCPL's U.S. Securities and Exchange Commission ("SEC") proxy filing, drafts of which are to be provided to the SEC and the Staff shortly. Review of this information is essential to the Staff's analysis of the Applicants' filing and the date of the provision of this information affects any procedural schedule that the Staff would propose. It should also be noted that GPE/KCPL witness Robert T. Zabors states at pages 7 and 12 of his direct testimony that GPE will update its calculation of "synergy savings" in August 2007, and GPE/KCPL witness John R. Marshall states at page 9 of his direct testimony that GPE and Aquila will resolve transition service issues by July 30, 2007 and will provide the Commission with the transition plan after GPE and Aquila finalize the services to be provided under the Transition Service Agreement. The Staff views this information that it has yet to receive as also significant.

2. In addition to information noted in the preceding paragraph, the Staff has requested from GPE/KCPL copies of the Applicants' filings in other jurisdictions. The Staff has received copies of the Applicants' filing with the Kansas Corporation Commission and is in the process of receiving access to filings of the Applicants before other state commissions. It is the Staff's

understanding that the Applicants have not yet made their Merger filing at the Federal Energy Regulatory Commission (FERC), but that they will do so later this month.

3. Based on the aforementioned, in part, the Staff recommends that the Commission schedule a technical conference for May 23, 2007 beginning at 10:00 a.m. and a prehearing conference for May 24, 2007 beginning at 9:00 a.m. The Staff believes that it can recover some of the procedural time lost due to the Applicants not having provided as yet the aforementioned information, as well as expedite the discovery process in this proceeding, by the Commission scheduling a technical conference rather than the Staff submitting an initial batch of data requests to the Applicants. The purpose of the technical conference is to provide GPE/KCPL and Aquila the opportunity to provide information and present the appropriate persons to discuss the details of their proposed merger and, in particular, address the questions in Attachment A that have occurred to the Staff based on the Staff's review of the Applicants' current filing. The Staff anticipates that the discussions, answers, and information that will hopefully occur and be provided on May 23 will prove insightful regarding the procedure that will be necessary for reaching a conclusion regarding this case. The level of success of the technical conference will influence the Staff regarding the procedure that the Staff will recommend, at the prehearing conference proposed by the Staff to occur the next day, May 24, that the parties and the Commission should adopt for the remainder of the case.

4. The Staff's list of questions that follow as Attachment A is considerable given the breadth of information (e.g., workpapers) that the Applicants' have not provided to date. If May 23 does not provide adequate time for completing a discussion of the items covered in Attachment A, hopefully the discussions could continue on May 24. The Staff does not anticipate that all of May 24 would be required for purposes of discussing a procedural schedule.

The purpose of the prehearing conference would be to develop a procedural schedule or define the position of the parties regarding the necessity of a procedural schedule. The Staff proposes that a report regarding the parties' positions on a procedural schedule for the case and any proposed procedural schedules would be filed with the Commission no later than May 31, 2007.

STATUS REPORT

The Staff has performed an initial review of the GPE/KCPL and Aquila Merger Application. This review has been designed to determine the initial scope of work and applicable legal standard(s). The Staff's initial review of GPE/KCPL's and Aquila's Joint Application has sought to compare this Joint Application to prior merger applications. If a merger application merely requests items that have been traditionally approved by the Commission, then, as a general rule, the Staff's work scope and discovery needs are less than that required by cases where the Staff must evaluate a merger containing new or otherwise unique items, or items that have been rejected by the Commission in prior merger cases. The Staff's initial review of the GPE/KCPL and Aquila filing has identified that their request contains new or otherwise unique items as well as items that have been rejected by the Commission in prior merger cases. These items, as found in the "WHEREFORE" section of the Joint Application, page 21, are as follows:

1) item (e): Approving the Regulatory Plan, including Aquila's use of the Additional Amortizations mechanism in its next general rate case after achieving the financial metrics necessary to support an investment-grade credit rating;

2) item (f): Authorizing KCPL and Aquila to establish a regulatory asset and amortize into cost of service costs associated with the Merger, including both transaction and transition-related costs, as properly allocated to KCPL's and Aquila's Missouri-regulated operations and excluding the non-incremental labor

costs of the integration team, over a five (5) year period beginning on January 1, 2008, or the month immediately following consummation of the Merger, whichever occurs later;

3) item (g): Authorizing KCPL and Aquila, collectively, to retain for a five (5) year period fifty percent (50%) of the synergy savings that result from the Merger, as properly allocated to their Missouri-regulated operations;

4) item (j): Granting KCPL and Aquila a waiver from the affiliate transaction rule to the extent deemed necessary.

The Staff is looking into the question whether the merger has been structured in a manner which would circumvent Aquila's commitment, in more than one Commission case, not to charge its customers for the costs of its non-regulated activities. It appears that under the Applicants' merger proposal, Aquila's customers will be charged costs now labeled as retained merger savings that represent cost reductions related to Aquila's non-regulated activities that are currently excluded from current rates charged to Aquila's customers.

As a result of the Missouri Supreme Court's acquisition premium decision in *State ex rel. A.G. Processing v. Public Serv. Comm'n*, 120 S.W.3d 732, 736 (Mo. banc 2003), the Commission would appear to be required to make decisions regarding the Applicants' new or otherwise unique ratemaking proposals on a "not detrimental to the public" basis or standard for purposes of approving or denying the merger and then address these issues in subsequent rate cases using a "just and reasonable" or other standard for setting rates. Should the Commission approve the GPE/KCPL – Aquila merger with the new or otherwise unique proposals of the Applicants, the Commission will be confronted with dealing with major ratemaking consequences of the merger in the merger case itself, as a result of the Missouri Supreme Court's *A.G. Processing* decision, or at least be required to think in that manner.

The Staff is still reviewing the very detailed Asset Purchase Agreement, Partnership Interests Purchase Agreement, Agreement and Plan of Merger and related documents to determine whether the Commission is being asked to approve items contained in these agreements that would be detrimental to the public interest.

WHEREFORE the Staff submits this pleading in response to the Commission's April 9, 2007 Order and requests that the Commission issue an Order scheduling a technical conference for May 23, 2007 and a prehearing conference for May 24, 2007.

Respectfully submitted,

/s/ Kevin A. Thompson____________

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Certificate of Service

I hereby certify that a true and correct copy of the foregoing has been mailed, hand-delivered, transmitted by facsimile or electronically served to all counsel of record this 9th day of May, 2007.

/s/ Kevin A. Thompson__________

ATTACHMENT A

QUESTIONS FOR MAY 23, 2007 TECHNICAL CONFERENCE

1a). Will GPE/KCPL and Aquila merge if the Commission does not approve GPE/KCPL's request to establish a regulatory asset and amortize into cost of service associated with the Merger all properly allocated transaction and transition costs over a five (5) year period beginning January 1, 2008 or the month immediately following the consummation of the Merger, whichever occurs later? 1b). What Commission precedent, if any, does GPE/KCPL rely upon to support this specific request?

2. What entries on its regulated books does GPE/KCPL and Aquila anticipate will be recorded in the event that the Commission approves GPE/KCPL's request to establish a regulatory asset and amortize into cost of service associated with the Merger all properly allocated transaction and transition costs over a five (5) year period beginning January 1, 2008 or the month immediately following the consummation of the Merger, whichever occurs later?

3. What are the detailed allocations GPE/KCPL expects to use to allocate transaction and transition-related costs to KCPL's and Aquila's Missouri regulated operations versus KCPL's other operations and Aquila's merchant operations?

4a). What is the breakdown of the Executive Severance, Share of Executive Change in Control (CIC), CIC tax gross-up, Aquila Rabbi Trust, restricted stock and stock option costs by Aquila executive? 4b). What is the criteria used that classifies these costs as transition costs versus transaction costs?

5a). Will GPE/KCPL and Aquila merge if the Commission does not approve GPE/KCPL's request to retain fifty percent (50%) of its estimated "synergy savings" for five (5) years recovered in future KCPL and Aquila rates? 5b). What Commission precedent, if any, does GPE/KCPL rely upon to support this specific request? 5c). Why are costs not netted against savings before the 50% retention methodology is applied? 5d). What Commission precedent, if any, does GPE rely upon to support this element of its request? 5e). How does GPE/KCPL plan to adjust its future rate case filings if the Commission approves GPE/KCPL's request to retain fifty percent (50%) of its estimated "synergy savings" in future KCPL and Aquila rates for five years? 5f.) Does GPE/KCPL intend to add to its future Aquila rate cases under its 50% "synergy savings" retention proposal, cost reductions that Aquila was not seeking recovery of from its customers on a stand-alone basis (e.g., interest rate reductions)? 5g). What are the details of the costs and savings related to the interest rate savings over the five (5) year period, 2008 to 2012?

6. How much of the employee savings component contained in the 50% “synergy savings” retention proposal is related to unfilled positions at the time of the Merger?

7a). How much of the current Aquila shared costs is currently being assigned to the properties being purchased by Black Hills? 7b). How much of Aquila shared costs currently being assigned to the properties being purchased by Black Hills are being retained by GPE/KCPL after the Merger?

8a). Are there any costs to be incurred to buy-out Aquila’s fleet lease? 8b). If so, how are these costs treated in the calculation of Fleet lease buy-out benefits? 8c). Why did not Aquila buy-out these leases on its own?

9a). Are there any costs to be incurred related to the implementation of the eServices processes efficiencies? 9b). If so, how are these costs treated in the calculation of the eServices processes efficiencies? 9c). Why did not Aquila implement these eServices processes on its own?

10a). Are there any costs to be incurred related to the realization of the heat rate and reliability improvement savings? 10b). If yes, how are these costs treated in the calculation of the heat rate and reliability improvement savings? 10c). Why did not Aquila implement these heat rate and reliability improvements on its own?

11a). Are there any costs related to the consolidation of the bill payment process after the Merger? 11b). If yes, how are these costs treated in the calculation of bill payment savings?

12. What are the details for the costs related to the Equalization of Benefits for Management and Labor?

13a). What are the details for the savings and costs related to the additional increases in non-labor costs? 13b). What is the cause for the increasing trend in these costs for the period 2008 through 2012? 13c). How are these costs expected to change for the time period after 2012?

14. In the event GPE sells Aquila’s headquarters, how will the proceeds from that sale be treated in GPE/KCPL’s costs to achieve or “synergy savings” retention proposals? 14a). Has GPE evaluated the option of selling Aquila’s headquarters?

15a). What supply chain savings "estimates from other utility mergers" were used to develop the estimate of the Supply Chain savings GPE/KCPL is sponsoring in this case? 15b). What follow-up work, if any, was performed to verify the actual supply chain savings realized in these utility mergers?

16. What evidence is there of purchasing savings actually occurring in utility mergers**?**

17. Under GPE/KCPL's "synergy savings" proposal how will the amount of "synergy savings" charged to ratepayers be modified if "synergy savings" are more or less than expected by GPE/KCPL? Under the GPE/KCPL's "synergy savings" proposal, will the amount of "synergy savings" charged to ratepayers be modified in any way to account for the probability that future projections may differ from actual results as a normal course of business?

18. What is the difference, if any, between the terms "goodwill" and "acquisition adjustment" as GPE/KCPL and Aquila use these terms in their testimony?

19a). Identify the purchase price for the Aquila Missouri properties allocated between Aquila Networks - MPS and Aquila Networks - L&P as of the time of the purchase and the expected closing of the Merger. 19b). Identify the book value of Aquila Networks - MPS and Aquila Networks - L&P as of the time of the purchase and the expected closing of the Merger. 19c). Identify the acquisition adjustment that GPE/KCPL will be required to book as a result of the merger of Aquila Networks - MPS and Aquila Networks - L&P with KCPL.

20. Will all Aquila employees become KCPL employees after the merger?

21a). How many of the 298 expected eliminated positions are not filled at this time? 21b). Identify the expected eliminated positions by job title, job description, location of job position, etc. with and indication whether the position is currently vacant or occupied by a current employee?

21c). Are all expected position reductions located currently in Aquila?

22a). What are the environmental improvements needed to achieve the emission reductions? 22b). What are the projected costs of these environmental improvements?

23. What specific transactions are covered by GPE/KCPL's request to waive the Commission's affiliate transaction rule?

24. What is GPE/KCPL's expectation regarding the amount of additional amortization that will be added to Aquila's Missouri rates, if any, in Aquila's next general rate case in the event that the Commission approves GPE's request for use of the additional amortizations mechanism in Aquila's future rate cases?

25. Why are there no fuel and purchased power savings generated from the Merger?

26. Identify how GPE/KCPL intends to operate the Aquila and KCPL utility properties after the Merger.

27a. Will GPE/KCPL structure the operation of the KCPL and Aquila utility properties employing "joint dispatch" for the generating facilities owned by KCPL and Aquila? 27b). If not, why not? 27c). Provide all references and citations to regulatory authorities, such as orders, decisions, opinions, statutes, and rules, and judicial decisions that GPE believes would in any way restrict the use of "joint dispatch" in the operation of KCPL and Aquila generating assets.

28. What does GPE/KCPL plan to do with Aquila Networks - MPS and Aquila Networks - L&P pension funds?

29. Provide a detailed explanation of what the benefits are to GPE of the tax losses accumulated by Aquila?

30. How many shares of GPE stock are expected to be issued to in order to purchase Aquila's stock? What are the annual dividend payments that GPE expects related to these additional shares?

31. What additional compensation is expected, if any, for GPE and KCPL executives and employees in relation to performing additional duties for Aquila's Missouri operations after the Merger? 31a). What amount, if any, is contained in Mr. Zabor's Schedule RTZ-2 attached to his direct testimony? 31b). What line description contains theses costs?

32. How will GPE/KCPL's request for a waiver from the Commission's affiliate transaction rules impact interchange sales or purchases between KCPL and Aquila?

33. What incentives exist for GPE/KCPL to minimize its "costs to achieve" or increase its "synergy savings" if the regulatory asset and "sharing amounts" are based on quantifications discussed in Lori A. Wright's direct testimony?

34. Have the expected costs mentioned on page 11, lines 16 and 17 of Kevin E. Bryant's direct testimony been estimated and reflected on Schedule RTZ-2 attached to Mr. Zabors' direct testimony?

35. Will William H. Downey receive any additional compensation for assuming the role of President and Chief Executive Officer of Aquila as mentioned on page 3, lines 21 and 22 of his direct testimony. If there is any such additional compensation, how has it been reflected on Schedule RTZ-2 attached to Mr. Zabors' direct testimony?

36. Will current or former Aquila officers be employed by GPE/KCPL or any of its affiliates after the Merger? If yes, please identify each such officer and the affiliate?

37. In the event that GPE/KCPL sells Aquila's current Crossroads facility, how will any proceeds from such a sale be treated in GPE/KCPL's "costs to achieve" or "synergy savings" retention proposals?

38. What are the goals and benchmarks related to GPE/KCPL's "winning culture initiative"?