

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Case No. EM-2007-0374

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.)

DEPOSITION OF MICHAEL J. CHESSER,

produced, sworn and examined on Wednesday, November 28,
2007, at the offices of Aquila, Inc., 20 West Ninth,
in Kansas City, Missouri, before:

JAMES A. LEACOCK, CCR, for
CROSS REPORTING SERVICE, INC

a Certified Court Reporter for the State of Missouri.

APPEARANCES:

For the Missouri Public Service Commission:

MISSOURI PUBLIC SERVICE COMMISSION

By: Ms. Sarah Kliethermes, and
Mr. Nathan Williams, and
Mr. Robert Schallenberg

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A P P E A R A N C E S:
(Continued)

For Aquila:

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S T I P U L A T I O N S

It is hereby stipulated and agreed by and between the parties herein that presentment to the attorneys of record of a copy of this deposition shall be considered submission to the witness for his signature within the meaning of the Missouri Rules of Civil Procedure, but shall in no way be considered as a waiver of the witness' signature; and will be filed with the court, to be signed by the witness at any time before or at trial of this case.

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1 (The deposition commenced at 9:00 a.m.)

2 MICHAEL J. CHESSER,
3 of lawful age, being first duly sworn, was
4 examined and testified as follows:

5 EXAMINATION BY MR. WILLIAMS:

6 Q. What is your name?

7 A. Michael Joseph Chesser.

8 Q. How do you spell your name?

9 A. M-i-c-h-a-e-l, J-o-s-e-p-h, C-h-e-s-s-e-r.

10 Q. Have you ever been deposed before?

11 A. Yes.

12 Q. When?

13 A. It was in 1998 time frame.

14 Q. Just the one deposition?

15 A. One deposition.

16 Q. I am going to ask you a series of questions, and
17 unless I hear from you that you don't understand
18 the question or that you didn't hear the question,
19 I am going to assume that you have heard it and
20 understood the question, that you are going to
21 provide a response. Is that agreeable with you?

22 A. Yes.

23 Q. Do you have any conditions today that will affect
24 your ability to respond truthfully and fully to an
25 answer -- or to a question that is posed to you?

1 A. No. Or an answer, either one.

2 Q. Are you under any medications that would affect
3 your ability to testify truthfully and honestly
4 here today?

5 A. No.

6 Q. Did you bring any documents with you to this
7 deposition?

8 A. No.

9 Q. Have there been documents that have been produced
10 in response to the Notice of Deposition that
11 included a request for documents?

12 A. No. Not to my knowledge.

13 MR. ZOBRIST: Let me just clarify that
14 in response to the paragraphs that were
15 attached to Mr. Chesser's Notice of
16 Deposition, we have produced additional
17 documents that were contained within the
18 request that had not been produced earlier,
19 because they had not been created or
20 requested. We objected to a few requests,
21 but produced some documents in response to
22 that. And we advised staff last week that we
23 would not be reproducing anything that we had
24 previously produced to them.

25 Q. (By Mr. Williams) Thank you. Who is your current

1 employer?

2 A. Great Plains Energy.

3 Q. What position do you hold at Great Plains Energy?

4 A. C.E.O. and Chairman of the Board.

5 Q. What are your job duties in connection with being
6 C.E.O. and Chairman of the Board?

7 A. Overall -- to set the overall strategic direction
8 for the company. To ensure that all the
9 stakeholders are properly provided value, the
10 customers, the shareholders, the employees, the
11 community. To make sure that the talent in the
12 organization is developed to conduct our mission
13 on a sustained basis going forward.

14 Q. Are you familiar with the transaction that is the
15 subject of this case, which is the acquisition of
16 Aquila by Great Plains Energy?

17 A. Uh-huh. Yes.

18 Q. What do you know about this transaction?

19 A. This is a transaction that has the potential to
20 create significant value for the four shareholders
21 that I just talked about. It has the potential
22 over the long-term to keep rates lower than they
23 otherwise would be with KCPL and Aquila customers.
24 To improve quality of service to Aquila customers.
25 To maintain a strong regional utility in the

1 community to support the community activities. As
2 a potential to provide opportunities for employees
3 to grow and develop in a larger company. And it
4 has the potential to increase earnings for the
5 Great Plains shareholders and provide value to the
6 a Aquila shareholders by owning Great Plains.

7 Q. I believe you said for shareholders. Did you mean
8 for stakeholders?

9 A. For stakeholders, yes.

10 Q. How will this transaction create the opportunity
11 for better rates for Aquila and I guess KCPL
12 customers?

13 A. There will be significant synergies bringing the
14 two companies together. For instance, I think the
15 estimate that I recall is \$450 million over ten
16 years. And this will come in all the forms that
17 mergers like this come in. Economies of scale,
18 reduced overhead costs, improved fleet operations.
19 All the different ways that a merger like this can
20 reduce operating costs while maintaining -- in
21 fact while improving service.

22 Q. How will quality of service be improved?

23 A. Both companies have operating practices, how they
24 provide quality of service. In some areas KCPL
25 provides processes and practices that produce

1 better results, and in some cases Aquila's do. We
2 take the best practices from both and thereby
3 improve the service to customers.

4 Q. Can you identify any specific processes at Aquila
5 that are better than those at KCPL?

6 A. Well, I mean I think one example -- and I am not
7 familiar with all the processes. But one example
8 would be in the operation of our gas -- their gas
9 combustion turbines. They have a lot more
10 experience in that than we do. We have some
11 combustion turbines where we will be able to
12 benefit from that.

13 Q. On the flip side, what practices does KCPL have
14 that are better than Aquila?

15 A. I think we have a service reliability track record
16 that points to the fact that our process and
17 practices for tracking outages, responding to
18 outages, making investments to prevent outages,
19 has produced better results. So that's an example
20 where I think KCPL's practices would be better.

21 Q. What is the relationship between Great Plains
22 Energy, Inc. and Kansas City Power & Light
23 Company?

24 A. Great plains is a holding company. KCPL is a
25 subsidiary.

1 Q. What does that relationship mean?

2 A. Well, it means that Great Plains is the ultimate
3 owners of the KCPL asset. And that KCPL
4 management is charged with operating KCPL to
5 benefit the four stakeholders that I talked about.

6 Q. Does Kansas City Power & Light Company provide
7 utility services to customers in Missouri and in
8 Kansas?

9 A. Yes.

10 Q. Does Great Plains Energy, Inc. provide any utility
11 services?

12 A. Not to my knowledge.

13 Q. What is the business purpose of Great Plains
14 Energy?

15 A. It is a holding company. It has operating
16 subsidiaries. Kansas City Power & Light is one.
17 Strategic Energy is another.

18 Q. Does it have any other subsidiaries?

19 A. It does not have any other operating subsidiaries.
20 It has other investments. It has housing, low
21 income housing, investments.

22 Q. What is the business purpose of Strategic Energy?

23 A. The business purpose is to assist industrial and
24 commercial customers in the acquisition of energy
25 in states where the market is deregulated.

1 Q. Does Strategic Energy engage in any regulated
2 utility operations?

3 A. It does not.

4 Q. What are your job duties relative to Kansas City
5 Power & Light Company's Missouri utility
6 operations?

7 A. I am Chairman of the Board, Kansas City Power &
8 Light. And in that capacity my primary
9 responsibility is the long-term strategy, and to
10 make sure that the talent is developed within the
11 organization to provide future leadership. And to
12 make sure, as I said before, that the stakeholders
13 are all provided maximum value.

14 Q. Before we get too far along I should tell you that
15 if at any point you want to take a break in the
16 deposition, just let me know and we will take one.

17 A. Sure.

18 Q. I'm sure the other people in the room will do so
19 if they feel the need.

20 MR. WILLIAMS: Also I think we should go
21 around the room and identify who is here, so
22 the record will be clear as to who is
23 attending this deposition. I am Nathan
24 Williams, I am an attorney for the Missouri
25 Public Service Commission and I am of course

1 deposing you.

2 MR. SCHALLENBERG: I am Bob Schallenberg
3 with Missouri Commission Staff.

4 MR. KLIETHERMES: Sarah Kliethermes,
5 attorney for Missouri Commission Staff.

6 MR. WOODSMALL: David Woodsmall
7 representing Ag Processing, SIUA and Prax
8 Air.

9 MR. EMPSON: Jon Empson with Aquila.

10 MS. PARSONS: Renee Parsons, attorney
11 for Aquila.

12 MR. RIGGINS: Bill Riggins representing
13 Great Plains Energy, Kansas City Power &
14 Light.

15 MR. BLANC: Curtis Blanc, Great Plains
16 Energy, Kansas City Power & Light.

17 MR. GILES: Chris Giles, Kansas City
18 Power & Light.

19 MR. MILLS: Lewis Mills, Missouri Public
20 Counsel.

21 MR. ZOBRIST: Karl Zobrist, outside
22 counsel to Great Plains Energy and Kansas
23 City Power & Light Company.

24 MR. WILLIAMS: Thank you.

25 Q. (By Mr. Williams) Who determines when Kansas City

1 Power & Light Company will file a rate case in
2 Missouri?

3 A. There is a strategy team that consists of the CFO
4 of KCPL, the CEO of KCPL, and the heads of the
5 operating groups, who take a look at the long-term
6 financial projections. They make a recommendation
7 to me. I approve it and I advise the Great Plains
8 board.

9 Q. Who makes the ultimate decision?

10 A. I make the ultimate decision as Chairman of the
11 Board.

12 Q. Who is the CFO of KCP&L?

13 A. Terry Basham.

14 Q. Who is the CEO of KCP&L?

15 A. Bill Downey.

16 Q. Who are the heads of the operating groups and what
17 are the operating groups?

18 A. I would say John Marshall is head of delivery.
19 Steve Easley is head of generation. Barbara Curry
20 is head of human resources. I believe that's it.

21 Q. Who determined that KCP&L -- or Kansas City Power
22 & Light Company should file its last rate case
23 that was docketed as ER-2007-0291 in Missouri?

24 A. That was filed when?

25 Q. It should have been filed in 2006 or 2007.

1 MR. ZOBRIST: I think it was in
2 February.

3 A. February of 2007. We used that process that I
4 just talked about.

5 Q. (By Mr. Williams) Did Great Plains Energy engage
6 in any discussions about Aquila filing a rate case
7 on the heels of its last rate case, ER-2007-0004
8 in Missouri, in connection with Great Plains
9 Energy acquiring Aquila?

10 A. At the time that Aquila was being acquired, this
11 time last year into January, there was discussion
12 of a number of options as to how we would make
13 sure that the earning stream was sufficient to
14 maintain the investment grade credit. One of the
15 options that was looked at, to my understanding,
16 was having Aquila file a rate case in 2007. And
17 ultimately it was decided that wasn't necessary.

18 Q. Were you personally involved in those discussions?

19 A. I was not directly involved. I was advised of the
20 discussions.

21 Q. Were those discussions just internally within
22 Great Plains Energy or were there discussions
23 between Great Plains Energy and Aquila?

24 A. I believe that there was discussions back and
25 forth between the two companies, as is typical

1 when you are trying to make sure that you have a
2 plan that will allow you to achieve investment
3 grade credit for the surviving company. Certainly
4 that is important for their shareholders as well
5 as our shareholders.

6 Q. Have you been involved in utility mergers in the
7 past?

8 A. I have.

9 Q. What was the nature of your involvement in those
10 mergers?

11 A. I was the chief operations officer of Atlantic
12 Energy, headquartered in Atlantic City, New Jersey
13 at the time they merged with Delmarva Power. And
14 I was the CEO of the energy unit of GPU,
15 headquartered in Reading, Pennsylvania. Actually
16 GPU corporate was headquartered in Morristown. GPU,
17 the energy unit, was in Reading at the time that
18 they were acquired by First Energy.

19 Q. Have you been involved in any other merger
20 activity aside from this case and what you just
21 mentioned?

22 A. No. I will say that I believe that I gained
23 significant experience in both of those cases that
24 were able to apply to this merger. Particularly
25 in the area of identifying -- being rigorous in

1 identifying synergies, and being rigorous in
2 reaching out and engaging the employees of the
3 company that is being acquired to assure a smooth
4 transition.

5 Q. Did you have any other involvement with regard to
6 those mergers than what you just related?

7 A. Well, yeah. I was involved in the actual planning
8 of the integration in both cases. I served on --
9 in both cases I served on the executive steering
10 team and oversaw plans for integrating the
11 operations and the support functions and plans for
12 hiring the employees, identifying the employees
13 that would go into the combined company. I was
14 also responsible for the operation of the
15 companies while they were being acquired during
16 the transition process.

17 Q. Have you ever been involved in any utility merger
18 activity in Missouri prior to this case?

19 A. I have not.

20 Q. Do you know what Aquila was called before it
21 changed its name to Aquila?

22 A. Well, I think it had a lot of names. There are a
23 lot of subsidiaries. The electric operations I
24 think was called Missouri Public Service.

25 Q. Do you know if Aquila was immediately precedingly

1 called Utilicorp United, Inc.?

2 A. Okay. I do know that.

3 Q. Do you know if Kansas City Power & Light Company
4 and Utilicorp United, Inc. ever attempted to merge
5 in the past?

6 A. I read about it.

7 Q. Do you know whether that merger was accomplished?

8 A. I say it wasn't accomplished.

9 Q. Do you know why it wasn't accomplished?

10 A. I know very little of the details about it. I
11 mean, it was very complex. And frankly I haven't
12 spent a lot of time getting into the details of
13 that.

14 Q. So your answer is you don't know?

15 A. The answer is I don't really know.

16 Q. Are Kansas City Power & Light's rates to its
17 customers in Missouri higher today than they would
18 have been had KCP&L or Kansas City Power & Light
19 Company merged with Utilicorp?

20 A. I don't know the answer to that.

21 Q. Are you aware of the merger between Aquila and St.
22 Joseph Light & Power Company?

23 A. I am aware of that.

24 Q. Do you know if there were any difficulties after
25 that merger closed in terms of the operations and

1 integration of those two companies?

2 A. I don't know if there were or not.

3 Q. Do you know if that merger occurred between Aquila
4 and St. Joseph Light & Power Company before Kansas
5 City Power & Light Company was acquired by Great
6 Plains Energy?

7 MR. ZOBRIST: Let me just object. It
8 lacks foundation. You may go ahead and
9 answer.

10 A. I don't know. I came on board here in October of
11 2003.

12 Q. (By Mr. Williams) Do you know if Kansas City
13 Power & Light Company made a payment to Utilicorp
14 United because the merger between them did not
15 take place?

16 A. I believe I have heard that. I don't know the
17 amount.

18 Q. Are Kansas City Power & Light Company's rates to
19 its customers in Missouri higher today than they
20 would have been if Kansas City Power & Light
21 Company and Utilicorp had merged?

22 A. I don't know the answer to that.

23 Q. Are Aquila's rates to its customers today higher
24 than they would have been if Utilicorp and Kansas
25 City Power & Light Company had merged?

1 A. I don't know the answer to that.

2 Q. Was Kansas City Power & Light Company's bond
3 rating higher at the time of the merger that did
4 not close than it is today?

5 A. I don't know the answer to that.

6 Q. Do you know if Aquila's bond rating was higher at
7 the time of that failed merger than it is today?

8 A. I don't know the answer to that.

9 Q. As a general proposition, is it true that only
10 after a merger is consummated and the new company
11 has a history of operations, appropriate rates can
12 be set in the context of a merger?

13 A. Would you repeat that one more time.

14 Q. I will probably not be able to. I will probably
15 end up rephrasing it?

16 A. That's okay.

17 MR. ZOBRIST: It might be better.

18 Q. (By Mr. Williams) Do you agree that only after a
19 merger is consummated and the merged entity has a
20 history of operations can appropriate rates then
21 be set?

22 MR. ZOBRIST: Objection, vague and
23 ambiguous.

24 A. I don't think I agree with it. I think it could
25 be possible to set rates and then refine them as

1 more experience comes in.

2 Q. (By Mr. Williams) Were you involved in the
3 development of any material that was presented to
4 Aquila's Board of Directors regarding the
5 acquisition of Aquila by Great Plains Energy?

6 A. I oversaw the development of the material.

7 Q. Did Great Plains Energy initially insist that --

8 A. Just to clarify. Are you talking about the -- I
9 mean there was lots of material provided to
10 Aquila's Board of Directors that I was not
11 involved in. There was one occasion where I met
12 with the Board of Directors and we provided a
13 handout that I oversaw the development of. That
14 was the only time I was involved in any material
15 that was presented to the Board of Directors. I
16 just want to be clear on that.

17 Q. Did Great Plains Energy initially assist that
18 Aquila file a rate case to implement elements of
19 Great Plains Energy's regulatory plan as a
20 condition of its acquisition of Aquila?

21 A. I don't believe that was the case. I believe we
22 were looking at options, but I don't believe we
23 insisted that they follow through on any
24 particular option.

25 Q. So it was never a required condition?

1 A. I don't believe it was.

2 Q. If the acquisition of Aquila was going to produce
3 significant cost savings, why would there have
4 been a need for a rate increase case by Aquila in
5 connection with the merger?

6 MR. ZOBRIST: Objection, calls for
7 speculation. Go ahead.

8 A. I would say that the -- my view of that would be
9 the savings from the merger developed out over
10 many years, and the decision around a rate case
11 revolves around cash level requirements for a
12 given year. I think the two are aligned.

13 Q. (By Mr. Williams) Why was it that Great Plains
14 Energy proposed that Aquila file a rate increase
15 case in connection with the acquisition of Aquila?

16 A. Well, I think, as I said before, we identified
17 that as one possible strategy. But in the end
18 what we were interested in was maintaining
19 investment grade credit rating. Maintaining cash
20 flow through maintaining investment grade credit
21 rating. So we were looking at which strategies
22 were necessary. That was one possible. What kind
23 of financing was being done still hadn't been
24 identified at that point. Aquila's success in
25 their current rate case still hadn't been

1 determined. So we were looking at the possible
2 options to maintain their credit rating. That was
3 one of the possible options that didn't get
4 followed through on.

5 Q. Why was that option not followed through on?

6 A. It wasn't needed to maintain their investment
7 grade credit rating.

8 Q. Did you personally engage in any discussions with
9 anyone at Aquila regarding the filing by Aquila of
10 a rate case in connection with the acquisition of
11 Aquila?

12 A. I don't recall personally engaging in that
13 discussion.

14 Q. Who at Great Plains Energy would have engaged in
15 those discussions?

16 A. It would have most likely have been the person who
17 was leading the acquisition effort, which was our
18 chief financial officer.

19 Q. Who is that?

20 A. Terry Basham.

21 Q. Do you know who at Aquila he would have been
22 speaking with?

23 A. I don't really. There are a number of possible
24 people there that were involved in it. I don't
25 know who.

1 Q. Are you familiar with the term regulatory
2 amortization?

3 A. I have familiar with the term, yes.

4 Q. What does that term mean to you?

5 A. It means to me that sometimes an asset can be --
6 when I think of regulatory amortization, I think
7 of accelerated depreciation. They are similar in
8 concept. The purpose of a regulatory amortization
9 is to achieve cash flow during times of
10 construction in order to maintain credit ratings.
11 But then of course the consequence is in the
12 latter years the utility doesn't earn as much on
13 that asset.

14 Q. Regarding the agreement between Great Plains
15 Energy and Aquila for Great Plains Energy to
16 acquire Aquila, do you agree that the Commission
17 is not a party to that agreement?

18 A. I do.

19 Q. And do you agree that parties who do not sign that
20 agreement are not bound by it?

21 A. I do.

22 Q. Have you ever seen an instance where a commission
23 has the authority to impose upon parties positions
24 they must agree to in a future case before that
25 commission?

1 A. Have I ever seen an instance where -- say that one
2 more time.

3 MR. WILLIAMS: I will have the court
4 reporter read it back.

5 (The pending question was read.)

6 A. Impose upon. I am trying to understand the
7 question. Can you give me an example? That might
8 help me understand the question.

9 Q. (By Mr. Williams) Well, if a commission, for
10 instance, were to tell Kansas City Power & Light
11 Company that you can't come in and seek an ROE in
12 excess of 8.5 percent in your next rate case.
13 Have you ever seen an instance where the
14 commission would have the authority to do that?

15 MR. ZOBRIST: The question, the way he
16 is phrasing it is not asking for your legal
17 opinion, but just whether you have ever seen
18 a situation like that.

19 A. I am just trying to answer honestly. I don't. I
20 don't think that I have seen that.

21 Q. (By Mr. Williams) Do parties in rate cases
22 typically oppose positions they believe are not
23 appropriate?

24 A. I guess they oppose positions for all kinds of
25 reasons. I wouldn't speculate on their motive.

- 1 Q. Do you know if Great Plains Energy scheduled any
2 meetings with parties to initiate a collaborative
3 approach to develop a regulatory amortization for
4 Aquila in connection with the acquisition of
5 Aquila by Great Plains Energy?
- 6 A. So this would cover the time frame following the
7 announcement of the merger up to now. The process
8 of how we are -- this process of us asking for
9 amortization and other things, have we been
10 collaborative in that process, is that the
11 question?
- 12 Q. Well, I asked whether or not Great Plains Energy
13 had scheduled any meetings to engage in a
14 collaborative process?
- 15 A. During the -- I am just wondering what the time
16 frame of the question is. Was that before the
17 merger -- the acquisition -- the intent to acquire
18 was announced or after the intent to acquire?
- 19 Q. I have not limited it in time frame.
- 20 A. Before we didn't. Afterwards we have been engaged
21 with the Staff of the Commission to look for ways
22 to settle rather than take it to full Commission.
23 Actively engaged over the last several months.
24 And certainly would be open to any and all
25 approaches to doing that. So I think the first

1 step for us was to engage with the Staff and the
2 Commission to try to come up with a framework
3 where we could agree on a settlement. And happy
4 to include all parties that would be interested in
5 that.

6 Q. But has Great Plains Energy set up or scheduled
7 any meetings that would involve all parties in the
8 case, not just the Staff?

9 A. To my knowledge I don't know whether we have or
10 not.

11 Q. Wouldn't that be required for a collaborative
12 approach to develop a regulatory amortization?

13 A. Well, I mean, my recollection of how things worked
14 the last time was, we agreed with the Staff on a
15 direction to get a collaborative approach done.
16 Whereas we agreed this would be appropriate to
17 bring these people in, bring a group around the
18 table to talk things out. I don't think we got
19 the sense from the Staff that they were open to
20 collaboration and settlement. That is the
21 understanding I have. I am just telling you the
22 impression that I have. I don't have detailed
23 knowledge of that.

24 Q. When you referenced "the last time", were you
25 referring to Kansas City Power & Light Company's

1 Comprehensive --

2 A. Yes.

3 Q. -- Energy Plan?

4 A. Uh-huh.

5 Q. Which I believe the Commission has called the
6 KCP&L Experimental Regulatory Plan?

7 A. I don't know. But again, I would like to
8 emphasize. I am a big believer in collaboration.
9 And I would -- we stand ready to collaborate with
10 all parties at this stage on all of these issues,
11 if parties are open to doing it. It doesn't make
12 sense if there doesn't seem to be the potential
13 for a collaborative outcome.

14 Q. Do you know if in Missouri Kansas City Power &
15 Light Company agreed not to use a fuel adjustment
16 mechanism during the term of what I believe you
17 have called the Comprehensive Energy Plan?

18 A. I believe that's true.

19 Q. Did that plan provide for a regulatory
20 amortization?

21 A. Yes, it did.

22 Q. Do you know if Aquila has a fuel adjustment
23 mechanism?

24 A. I believe they do.

25 Q. Do you know if Aquila will agree to terminate its

1 fuel adjustment mechanism if the Commission
2 imposes an amortization on the parties in Aquila's
3 future rate cases?

4 A. I don't know.

5 Q. Do you know how many entities competed with Great
6 Plains Energy to acquire Aquila during the
7 negotiation process?

8 A. I don't know exactly. I think there were five.

9 Q. How did Great Plains Energy determine the price it
10 was willing to pay for Aquila's stock?

11 A. We took a look at what the financial benefits
12 would be of the combination. We took a look at
13 what we thought would be fair regulatory treatment
14 in the area of amortization interest coverage and
15 share savings. And we developed projections that
16 we felt would fairly compensate our shareholders
17 for the added risk they would be taking on in the
18 merger. And we used that to develop a price.

19 Q. Do you have any reason to believe that Aquila was
20 not attempting to achieve the highest price and
21 best terms it could obtain for its stock during
22 the negotiation process?

23 A. None.

24 Q. When did Great Plains Energy first begin looking
25 at the prospect of acquiring Aquila?

1 A. Aquila's process began I believe in June of '06,
2 with an investment banker we were made aware that
3 we could -- we were welcome to engage in that
4 process. That's where it began.

5 (Exhibit Number 26 was marked.)

6 Q. (By Mr. Williams) I am handing you what has been
7 marked as Exhibit Number 26. Do you recognize
8 that exhibit?

9 A. I guess it was July then.

10 Q. I'm sorry?

11 A. I guess it was July. I mean it was in the
12 June-July time frame, yeah.

13 Q. Do you recognize the exhibit?

14 A. I do recognize the exhibit, yeah.

15 Q. Is it a memorandum that you received as Chairman
16 of the Board?

17 A. Yes, it is.

18 Q. Who sent that memorandum?

19 A. It came from our CFO Terry Basham.

20 Q. Who supervises Mr. Basham?

21 A. I do.

22 Q. Turning to the second page of the last paragraph.

23 A. Uh-huh.

24 Q. Would you take a look at that. Is there not a
25 statement there to the effect that regulators are

1 extremely negative about Aquila's strategy and
2 decision making?

3 A. That's what it says.

4 Q. Do you agree with that statement as of the date of
5 that memorandum?

6 A. I would say that was my sense at the time.

7 Q. What time was that?

8 A. This was July of '06.

9 Q. Is that your sense today as well?

10 A. I think I don't have a sense today. I mean we
11 have been pretty much focused on how the two
12 companies are going to come together. I don't
13 have a sense of how they are considered on a
14 stand-alone basis.

15 Q. What was the basis for your sense back in July of
16 2006?

17 A. My sense was that they, Aquila had had some
18 financial troubles that potentially could have
19 impacted their customers. Their rates were higher
20 than ours. Our reliability statistics were
21 better.

22 Q. That same paragraph, let me take a look at that.
23 There is a statement to the effect that regulators
24 had openly inquired about a possible transaction
25 involving Aquila. Does that statement not appear

1 there?

2 A. Yes.

3 Q. Can you identify the regulators that are referred
4 to in that sentence?

5 A. The indication that rings true to me is it had
6 been reported to me that in conversations with the
7 Staff of the Commission, the Staff had asked about
8 when Great Plains was going to combine with Aquila
9 or take over Aquila in order to provide better
10 financial -- better rates and better service.
11 Yeah, I don't have a specific time or place. That
12 was a sense that I had at the time, was that those
13 kinds of conversations were taking place.

14 Q. And which Commission Staff were you referring to?

15 A. I think there were multiple members of the staff.
16 I don't think there was any -- it was limited to
17 just one. So it wasn't a specific conversation, a
18 specific person. A general tone was, when are you
19 guys going to take over?

20 Q. Are you referring to Missouri Commission Staff?

21 A. Missouri Commission Staff.

22 Q. Kansas Corporation Commission?

23 A. Missouri Commission Staff.

24 Q. What time frame would that have been at?

25 A. It would have been the time preceding this. I

1 have been here since October of '03. So between
2 October '03 and this time. I would hear reports
3 of that interest as being in the best interests of
4 the rate payers of Aquila and the utilities of
5 western Missouri.

6 Q. Did Great Plains Energy document any of those
7 inquiries or the contents thereof?

8 A. To my knowledge we did not.

9 Q. If you turn to the third page of that exhibit.
10 There are listed out a series of regulatory
11 assumptions. Do you see that?

12 MR. ZOBRIST: Which paragraph?

13 Q. (By Mr. Williams) I believe it is the first
14 paragraph.

15 A. First paragraph. I see it.

16 Q. What role if any did you play in the development
17 of the regulatory assumptions that are set out in
18 that paragraph?

19 A. They were developed under my oversight.

20 Q. Did you ultimately approve all of those
21 assumptions?

22 A. Yes.

23 Q. What was the basis for the assumption that Aquila
24 would receive the same credit protection that
25 KCP&L receives through the amortization

1 protection?

2 A. This all comes back to the statement I made
3 before, which is we assumed in our model what we
4 thought would be fair regulatory treatment. We
5 thought that it would be in everybody's best
6 interest for Aquila to be able to make investments
7 that served their customers in a growing service
8 area, and that they would need the same kind of
9 amortization that KCP&L needs to maintain its
10 credit rating.

11 Q. Did Great Plains Energy engage in any
12 collaborative process with impacted parties to
13 develop an agreement for an Aquila amortization?

14 A. As I said earlier, we would have been and would be
15 happy to collaborate on all these items. Our
16 sense was that there was not the potential for
17 common ground.

18 Q. Have you sought or obtained input from any of the
19 parties to the Kansas City Power & Light Company
20 Experimental Regulatory Plan in Missouri regarding
21 what can be considered to be the good and bad
22 features of the merger proposal?

23 A. I have not. No.

24 Q. Has anyone at Great Plains Energy?

25 A. I don't know.

- 1 Q. Why not?
- 2 A. Why do I not know? Or why have I not --
- 3 Q. Why did you not solicit their input?
- 4 A. I am saying I don't know if it was or not.
- 5 Q. You said you haven't personally?
- 6 A. I have not personally, and I don't know if the
- 7 input has been solicited.
- 8 Q. Did you direct anyone at Great Plains Energy to
- 9 solicit that input?
- 10 A. I did not.
- 11 Q. Why did you not request that that input be
- 12 solicited?
- 13 A. You know, that's a detail of the regulatory
- 14 proceedings that I don't get involved in. But I
- 15 will go back to the statement that I made earlier,
- 16 that had I believed that we had potential for
- 17 common ground and a regulatory settlement, that I
- 18 would have encouraged people to reach out and
- 19 include all possible parties that would be
- 20 affected by that. The feedback I was getting is
- 21 that that potential for common ground didn't exist
- 22 and the process would not be fruitful.
- 23 Q. When did you get that feedback?
- 24 A. I have got it continuously since from the time we
- 25 made the merger -- from the time we made the

1 acquisition announcement up until today. Up until
2 current discussions on possible settlement.

3 Q. How have you gotten that feedback?

4 A. I have gotten it from my people who deal with the
5 Staff of the Commission.

6 Q. In particular who?

7 A. Well, I mean, Chris Giles is the person who has
8 primary responsibility for Commission relations.

9 Q. Has there ever been a meeting of all interested
10 parties in Missouri to discuss GPE's view of the
11 proposed acquisition of Aquila?

12 A. I don't know.

13 Q. Back to the third page, the first paragraph of
14 Exhibit 26.

15 A. Uh-huh.

16 Q. That memo indicates that regulators response to
17 the plan and its concepts will be critical to
18 Great Plains Energy final evaluation of the
19 transaction. What regulators were being referred
20 to in that passage?

21 A. The regulators in Kansas and Missouri.

22 Q. Would that be commissioners, staff or both?

23 A. Yes. Both.

24 Q. Does that memorandum indicate that meetings with
25 regulators will greatly impact GPE's final

1 evaluation and bid proposal that would be
2 presented to Great Plains Energy's board?

3 A. It indicates it would be critical to our final
4 evaluation.

5 Q. Would that input influence how high a price Great
6 Plains Energy would offer for Aquila's stock?

7 A. I think it would -- I'm not sure I would relate it
8 directly to price. What we are most concerned
9 about here is to validate our belief that there
10 wasn't going to be any major objections. Because
11 we had not been able --

12 Our commitment is always to advise the
13 regulators as early in the process as we possibly
14 can what we are considering, to make sure there
15 isn't any major objections to a direction.
16 Because sometimes people feel differently than we
17 thought they would based on conversations that you
18 had previously. So our main concern here was to
19 calibrate and make sure there weren't going to be
20 major objections.

21 Q. Well, you have indicated that you didn't engage in
22 a collaborative process because you were getting I
23 believe negative feedback from the staff. So --

24 A. That's why I was key about the timing. In other
25 words, this is an important point. We didn't

1 engage in a collaborative process prior to our
2 announcement because we were precluded from doing
3 that with the confidentiality agreements that we
4 signed and the whole competitive bid process. So
5 it wasn't possible to collaborative before.

6 We did get agreement from Aquila to be
7 able to talk to the rate payers as you expect to
8 do just before the announcement, just before the
9 final agreement is signed, to make sure that they
10 weren't surprised and that they understood the
11 complexity of the deal. Because here we had a
12 case where gas properties were going to Black
13 Hills and electric properties were coming to us.
14 Make sure they understood the parameters of the
15 deal. And to make sure that there weren't any
16 major objections that we weren't aware of. That
17 was the earliest possible point in which we were
18 able to talk to the regulators.

19 Subsequent to the announcement, was when
20 we were getting -- we began to engage with the
21 staff about how could we settle this. And we
22 didn't believe, in those discussions, that there
23 was a potential for common ground.

24 Q. Before the announcement was made, did you get any
25 feedback that there were major objections from any

1 of the staff or commissioners of the K.C.C. or the
2 Missouri Public Service Commission?

3 A. We had a meeting with the regulators and the
4 staff, the commissioners and the staff. We went
5 down one day and met with commissioners and we met
6 with the staff to lay out the deal. And we did
7 not get a sense that there were any major
8 objections. We had no -- we got into no details,
9 no specifics. We got no commitments. We got the
10 sense that the devil is in the detail, but
11 conceptually it was a good thing. And
12 conceptually it would be better for Aquila to be
13 acquired by a utility from within the state than a
14 utility from outside the state. That is the sense
15 that I got.

16 Q. You said that we met with regulators. Who was it
17 that met with regulators?

18 A. I believe it was Bill Downey, myself and Chris
19 Giles.

20 Q. When was that meeting, let's say with the Missouri
21 commissioners? Or Missouri regulators?

22 A. I believe it was in mid January.

23 Q. And who was it that you met with specifically?

24 A. We met with I believe each of the commissioners
25 and key members of the Missouri staff.

1 Q. Who would the key members of the Missouri staff
2 be?

3 A. I know Bob was there, Bob Schallenberg was there.
4 I think Wes was there. I can't remember all the
5 folks that were in that meeting.

6 MR. ZOBRIST: Wes Henderson?

7 THE WITNESS: Wes Henderson.

8 Q. (By Mr. Williams) What was it that you told each
9 commissioner and the Commission staff if it was
10 something different?

11 A. We told them that we were going to pursue the
12 acquisition of Aquila. We described the benefits
13 for the four stakeholders that I talked about. We
14 said that we believed that this was -- that KCP&L
15 becoming a strong regional utility was in the best
16 interests of all the stakeholders. And we told
17 them that, you know, we were going to be looking
18 for three primary, what I would call, support
19 mechanisms for the deal. All of which would be
20 market based.

21 We wanted to be able to split the
22 synergies for the first five years and then
23 following that all the savings would go to the
24 customer. We wanted to be able to recover actual
25 interest costs. And because of the significant

1 investment requirements for Aquila, to meet the
2 environmental and load growth in the coming years,
3 we were going to ask to have the same kind of
4 amortization that had enabled us to maintain our
5 credit rating, our investment credit rating made
6 available to them. We asked for no commitment and
7 we received no commitment from either the staff or
8 the commissioners.

9 Q. Anything else?

10 A. No.

11 Q. When you said you met with each commissioner, did
12 you meet with each commissioner individually?

13 A. In some cases individually, in some cases in
14 two's. I believe we met with Jeff Davis
15 individually. There was another situation where
16 we were meeting with one commissioner and another
17 one joined us. I just don't remember exactly how
18 it -- just how we could catch people at the late
19 notice at the office.

20 Q. But you did meet with each of the five Missouri
21 commissioners?

22 A. I believe we did, yes. I believe we touched base
23 with all five.

24 Q. Was there any documentation that was provided to
25 any of the commissioners or Missouri staff?

1 A. No.

2 Q. Did you engage in similar meetings with the
3 members of the Kansas Corporation Commission?

4 A. We did, yes.

5 Q. Was it the same individuals for Great Plains
6 Energy that met with them?

7 A. I believe it was, yes. There might have been --
8 I'm not sure if our Kansas Representative Mary
9 Turner might have been at that meeting as well.

10 Q. Did you meet with each of the members of the
11 Kansas Corporation Commission?

12 A. We did, yes. Individually.

13 Q. Did you present the same information to them as
14 you presented to the Missouri commissioners?

15 A. Yes.

16 Q. Did you get any responses back from any of the
17 Kansas Corporation commissioners?

18 A. No, other than that they appreciated being
19 informed of the deal. They would have to look at
20 it.

21 Q. Did Great Plains Energy indicate in its bid to
22 purchase Aquila that it would seek input from
23 regulators before it would finalize an agreement
24 to acquire Aquila?

25 A. I want to make sure I got that exactly right. I

1 hate to ask you to keep repeating the question.

2 Q. Did Great Plains Energy indicate in its bid to
3 purchase Aquila, that it would seek input from
4 regulators before it would finalize an agreement
5 to acquire Aquila?

6 A. And you say, in our bid did we --

7 Q. Yes.

8 A. -- indicate that? I mean, I know, as I said to
9 you before, my intent was to make sure that there
10 wasn't any major objections that we weren't aware
11 of. And I'm not sure what form that manifested
12 itself. Obviously it was in a note to the Board.
13 That was our intent. I'm not sure where it was
14 written. You would have to give me more
15 specifics.

16 Q. When did Great Plains Energy submit its bid to
17 acquire Aquila?

18 A. I believe it was in -- I really don't have the
19 timeline in my mind of when all the documents went
20 in. I believe it was in this January time frame.

21 Q. January of?

22 A. 2007. It all depends on what bid. I mean we had
23 a non-binding bid that was earlier, and then we
24 had a final binding bid. The whole series of bids
25 that went in.

1 Q. When did Great Plains Energy first become aware
2 that the Missouri staff had opposition to aspects
3 of the acquisition of Aquila by Great Plains
4 Energy as proposed in the filing made in this
5 case?

6 A. I think when we began talking to the staff
7 following the announcement.

8 Q. In connection with the merger acquisition, have
9 you ever seen a condition that the acquiring
10 entity has imposed of obtaining informal
11 indications from a state commission that there
12 will be significant retention of merger synergies
13 before entering into a definitive agreement to
14 acquire the utility?

15 A. I have not seen that.

16 Q. Have you ever seen a condition where the buyer has
17 required any formal indications from a state
18 commission that there will be an extension of a
19 regulatory compact before the buyer is willing to
20 enter into a definitive agreement with the entity
21 to be acquired?

22 A. I have not seen that.

23 Q. Do you know if Great Plains Energy ever
24 represented to Aquila that Great Plains Energy has
25 the capability to obtain the most favorable

1 regulatory treatment possible with regard to the
2 acquisition of Aquila by Great Plains Energy?

3 A. I believe we did make that relative to our
4 competitors.

5 Q. What was the basis for that statement?

6 A. The basis had been our track record in Missouri.
7 We had developed a reputation for low cost, good
8 service. And that had been -- that resulted in us
9 being treated fairly in the regulatory process.

10 Q. Did Great Plains Energy's estimate of the
11 synergies that would result from acquiring Aquila
12 influence the price that Great Plains Energy
13 offered for Aquila stock?

14 A. As I said, we put together a business model that
15 made assumptions around lots of things, including
16 the synergies. The combination of all of those
17 assumptions that you do in any acquisition led to
18 what the price offer was. And the assumptions we
19 made we thought were market based. It is typical
20 across the industry that savings would be shared
21 for the first five years. We also got advice from
22 -- with investment advisers around those
23 assumptions.

24 Q. But my question to you was what that estimate of
25 the synergies -- with the estimate of the

1 synergies used, did that influence the price Great
2 Plains Energy offered for Aquila's stock? In
3 other words, if that estimate were changed, would
4 that have affected the price that would have been
5 offered?

6 A. That is hard for me to say, because there are so
7 many different assumptions built into it. And
8 there are so many different ranges of possible
9 outcomes. If you change that one factor, would
10 that have resulted in a different price? I'm not
11 sure. It certainly would have a negative weight,
12 but whether it would actually result in a change
13 in the price or not, I honestly -- I think that is
14 speculation. There is just so much else that goes
15 in. So many other assumptions that go into that
16 assessment.

17 Q. If shareholders retain more merger savings, what
18 impact if any would that have on customer rates?

19 A. If shareholders -- I would say that would --
20 customer rates -- let me say this the right way.
21 The customer savings wouldn't be as high during
22 that five-year period, but they would benefit
23 completely in perpetuity beyond that five years.

24 Q. Can Great Plains Energy, Kansas City Power & Light
25 Company assure that the projected synergy

1 estimates will be met or exceeded within or
2 earlier than the time frames provided and the
3 testimony of those applicants that was filed in
4 this Case EM-2007-0374?

5 A. We have a high level of confidence that they will
6 be achieved for a number of reasons. Number one,
7 they were developed by teams of employees from
8 both sides, getting into extreme detail, which I
9 believe our witnesses have said they haven't seen
10 the parallel of.

11 Number two, we have officers, the
12 officers of the new organization who are signed up
13 for those savings, committed to achieving and
14 recognizing that they will be held accountable to
15 achieving those savings. These are just not
16 theoretical. Sleeves were rolled up, details were
17 looked at.

18 We also have the outside view from
19 experts who looked at savings that have come out
20 of other utilities. And their assessment, as I
21 recall, was that these are relatively conservative
22 estimates. That there is a strong chance that we
23 will exceed those estimates. So for those reasons
24 I believe we have a high probability of achieving
25 them.

1 Q. When you said a high level of confidence or a high
2 level of probability, can you assign a percentage
3 to that?

4 A. Well, if I were rolling craps on the table in
5 Vegas right now, I would say 90 percent. That is
6 just my own -- that is not a scientific number.
7 That is my own personal assessment from all that I
8 have heard that has gone into these estimates.

9 (Exhibit Number 27 was marked.)

10 Q. (By Mr. Williams) I am going to hand you what has
11 been marked as Exhibit Number 27. What is that
12 exhibit?

13 A. This is a -- this is our final non-binding bid for
14 Aquila.

15 Q. Is that the entirety of the bid or is that just
16 the cover letter?

17 A. That was the cover letter. What else do you want
18 me to say?

19 Q. Let me take a look at it. Who authored that
20 letter?

21 A. This was prepared for my signature. I believe it
22 was by Terry Basham.

23 Q. Would you turn to Page 2 and look at Item Number
24 5.

25 A. Okay.

1 Q. And what is the date of that letter?

2 A. November 15th, 2006.

3 Q. Was there a statement made in that letter that
4 Great Plains would utilize a collaborative
5 approach with the parties in seeking Commission
6 approval of Great Plains Energy's acquisition of
7 Aquila?

8 MR. ZOBRIST: Objection, lack of
9 foundation.

10 A. I don't see that statement in here. Maybe I am
11 not reading it right.

12 Q. (By Mr. Williams) Let me take a look at this.

13 A. I think the collaborative approach refers to our
14 past collaborative approach. I don't think it
15 makes a commitment on how we are going to proceed.

16 Q. Do you know why there was a reference to the
17 collaborative approach that was used in connection
18 with KCP&L in that final non-binding bid letter?

19 A. I think we were relating the success of our recent
20 efforts in developing the comprehensive energy
21 plan.

22 Q. Has Great Plains Energy used a collaborative
23 approach to any aspect of the acquisition of
24 Aquila by Great Plains Energy?

25 A. I believe we utilized the beginning of a

1 collaborative approach when we worked with the
2 staff to try to establish potential for common
3 ground. As I say, the collaborative approach only
4 works if you see that there is a potential for
5 common ground, particularly with the staff. We
6 saw that in the comprehensive energy plan there is
7 a potential for common ground. We moved ahead to
8 develop a fully comprehensive collaborative
9 approach. We did not see that here.

10 Q. Do you know how the Missouri Commission has
11 typically treated the retention of synergies and
12 mergers?

13 A. I don't. I know that nationwide typically the
14 distribution is 50/50 for a period of time. Three
15 years, five years.

16 Q. Have you interacted with Mr. Green of Aquila
17 before the negotiations and culmination of the
18 agreement for Great Plains Energy to acquire
19 Aquila?

20 A. I had a meeting with him in the spring of 2006
21 when I inquired of his interest in being acquired
22 by Great Plains or somehow integrating the two
23 electric operations. There was no specific
24 proposal, there was just an exploratory
25 discussion. And he advised me that they were

1 considering a formal process, and I would likely
2 be hearing something about the formal process in a
3 couple months. That's the only discussion I had
4 with him ahead of that.

5 Q. Aside from the acquisition itself, have you had
6 any dealings with Mr. Green?

7 A. We serve on the board of the civic council
8 together. Other than that, no.

9 Q. How long have you known Mr. Green?

10 A. I would say I met him sometime in 2004. As I say,
11 I have been here since 2003.

12 Q. Going back to your meeting in the spring of 2006,
13 your informal discussion with Mr. Green, you said
14 you had raised the prospect with him about the
15 acquisition or integration of Aquila. Was that --
16 when you said integration, were you talking about
17 integrating the operations of Kansas City Power &
18 Light Company into Aquila?

19 A. I was exploring with him the potential for
20 integrating the electric systems of Aquila.
21 Missouri Public Service, St. Joe and KCP&L. I was
22 basically asking him, would he be interested in
23 either proposal. I said, "Would you be interested
24 in discussing that?"

25 Q. I am wanting to follow up on what you meant by