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Detriments to  
Ratepayers  
Witness: James R. Dittmer  
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Case No.: EM-2007-0374  
Direct Testimony Date: October 12, 2007

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. EM-2007-0374**

# **PUBLIC VERSION**

**REBUTTAL TESTIMONY**


**OF**

**JAMES R. DITTMER**

**ON BEHALF OF THE**

**MISSOURI OFFICE OF THE PUBLIC COUNSEL**

**Kansas City, Missouri  
October 2007**

“\*\*\*\*” Designates “Highly Confidential” or “Proprietary”  
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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

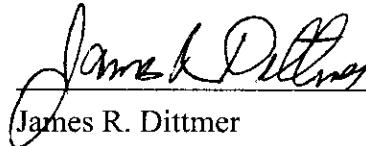
In the Matter of the Application of Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila Inc. with a Subsidiary of Great Plains Energy Incorporated and for Other Requester Relief )  
)  
) Case No. EM-  
) 2007-0374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

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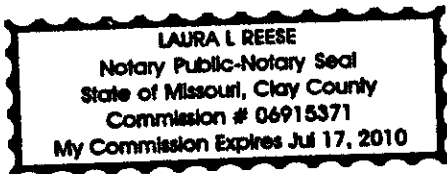
**STATE OF MISSOURI    )**  
**) SS.**  
**COUNTY OF JACKSON    )**


BEFORE ME, the undersigned notary public, this day personally appeared JAMES R. DITTMER, to me known, who being duly sworn according to law, deposes and says:

“My name is JAMES R. DITTMER. I am of legal age and a resident of the State of Missouri. I certify that the foregoing testimony and exhibits, offered by me on behalf of the Missouri Office of the Public Counsel, are true and correct to the best of my knowledge and belief.”

  
James R. Dittmer

SUBSCRIBED AND SWORN to before me, a notary public, on this \_\_\_\_ day of October, 2007.



  
Notary Public in and for the State of Missouri

My Commission Expires:

7-17-2010

## **Table of Contents**

### **Rebuttal Testimony of James R. Dittmer**

I.	Qualifications.....	2
II.	Overview of the Transaction and Proposed Regulatory Plan – Detriment to Ratepayers.....	4
III.	Discussion of Bid Process and Bid Results.....	16
IV.	Purchase Price and Transaction Costs Relative to the Value of Missouri Electric Property Being Acquired.....	18
V.	GPE’s Position Regarding Recovery of Aquila Interest Costs...	23
VI.	Claimed Synergy Savings – Created Versus Enabled.....	27
VII.	Analysis of Other Claimed Synergy Savings.....	35
VIII.	Recovery of Transaction Costs.....	42
IX.	Conditions to Impose to Avoid a Detriment to Ratepayers.....	46

**REBUTTAL TESTIMONY  
OF  
JAMES R. DITTMER  
JOINT APPLICATION OF GREAT PLAINS ENERGY  
INCORPORATED/KANSAS CITY POWER & LIGHT  
COMPANY TO MERGE AQUILA, INC. WITH A  
SUBSIDIARY OF GREAT PLAINS ENERGY  
CASE NO. EM-2007-0374**

**Q. PLEASE STATE YOUR NAME AND ADDRESS.**

A. My name is James R. Dittmer. My business address is 740 Northwest Blue Parkway, Suite 204, Lee's Summit, Missouri 64086.

**Q. BY WHOM ARE YOU EMPLOYED?**

A. I am a Senior Regulatory Consultant with the firm of Utilitech, Inc., a consulting firm engaged primarily in utility rate work. The firm's engagements include review of utility rate applications on behalf of various federal, state and municipal governmental agencies as well as industrial groups. In addition to utility intervention work, the firm has been engaged to perform special studies for use in utility contract negotiations.

**Q. ON WHOSE BEHALF ARE YOU APPEARING?**

A. Utilitech, Inc. has been retained by the Office of the Public Counsel for the State of Missouri (hereinafter “OPC”) to review and respond to the joint application filed by Great Plains Energy (“GPE”), Kansas City Power & Light Company and Aquila, Inc. (hereinafter “joint applicants”) for 1) approval of

1 GPE to acquire Aquila, Inc. stock, which effectively will provide for the  
2 purchase of Aquila's Missouri electric properties, and 2) approval of a  
3 Regulatory Plan wherein GPE/KCPL/Aquila will be allowed to recover over a  
4 five-year period all transaction and transition costs related to the acquisition and  
5 merger.

6  
7 **I. QUALIFICATIONS**

8 **Q. BEFORE DISCUSSING IN GREATER DETAIL THE ISSUES YOU**  
9 **BRIEFLY DESCRIBED ABOVE, PLEASE STATE YOUR**  
10 **EDUCATIONAL BACKGROUND?**

11 A. I graduated from the University of Missouri - Columbia, with a Bachelor of  
12 Science Degree in Business Administration, with an Accounting Major, in 1975.  
13 I hold a Certified Public Accountant Certificate in the State of Missouri. I am a  
14 member of the American Institute of Certified Public Accountants.

15  
16 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

17 A. Subsequent to graduation from the University of Missouri, I accepted a position  
18 as auditor for the Missouri Public Service Commission. In 1978, I was  
19 promoted to Accounting Manager of the Kansas City Office of the Commission  
20 Staff. In that position, I was responsible for all utility audits performed in the  
21 western third of the State of Missouri. During my service with the Missouri  
22 Public Service Commission, I was involved in the audits of numerous electric,  
23 gas, water and sewer utility companies. Additionally, I was involved in

1            numerous fuel adjustment clause audits, and played an active part in the  
2            formulation and implementation of accounting staff policies with regard to rate  
3            case audits and accounting issue presentations in Missouri. In 1979, I left the  
4            Missouri Public Service Commission to start my own consulting business.  
5            From 1979 through 1985 I practiced as an independent regulatory utility  
6            consultant. In 1985, Dittmer, Brosch and Associates was organized. Dittmer,  
7            Brosch and Associates, Inc. changed its name to Utilitech, Inc in 1992.

8  
9            My professional experience since leaving the Missouri Public Service  
10           Commission has consisted primarily of issues associated with utility rate,  
11           contract and acquisition matters. For the past twenty-eight years, I have  
12           appeared on behalf of clients in utility rate proceedings before various federal  
13           and state regulatory agencies. In representing those clients, I performed revenue  
14           requirement studies for electric, gas, water and sewer utilities and testified as an  
15           expert witness on a variety of rate matters. As a consultant, I have filed  
16           testimony on behalf of industrial consumers, consumer groups, the Missouri  
17           Office of the Public Counsel, the Missouri Public Service Commission Staff, the  
18           Indiana Utility Consumer Counselor, the Mississippi Public Service  
19           Commission Staff, the Arizona Corporation Commission Staff, the Arizona  
20           Residential Utility Consumer Office, the Nevada Office of the Consumer  
21           Advocate, the Washington Attorney General's Office, the Hawaii Consumer  
22           Advocate's Staff, the Oklahoma Attorney General's Office, the Oregon Citizens  
23           Utilities Board, the West Virginia Public Service Commission Consumer

1 Advocate's Staff, municipalities and the Federal government before regulatory  
2 agencies in the states of Alaska, Arizona, Colorado, Florida, Hawaii, Indiana  
3 Kansas, Maine, Michigan, Mississippi, Missouri, Nevada, New Mexico, New  
4 York, Ohio, Oklahoma, Oregon, Texas, Washington and West Virginia, as well  
5 as the Federal Energy Regulatory Commission.

6  
7 **II. OVERVIEW OF THE TRANSACTION AND PROPOSED**  
8 **REGULATORY PLAN – DETRIMENT TO RATEPAYERS**

9  
10 **Q. PLEASE BRIEFLY STATE YOUR CONCLUSIONS AND**  
11 **RECOMMENDATIONS REGARDING THE JOINT APPLICANTS'**  
12 **PROPOSED PLAN TO MERGE AND IMPLEMENT A REGULATORY**  
13 **PLAN.**

14 A. I find that the proposed merger along with the attendant rate plan will result in a  
15 detriment to Missouri retail ratepayers, and therefore, I recommend that both the  
16 merger and rate plan be rejected by this Commission. The primary bases for  
17 such conclusion and recommendation include:

- 18 • The joint applicants propose authority to recover transaction  
19 and transition costs related to the merger over a five-year  
20 period. Further, the joint applicants propose that ratepayers  
21 be charged for high cost, non-investment grade interest  
22 expense resulting from Aquila's failed unregulated  
23 operations.

- 1                   • The joint applicants' claimed synergy savings resulting from  
2                   the merger, before adjustment, do not exceed the sum of the  
3                   transaction, transition and incremental interest costs that the  
4                   joint applicants propose to recover in rates over the first five  
5                   years following the merger.
- 6                   • In some instances the claimed synergy savings have been  
7                   overstated. Even after adjusting for known overstatements,  
8                   remaining claimed synergy savings are uncertain relative to  
9                   the hard transaction and transition costs as well as  
10                  incremental interest costs that the joint applicants propose to  
11                  recover from ratepayers.
- 12                  • Without the guarantee of rate recovery of all incremental  
13                  costs associated with the transaction, GPE and KCPL will be  
14                  exposed to downgrades in their credit ratings which would  
15                  also result in a detriment to ratepayers. It does not appear  
16                  possible that adequate conditions could be imposed so as to  
17                  protect ratepayers without creating a risk that GPE and  
18                  KCPL's securities will be downgraded.

19  
20       **Q. PLEASE BRIEFLY SUMMARIZE YOUR UNDERSTANDING OF THE**  
21       **PROPOSED TRANSACTION BETWEEN GPE, KCPL AND AQUILA.**

22       A. The specifics of the transaction, including the multiple ownership and transfer  
23       steps involved in basically selling Aquila, Inc.'s various assets to Black Hills



1 Corporation ("Black Hills") and GPE, are set forth in detail within the  
2 application as well as the direct testimonies filed Messrs. Downey, Cline and  
3 Bassham. The effect of the multiple steps and transactions are that Aquila's gas  
4 assets in Iowa, Nebraska, Kansas and Colorado, as well as Aquila's electric  
5 assets in Colorado will be sold to Black Hill for \$940 million subject to certain  
6 closing adjustments. Immediately following the sale of the noted non-Missouri  
7 electric and gas properties to Black Hills, Aquila will be merged with a wholly  
8 owned subsidiary of GPE, namely, Gregory Acquisition Corp. On the date of  
9 this merger shareholders of Aquila stock will receive 1) 0.0856 of a share of  
10 GPE common stock for each share of Aquila stock owned and 2) a cash  
11 payment of \$1.80 for each share of Aquila stock owned. At the time of the  
12 announcement of the merger, GPE's closing price was \$32.05<sup>1</sup>. At that price,  
13 Aquila shareholders would be effectively receiving a value of \$4.54 per share.  
14 In recent weeks, GPE's stock has dropped into the \$28 to \$29.50 range. At  
15 these lower GPE stock prices, Aquila shareholders would be receiving an  
16 effective value of between \$4.19 and \$4.33 for each share of Aquila stock  
17 owned. The actual net amount to be paid for Aquila's Missouri electric  
18 properties will be dependent upon the total transaction costs incurred as well as  
19 the value of GPE stock at the time of closing. Further, the Aquila assets being  
20 acquired by GPE include a limited amount of Aquila's merchant services  
21 operations' assets to which a portion the effective purchase price must be  
22 attributed. That having been stated, based upon the current price for GPE stock

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<sup>1</sup> Mr. Terry Bassham Initial Direct Testimony, page 8.

1 and current estimates of transaction costs to facilitate the merger, it would  
2 appear that the effective purchase price will be somewhat above the net original  
3 book value of assets being acquired by GPE.

4  
5 **Q. PLEASE BRIEFLY SUMMARIZE YOUR UNDERSTANDING OF**  
6 **AUTHORIZATIONS BEING SOUGHT BY THE JOINT APPLICANTS**  
7 **WITHIN THIS PROCEEDING.**

8 A. The joint applicants seek authority for Gregory Acquisitions Corp, a direct,  
9 wholly-owned subsidiary of GPE, to merge with Aquila, Inc. immediately  
10 following Aquila's sale of its electric and gas properties in the states of Kansas,  
11 Colorado, Nebraska and Iowa to Black Hills. This merger will effectuate GPE's  
12 acquisition of Aquila's Missouri electric and steam operations, as well as  
13 Aquila's remaining merchant services operations.

14 The joint applicants also seek authorization of a Regulatory Plan that includes:

- 15 • Creation of a regulatory asset through the deferral of all transaction and  
16 transition-related costs with authority to recover a Missouri-allocated portion  
17 of all such deferred costs over a five-year period within KCPL's and  
18 Aquila's Missouri retail cost of service.
- 19 • Retention of fifty percent (50%) of synergy savings claimed to be resulting  
20 from the merger for a five-year period.
- 21 • Aquila's recovery of Additional Amortization expense to enhance cash flow  
22 metrics to maintain an investment grade debt rating for Aquila that includes  
23 the same terms and conditions as implemented by this Commission for

1 KCPL in its December 21, 2006-dated Report and Order for KPCL (Case  
2 No. ER-2006-0314).

- 3 • Other relief as may be necessary and appropriate to consummate the merger  
4 and related transactions, and accomplish the purposes of the merger and joint  
5 application.

6  
7 While not set forth as a specific element of the application for which Aquila and  
8 KCPL seek authority, the direct testimony accompanying such joint application  
9 nonetheless proposes that Aquila's retail rates be established by incorporating  
10 Aquila's *actual* interest costs. In recent Missouri retail electric cases, Aquila's  
11 rates have been established by including an embedded interest cost rate of  
12 approximately 7.0% - or an interest rate far below Aquila's actual borrowing  
13 cost in all recent years.

14  
15 Finally, it is also somewhat noteworthy that the joint applicants seek a waiver  
16 from this Commission's affiliate transaction rules to the extent deemed  
17 necessary.

18  
19 **Q. DOES IT SEEM FEASIBLE THAT THE MERGER, ALONG WITH THE**  
20 **ATTENDANT RATE PLAN, CAN OCCUR AS PROPOSED WITHOUT**  
21 **CAUSING A DETRIMENT TO RATEPAYERS?**

22 A. No. The joint applicants are effectively proposing a sale of Aquila's Missouri  
23 electric assets at a price approximately equal to, or perhaps slightly above, the

1 net depreciated original cost book value of assets being acquired. The joint  
2 applicants are attempting to bring Aquila's debt rating to investment grade in  
3 one fell swoop – and maintain such investment grade rating at least through the  
4 construction period of Iatan II. Additionally, the joint applicants propose to  
5 recover 100% of all transaction and transition costs related to the merger over a  
6 five-year period.

7  
8 For a number of years, Aquila shareholders have not received a dividend as  
9 Aquila has been unwinding its troubled unregulated energy trading operations.  
10 If the merger occurs as proposed, current Aquila shareholders will begin  
11 receiving dividends on the GPE stock being acquired in exchange for their  
12 Aquila shares. Thus, the increased GPE shares outstanding will, in turn, create  
13 a cash requirement to fund approximately \$53 million of additional GPE  
14 dividends that does not exist with Aquila ownership at this time<sup>2</sup>.

15  
16 As this Commission will recall, Aquila's debt costs are very high relative to  
17 utilities that have maintained an investment grade rating on their various debt  
18 securities. As already noted, the reason why Aquila does not currently have an  
19 investment grade rating – and the reason it has very high debt costs – is because  
20 of its failed unregulated operations. Even though Aquila has very high *actual*  
21 interest costs caused by its failed unregulated operations, Aquila has not sought,  
22 and this Commission has not allowed, interest rates within the development of

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<sup>2</sup> Per joint applicants' response to MPSC Staff DR No. 0067.

1       Aquila's Missouri retail cost of service above that which could reasonably be  
2       expected to be paid by a utility that has maintained an investment grade rating.  
3       In Aquila's last Missouri electric rate filing Aquila's cost of service  
4       incorporated an embedded cost of long term debt of approximately 7.0%  
5       (hereinafter sometimes referred to as "regulatory interest cost") – even though  
6       Aquila's actual embedded cost of debt was *much higher* than the 7.0% it was  
7       seeking to include in cost of service development.

8  
9       An important element of the joint applicants' rate plan is to abandon Aquila's  
10      current rate treatment of reflecting *regulatory* interest costs of approximately  
11      7.0% even though Aquila's actual interest costs will continue to be significantly  
12      above 7.0% even following the debt refinancings now envisioned following the  
13      merger. Specifically, the joint applicants have calculated that reflecting *actual*  
14      *interest costs* for the first five years following the merger within the Missouri  
15      retail cost of service will result in \*\*\$[REDACTED]\*\* of additional interest costs  
16      being collected within rates above that which would be recovered if rates  
17      continued to reflect recovery of *regulatory* interest costs of approximately seven  
18      percent (7.0%)<sup>3</sup>.

19  
20      Additionally, the joint applicants are proposing to recover in rates \$95 million  
21      of transaction costs and \$45 million of transition costs associated with the  
22      merger over a five-year period. Transaction costs refer to expenditures for

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<sup>3</sup> Per the joint applicants' response to Public Counsel Data Request no. 5018.

1           lawyers, investment bankers and consultants incurred to actually consummate  
2           the merger. Transition costs refer to up front costs incurred to integrate the two  
3           utilities so as to ultimately achieve economies of scale and other efficiencies  
4           expected to result from the merger. Joint applicants claim in their application  
5           and testimony to propose to share fifty percent (50.0%) of estimated synergy  
6           savings. However, this claim is exaggerated inasmuch the joint applicants are  
7           proposing that the \$95 million of transaction cost that they propose to recover  
8           from ratepayers be subtracted from the fifty percent (50.0%) of estimated  
9           synergy savings they propose to “share” with ratepayers. Further, the joint  
10          applicants propose that the starting point of synergy saving to be “shared” be  
11          calculated by first subtracting out all transition costs.

12  
13          Stated more succinctly, the joint applicants propose that ratepayers pay for all  
14          transactions costs incurred in the merger and the incremental cost of Aquila’s  
15          *actual* interest cost in excess of the seven percent (7.0%) *regulatory* interest  
16          costs currently considered when establishing Aquila’s Missouri electric rates out  
17          of the fifty percent (50.0%) of merger savings claimed after deducting all  
18          transition costs. As shown on the table below, by utilizing the joint applicants’  
19          unadjusted estimates of transaction costs, transition costs, incremental interest  
20          costs, as well as their synergy savings allocation proposal, the transaction with  
21          attendant rate plan as proposed is significantly detrimental to ratepayers during  
22          the first five years following the merger.

Description	Amount
Total Merger Savings Claimed by Joint Applicants' Within First Five Years Following Closing	\$304.6
Less: Transition Cost Proposed to be Netted Against Gross Synergy Savings Claimed	(45.3)
Synergy Savings Net of Transition Costs	259.3
Merger Savings Net of Transition Costs Proposed to be Allocated to Ratepayers (50.0%)	129.7
Less: Transaction Costs Assigned 100% to Ratepayers	(95.2)
Less: Incremental <i>Actual</i> Interest Costs in Excess of <i>Regulatory</i> Interest Costs Currently Being Collected Within Aquila's Missouri Retail Electric Rates	** ( )
Net Cost to Ratepayers for First Five Years Following the Merger if Joint Applicant's Rate Plan is Approved as Proposed	( ) **

In short, and in sum, using the Company's own cost and synergy savings estimates without adjustment, and assuming synergy savings are allocated between ratepayers and shareholders as proposed by the joint applicants, the merger along with attendant rate plan is very detrimental to ratepayers for the first five years following consummation of transaction.

**Q. IS IT LIKELY THAT BY CONSIDERING SYNERGY SAVINGS OVER A LONGER PERIOD OF TIME, OR WITH APPROPRIATE RATEPAYER SAFEGUARDS, THAT THE TRANSACTION COULD BE STRUCTURED SO AS TO NOT BE DETRIMENTAL TO MISSOURI ELECTRIC RATEPAYERS?**

**A.** It is difficult to envision a scenario where the transaction will not result in a detriment to Missouri electric ratepayers. Further, it is difficult to envision

1 implementing enforceable conditions that would adequately protect ratepayers  
2 from detriments resulting from this transaction.

3  
4 In support of such conclusions, I would first note that in calculating “merger  
5 related synergy savings” that the Company has stretched to include estimates for  
6 a number of expected savings that are not directly related to consummating the  
7 merger. Specifically, the joint applicants have included at least \$59 million of  
8 “enabled” synergy savings that could be, and most likely should be, achieved  
9 absent the merger. As discussed by joint applicants’ witness Mr. William  
10 Kemp, “enabled” synergy savings are cost savings or revenue enhancements  
11 that are facilitated or unlocked by the merger on an accelerated basis, but are not  
12 definitively tied to the merger. Thus, enabled synergy savings are generated by  
13 actions that can be taken by KCPL or Aquila on a stand alone basis, and should  
14 not properly be considered a savings available to “pay for” or off-set  
15 incremental transaction, transition or interest costs.

16  
17 As noted, there are *at least* \$59 million of enabled savings included in the total  
18 synergy savings estimate of \$305 million. Specifically, I have identified \$59  
19 million of “enabled” synergy savings that are clearly associated with process  
20 changes or management procedures that could be implemented by KCPL or  
21 Aquila on a stand alone basis that should not be considered to be merger related.  
22 Of the remaining \$246 million of synergy savings, clearly there are additional  
23 “enabled” savings included in the calculation, though exact quantification is not



likely to be possible. In other words, the \$246 million of remaining synergy savings is overstated, if for no other reason, because they include additional “enabled” savings that could occur absent the merger.

Further, of the remaining \$246 million of savings estimated by the joint applicants, such savings are just that – *estimates*. There is no way at the present time, even with adequate resources, to verify how much of such savings are achievable, and further, how much of the estimated savings could be achieved absent the merger. Further, I believe it will be impossible to track merger savings being achieved after the fact. Thus, the joint applicants’ rate plan envisions hard transaction and transition costs being offset by, or “paid for” with, soft estimates of savings. Utilizing the joint applicants’ own estimates, it is observed that true merger savings (i.e., total claimed merger savings minus “enabled” merger savings) are less than the sum of hard transition, transaction and incremental interest costs the joint applicants envision incurring and passing on to ratepayers over five years following consummation of the transaction<sup>4</sup>.

If there were a comfortable multiple of “true” or “created” merger savings over allowable transaction and transition costs as well as incremental interest costs

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<sup>4</sup> Total claimed synergy savings	\$305 million
Minus Identified “enabled” savings	(59 million)
Equals maximum true “created” savings	\$246 million
Cost that Joint Applicants Propose to Recover in Rates:	
Transaction	\$95 million
Transition	45 million
Incremental Interest	** <u>million</u> **
Total Cost Proposed for Recovery	** <u>million</u> **

1           that the joint applicants propose to recover from ratepayers, it might be possible  
2           to propose a longer amortization of certain deferred costs as well as a different  
3           split of synergy savings between ratepayers and shareholder so as to adequately  
4           protect ratepayers from any detriments stemming from the transaction.  
5           However, I do not recommend recovery of, and this Commission has not  
6           historically allowed explicit recovery of, “transaction costs.” Thus, it is  
7           probable that a significant portion of transaction costs will need to be written off  
8           – or expensed – immediately. Such immediate write down could, in turn, result  
9           in a downgrade to GPE’s and KCPL’s credit ratings, thus raising  
10          GPE’s/KCPL’s cost of capital.

11  
12          The joint applicants’ own estimate of merger savings relative to incremental  
13          interest costs plus transition costs that they propose to recover from ratepayers  
14          is low, creating an unacceptable level of risk for ratepayers. Further, if the joint  
15          applicants are unable to collect all of Aquila’s incremental interest cost from  
16          ratepayers, it is very possible that Aquila’s financial weakness will eventually  
17          pull GPE’s and KCPL’s investment credit ratings below investment grade, thus  
18          creating additional cost for KCPL’s ratepayers.

19  
20          In summary, as much as I, Public Counsel, or this Commission might desire  
21          GPE/KCPL to maintain their investment grade rating and Aquila to return to an  
22          investment grade rating, it is difficult to envision any set of conditions that  
23          would facilitate such result given 1) the price being paid for Aquila’s Missouri

1 electric properties, 2) the significant level of transaction and transition costs  
2 estimated to be incurred, 3) the high cost of Aquila's debt – even after expected  
3 debt retirements – versus the amount of *regulatory* interest expense that should  
4 be allowed to be recovered in retail rates, all relative to 4) estimated “true” or  
5 “created” merger savings. Because of these hurdles, the Public Counsel cannot  
6 envision enough conditions or safeguards being implemented so as to  
7 adequately protect ratepayers from likely detriments stemming from the  
8 transaction. Accordingly, Public Counsel's position is to simply reject the  
9 entire merger and attendant regulatory plan.

10  
11 **III. DISCUSSION OF BID PROCESS AND BID RESULTS**

12 **Q. PLEASE PROVIDE YOUR UNDERSTANDING OF AQUILA'S**  
13 **DECISION TO SELL ITS MISSOURI AND COLORADO ELECTRIC**  
14 **ASSETS AS WELL AS ITS COLORADO, IOWA, KANSAS AND**  
15 **NEBRASKA GAS ASSETS.**

16 A. A summary of Aquila's decision to sell its various utility properties is contained  
17 within the direct testimony of Mr. R. Thomas Fleener as follows:

18 Q. WHY DID AQUILA DECIDE TO EXPLORE A POTENTIAL  
19 SALE?

20 A. Simply put, the timing was right. As Aquila completed its  
21 repositioning plan and strengthened its financial condition over the  
22 past few years, Aquila was approached about the possibility of a  
23 strategic transaction. Given Aquila's September 2005  
24 announcement of the sale of four utility operations and its need to

1                   effectively deploy those sale proceeds, the Aquila Board of  
2                   Directors (“Aquila’s board”) determined that it would be  
3                   appropriate to conduct a strategic review of Aquila’s remaining  
4                   operations and consider alternatives to its stand-alone plan that  
5                   could provide greater shareholder value. As part of this strategic  
6                   review, Aquila compared its baseline stand-alone plan against  
7                   other corporate business structure alternatives, such as a potential  
8                   business combination or additional asset sales. As a result of the  
9                   strategic review, *Aquila’s board determined that shareholder*  
10                  *value would most likely be maximized through a sale of Aquila.*  
11                  (R, Thomas Fleener direct testimony, page 2, *emphasis added*)  
12

13       **Q.     PLEASE PROVIDE YOUR UNDERSTANDING OF THE BID PROCESS**  
14       **AND BID RESULTS THAT FOLLOWED AQUILA’S DECISION TO**  
15       **EXPLORE A SALE OF REMAINING ASSETS.**

16       A.     This also is discussed within the direct testimony of Mr. Fleener. In brief,  
17              however, after receiving Board of Director approval Aquila management  
18              approached nine potential buyers. Of the nine parties approached, eventually  
19              five parties signed confidentiality agreements, received confidential marketing  
20              materials including Aquila’s financial projections, and submitted non-binding  
21              indicative bids that provided for further due diligence and confirmation of  
22              certain assumptions. Four of the five parties that submitted non-binding  
23              indications of interest attended further Aquila management presentations and  
24              continued with their due diligence.  
25              Following further due diligence, only Great Plains and Black Hills Corporation  
26              submitted a non-binding offer that was contingent upon Aquila entering into

1 exclusive negotiations to finalize the commercial terms of definitive  
2 agreements.

3  
4 To summarize, Aquila elected to sell its remaining utility and non-utility  
5 properties to maximize value to its shareholders. Further, ultimately there was  
6 only one bidder group that submitted an offer to acquire Aquila's remaining  
7 assets.

8  
9 **IV. PURCHASE PRICE AND TRANSACTION COSTS**  
10 **RELATIVE TO THE VALUE OF MISSOURI ELECTRIC**  
11 **PROPERTY BEING ACQUIRED**

12  
13 **Q. EARLIER YOU INDICATED THAT "THE JOINT APPLICANTS ARE**  
14 **EFFECTIVELY PROPOSING A SALE OF AQUILA'S MISSOURI**  
15 **ELECTRIC ASSETS AT A PRICE APPROXIMATELY EQUAL TO, OR**  
16 **PERHAPS SLIGHTLY ABOVE, AQUILA'S NET DEPRECIATED**  
17 **ORIGINAL BOOK VALUE." PLEASE ELABORATE UPON THE**  
18 **BASIS OF THIS STATEMENT.**

19 **A.** The actual purchase price to be paid will be a function of 1) the number of  
20 Aquila common shares outstanding, 2) the timing of the closing, 3) total  
21 transaction costs incurred, and 4) the value of Great Plains Energy common  
22 stock at the time of closing. Further, the net depreciated original cost book  
23 value cannot be known with certainty until shortly after the closing of the  
24 transaction. Given that all the variables cannot be precisely known at this time,  
25 it is impossible to definitively calculate the purchase price being paid relative to

1 the net depreciated original cost book value of property being acquired. That  
2 stated, given GPE's recent stock prices, according to GPE's responses to Staff  
3 Data Request No. 0041 and Public Counsel Data Request No. 5034, it is  
4 currently estimated that the purchase price, excluding transaction costs being  
5 incurred to facilitate the merger, will slightly exceed the book cost of assets  
6 being acquired<sup>5</sup>. Generally Accepted Accounting Principles provide that absent  
7 regulatory accounting and rate assurances, transaction costs should be added to  
8 the value of consideration being paid for the stock being acquired to arrive at  
9 the total purchase price of the transaction. However, in this proceeding, joint  
10 applicants are specifically requesting to be allowed to defer all transaction costs  
11 and collect such transaction costs in rates over a five-year period. If this rate  
12 and accounting proposal is adopted, transaction costs will *not* be added to the  
13 consideration being given to arrive at the "purchase price" being tendered, but  
14 will instead be recorded as a Regulatory Asset that will be amortized in rates  
15 over a five-year period. However, I believe it is important and relevant to point  
16 out that the *true* cost being paid is really the sum of the consideration being  
17 given by GPE for the Aquila common stock (.0856 shares of GPE stock plus  
18 \$1.80 per share of Aquila stock) being acquired *plus* all transaction costs being  
19 incurred – regardless of how such transaction costs are ultimately accounted for  
20 on GPE's financial statements. Or in other words, I believe the true cost being  
21 paid, when one considers the transactions costs being incurred to facilitate the

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<sup>5</sup> At a GPE share price of \$28.82 and cash consideration of \$1.80 per share, joint applicants estimate a purchase price excluding transaction costs of approximately \$1,599.6 million. Per the joint applicants' response to Public Counsel DR No. 5034, the book value of assets to be acquired as of June 30, 2007 was approximately \$1,590 million.

merger, will likely be somewhat, though not significantly, above the net book value of assets being acquired.

**Q. WHAT IS THE SIGNIFICANCE OF THE TRUE PURCHASE PRICE BEING SOMEWHAT ABOVE THE NET BOOK VALUE OF ASSETS BEING ACQUIRED?**

A. As this Commission is well aware, regulated utility rates are generally based upon *cost of service*. And since a utility's cost of service is generally determined to include all reasonable and prudently incurred operating expenses plus a reasonable return on the utility's *original* net depreciated investment, all other things held equal and constant, the purchaser would be expected to only be willing to pay an amount approximately equal to the book value of the stock being purchased. Any payment above book value creates a risk to the buyer that the premium amount being paid may be difficult or impossible to recover.

As previously stated, before considering transaction costs, it appears the purchase price will likely approximate Aquila's net depreciated original cost investment in assets. When one considers the \$95 million of anticipated transaction costs associated with the merger, the *real* or *true* purchase price is likely to be somewhat above the net depreciated original cost investment in assets. Given that, even after considering the transaction costs associated with the merger, it appears the real purchase price will only be somewhat above the net depreciated original cost value of assets being acquired, upon first

1 impression the true price being paid for Aquila's Missouri assets would appear  
2 to be in the range of reasonableness. However, the Commission needs to be  
3 mindful of the fact that while Aquila has been able to rid itself of most of its  
4 unregulated operations which dragged the Company's debt securities ratings  
5 down well below investment grade, it has not yet been able to rid itself of the  
6 very high cost debt that also resulted from Aquila's unregulated operations.

7  
8 **Q. WHY IS IT SIGNIFICANT FOR THE COMMISSION TO**  
9 **UNDERSTAND HOW AQUILA'S HIGH COST, BELOW-**  
10 **INVESTMENT-GRADE DEBT SECURITIES COULD BE EXPECTED**  
11 **TO AFFECT THE PURCHASE PRICE AN ACQUIRING COMPANY**  
12 **WOULD BE WILLING TO PAY FOR AQUILA'S REGULATED**  
13 **UTILITY ASSETS?**

14 A. Aquila's Missouri electric rates are established by considering Aquila's rate  
15 base consisting in large part of its net depreciated original cost plant investment  
16 multiplied times a cost of capital rate. As already noted, in Aquila's last  
17 Missouri electric rate case, Aquila's rates were established by considering a  
18 *regulatory* interest rate of approximately seven percent (7.0%) - which is far  
19 below Aquila's current actual cost of debt. The Stipulation and Agreement As  
20 to Certain Issues entered into between Aquila, the MPSC Staff, the Missouri  
21 Office of the Public Counsel as well other Intervenors in Aquila's last Missouri  
22 electric rate case stated that the cost of debt being used to establish base rates  
23 was 6.670% and 7.70% for Aquila's MPS and L&P Divisions, respectively.



1 The interest rates stipulated to were very close to the interest rates being  
2 proposed by Aquila's cost of capital witness in that case. Specifically, Dr.  
3 Samuel Hadaway's direct testimony in Case No. ER-2007-0004 filed on behalf  
4 of Aquila stated the following regarding interest rates being proposed for cost of  
5 capital development:

6 **Q. What is the cost of debt that you have used for MPS/LP?**

7 A. As shown on Schedule SCH-2, the cost of debt for the MPS and  
8 LP divisions are 6.73% and 7.95% percent, respectively. These  
9 figures result from the Company's internal capital assignment  
10 process whereby it assigns capital to its operating divisions on an  
11 "as needed basis." The cost of debt for each operating division  
12 reflects the average cost rates for issues assigned to each division  
13 as of December 31, 2005. *All of the debt issues assigned to*  
14 *either division have been assigned at "investment grade" rates*  
15 *per the Company's ongoing policy to protect its ratepayers from*  
16 *the activities of its non-regulated businesses through its capital*  
17 *assignment process.* (Page 8 of Dr. Samuel C. Hadaway's  
18 Direct Testimony filed on behalf of Aquila Networks-MPS &  
19 L&P in MPSC Case No. ER-2007-0004, *emphasis added*)  
20

21 Thus, Aquila's Missouri retail electric rates are not currently recovering  
22 Aquila's actual interest costs being incurred. Rather, they are designed to  
23 recover only interest rates expected for "investment grade" securities so as to  
24 protect ratepayers from remaining high costs attributable to Aquila's failed non-  
25 regulated business operations.  
26

Any acquiring company should be aware of the earnings shortfall for Aquila's regulated utility property investment that currently exists, and will continue to exist, so long as the cost of Aquila's actual non-investment-grade debt securities significantly exceeds that amount of *regulatory* interest costs being collected within Aquila's Missouri electric properties' retail rates. All other items and events held constant, the anticipated shortfall in earnings attributable to the under recovery of Aquila's interest costs would suggest that a buyer should significantly discount below net book value the amount that it was willing to pay for regulated utility assets being acquired.

**V. GPE'S POSITION REGARDING RECOVERY OF AQUILA INTEREST COSTS**

**Q. DOES GPE ACKNOWLEDGE THE NEED TO PROTECT RATEPAYERS FROM THE ACTIVITIES OF NON-REGULATED BUSINESS OPERATIONS THROUGH APPROPRIATE CAPITAL ASSIGNMENT – AS HAS BEEN ADVOCATED BY AQUILA IN ITS PRIOR RATE PROCEEDING?**

A. No. GPE proposes to abandon this Commission's precedent and Aquila's stated policy of protecting ratepayers from the activities of Aquila's non-regulated businesses. Specifically, GPE's witness Mr. Terry Bassham states the following regarding Aquila's interest costs following the merger and GPE's rate proposal regarding recovery of actual interest costs:

1           **Q.     Please discuss the importance to Great Plains of achieving an**  
2                   **investment-grade credit rating for Aquila post closing and**  
3                   **the recovery of actual debt costs?**

4           **A.     *Aquila's interest costs recovered in rates are lower than its***  
5                   ***actual interest costs.*** Great Plains, as any other buyer, finds  
6                   Aquila in its current state with its existing debt regardless of past  
7                   acts. ***Great Plains' plan will move Aquila to investment grade,***  
8                   ***and accordingly, Great Plains requests recovery of the cost to***  
9                   ***execute that plan.*** The result will be a stronger utility that has  
10                  the financial strength to provide high quality service at  
11                  reasonable prices.

12          **Q.     Does Great Plains anticipate that Aquila's cost of debt will be**  
13                   **at or below (7%) following the acquisition?**

14          **A.     In the near term, no. *Aquila's cost of debt*** following the  
15                  acquisition will be significantly lower than it is today, but ***will***  
16                  ***likely continue to be greater than the imputed seven percent***  
17                  ***(7%).*** Nonetheless, Aquila's customers will benefit significantly  
18                  from the stability that results from an improved credit rating, as I  
19                  have already discussed. ***We request that the Commission allow***  
20                  ***the recovery of the actual cost of debt incurred post merger*** to  
21                  ensure access to lower cost capital to finance the capital  
22                  investments being made on behalf of the Aquila and KCPL  
23                  customers. (Mr. Terry Bassham's Supplemental Direct  
24                  Testimony, pages 4 and 5, ***emphasis added***)

25          Thus, it is clear that GPE acknowledges that Aquila's actual interest costs will  
26          continue to be higher than costs being collected in rates, but nonetheless  
27          specifically requests authority to collect higher interest costs that Aquila clearly  
28          attributes to its unregulated business operations

1     **Q.     HAS GPE ESTIMATED THE INCREMENTAL COST OF INTEREST**  
 2           **THAT IT PROPOSES TO COLLECT IN RATES THAT IS**  
 3           **ATTRIBUTABLE TO AQUILA’S FAILED UNREGULATED BUSINESS**  
 4           **OPERATIONS?**

5     A.    Yes. In response to OPC Data Request No. 5018 GPE provided the following  
 6           estimate of incremental *actual* interest costs in excess the approximate seven  
 7           percent (7.0%) interest rate currently being employed by the MPSC “for  
 8           regulatory purposes” for the first five years following the merger:

Year	Incremental Interest Costs Proposed to be Recovered in Rates (millions)
2008	**\$
2009	
2010	
2011	
2012	
Total – All Years	**

9

10

11    **Q.     HAVE THE JOINT APPLICANTS PROPOSED TO NET THE**  
 12           **INCREMENTAL COST OF INTEREST AGAINST CLAIMED**  
 13           **SYNERGY SAVINGS?**

14    A.    No. The joint applicants have proposed that ratepayers pay for 100% of such  
 15           incremental interest costs – with no consideration of claimed synergy savings to  
 16           be used as an “offset” to “pay for” such incremental interest expense.

17

1     **Q.     DO YOU VIEW THE RECOVERY OF INCREMENTAL INTEREST**  
2           **COST IN RATES TO BE A DETRIMENT TO RATEPAYERS**  
3           **RESULTING FROM THE MERGER?**

4     A.    Most definitely.   This Commission has adopted comprehensive affiliate  
5           transaction rules and reporting requirements in an attempt to specifically protect  
6           retail ratepayers from subsidizing unregulated activities. Further, Aquila has  
7           adopted a stated policy of protecting ratepayers from unregulated operations.  
8           To that end, Aquila has acknowledged that its present high cost debt is  
9           attributable to its unregulated activities and has adopted a policy of *not*  
10          attempting to pass interest costs above investment grade debt securities on to  
11          Missouri retail ratepayers. GPE on the other hand, now proposes to specifically  
12          charge Missouri retail ratepayers for the incremental interest costs that Aquila  
13          now incurs – and that it will for years into the future – that are attributable to  
14          Aquila’s failed unregulated operations. I believe this portion of GPE’s proposal  
15          to be significantly detrimental to Missouri retail ratepayers.

16

**VI. CLAIMED SYNERGY SAVINGS – CREATED VERSUS  
ENABLED**

**Q. PLEASE EXPAND UPON YOUR UNDERSTANDING OF THE JOINT  
APPLICANTS’ DEVELOPMENT OF ESTIMATED MERGER SAVING.**

A. GPE/KCPL have undertaken studies in an attempt to estimate the incremental costs that GPE/KCPL will incur to construct, operate and maintain the Aquila Missouri electric properties following the merger. Such studies have attempted to determine staffing and other resource requirements that GPE/KCPL will experience following the merger. According to GPE/KCPL witness Mr. Robert Zabors, this process was undertaken by integration planning teams consisting of KCPL and Aquila management and employees. It is my understanding that the integration planning teams have basically attempted to develop a budget for the merged entity “from the bottom up” with obviously no historic data to employ as a test for achievability.

Further, and importantly, the integration teams have incorporated within such “bottom up” budgets anticipated efficiencies that are expected as KCPL and Aquila exchange “best practices” in various functional areas. Or in other words, the integration teams have concluded that KCPL is more efficient in certain functional areas than Aquila and vice versa. Selecting the “best practices” from each stand alone entity, GPE/KCPL includes in its “bottom up” estimation process efficiency gains and attendant savings that are not directly and exclusively related to the merger.

1     **Q.     ARE THE SAVINGS YOU STATE THAT ARE RELATED TO**  
2           **EXCHANGING “BEST PRACTICES” THE SAME AS THE SAVINGS**  
3           **YOU PREVIOUSLY REFERRED TO AS “ENABLED SAVINGS?”**

4     A.     Yes. GPE/KCPL witness Mr. Zabors further defines “enabled savings” within  
5           his supplemental direct testimony as follows:

6           **Q:     How are synergies created as a result of the merger?**

7           A:     Two primary types of synergies result from mergers. The first  
8           type of synergies occurs as a direct result of combining the  
9           entities. That is, “but for” the merger, these synergies would not  
10          exist. These are commonly called “created savings. These  
11          include overlapping positions and functions as well as savings  
12          that result from economies of scale. The second type of synergy  
13          is “enabled” by a merger. The merger enables the company to  
14          apply improved practices, processes and skills from either party.  
15          Synergy estimates in this analysis include both types of  
16          synergies. (Mr. Robert Zabors Supplemental Direct Testimony,  
17          page 6)

18  
19     **Q.     PLEASE CONTINUE DESCRIBING HOW SYNERGY SAVINGS WERE**  
20           **ESTIMATED.**

21     A.     The “bottom up” incremental cost estimates were then compared to Aquila’s  
22           actual 2006 “base line” costs. Both the incremental costs and Aquila’s 2006  
23           base line costs were then escalated by a factor of 3.1% per year to arrive at  
24           estimated synergy savings for each year 2008 through 2012. The process of  
25           escalating the estimated incremental costs and Aquila’s stand alone 2006 base  
26           line costs for inflation had the effect of escalating merger savings calculated in

1           2006 purchasing power dollars for inflation for the 2008 through 2012 study  
2           period.

3  
4       **Q.    IS IT POSSIBLE TO DISTINGUISH BETWEEN “CREATED” VERSUS**  
5       **“ENABLED” SYNERGY SAVINGS ESTIMATED BY GPE/KCPL?**

6       A.   In some instances it is possible to identify and quantify “enabled” savings. For  
7           instance, in the production area, virtually all of the claimed savings are clearly  
8           identified as resulting from the exchange of generating plant operating  
9           procedures and maintenance programs or from installing new equipment on  
10          existing production facilities. Mr. F. Dana Crawford discusses the various  
11          production equipment expected to be installed as well as the various processes  
12          anticipated to be implemented to achieve savings. In the case of the production  
13          function, “enabled” savings are clearly identified and quantified.

14  
15       However, with regard to other synergy savings claimed, it would likely be  
16       impossible to distinguish and quantify “created” versus “enabled” savings. This  
17       conclusion is further confirmed by the joint applicants’ response to OPC Data  
18       Request No. 5031 wherein the joint applicants were requested to provide a  
19       breakdown of “created synergies” versus “enabled synergies.” The response  
20       stated in relevant part that “[n]either Mr. Kemp nor other KCPL witnesses  
21       attempted to develop a quantitative breakdown between these types of  
22       synergies.”



1     **Q.     PLEASE LIST THE SYNERGY SAVINGS THAT YOU HAVE BEEN**  
2           **ABLE TO IDENTIFY AS “ENABLED” SYNERGY SAVINGS.**

3     A.    On attached Schedule JRD-1 I list the synergy savings that I have identified as  
4           being associated with events, processes or construction projects described  
5           within the joint applicants’ direct testimonies that are *not* dependent upon the  
6           merger occurring. In other words, virtually all of the synergy savings listed on  
7           Schedule JRD-1 are *not* resulting from economies of scale savings or efficiency  
8           savings stemming from adjoining services territories that can only be achieved  
9           as a result of the merger. Also shown on Schedule JRD-1 are the references to  
10          witnesses’ testimony wherein the claimed synergy savings are discussed. A  
11          review of such testimonies will reveal that virtually all savings claimed by  
12          project shown on Schedule JRD-1 could be achieved absent the merger if either  
13          of the joint applicants were to independently invest in noted facilities and/or  
14          implement noted changes in processes or procedures.

15  
16    **Q.    YOU HAVE PREVIOUSLY STATED THAT THERE ARE OTHER**  
17          **“ENABLED” SYNERGY SAVINGS BEYOND THOSE SPECIFICALLY**  
18          **IDENTIFIED WITHIN SCHEDULE JRD-1 THAT YOU HAVE NOT**  
19          **BEEN ABLE TO QUANTIFY. PLEASE GIVE SOME EXAMPLES OF**  
20          **PROJECT SAVINGS CLAIMED BY THE JOINT APPLICANTS THAT**  
21          **INCLUDE “ENABLED” SAVINGS THAT YOU WERE *NOT* ABLE TO**  
22          **ISOLATE AND QUANTIFY.**

1       A.     There are several references to exchanging “best practices” between the joint  
2             applicants that have in some fashion been considered in the development of  
3             synergy savings, including the following:

- 4             •     Mr. Wallace Buran discusses anticipated operation and maintenance savings  
5                 in the amount of \$78 and \$31 million of avoided capital cost savings for the  
6                 first five years following the merger resulting from “implementing ‘best  
7                 practices’ spend management<sup>6</sup>.” Some of the elements contributing to the  
8                 expected savings, such as eliminating duplicate expenditures and achieving  
9                 higher volume leverage, can be correctly characterized as “but for” savings  
10                only achievable with the merger. However, other elements, such as  
11                increasing strategic sourcing effectiveness, improved supplier contract  
12                compliance, and application of best sourcing knowledge from both  
13                organizations, could be achieved absent the merger. It is not possible to  
14                assign the total claimed \$109 million (i.e., \$78 million of O&M savings and  
15                \$31 million of avoided capital cost savings) of spend management savings  
16                between “created” versus “enabled” savings, but clearly a portion of the \$109  
17                million of spend management savings has been predicted to occur as a result  
18                of simply implementing improved programs and procedures.

- 19            •     Mr. Buran also describes anticipated savings of approximately \$6.7 million  
20                 during the first five years following the merger in warehouse and inventory  
21                 costs. Included within such estimated savings are cost reductions stemming

---

<sup>6</sup> The term “spend management” is not defined in Mr. Buran’s testimony, but appears to be a term of art he utilizes to refer to the efficient sizing, ordering and acquiring of goods and services needed for both utility operations and construction.

1 from reducing warehouses, storerooms and inventory that result from  
2 adjoining service territories, eliminating duplicate inventories, and  
3 negotiating larger volume discounts that can only be achieved with the  
4 proposed merger. However, in arriving at claimed savings for this category  
5 the joint applicants also considered potential savings from applying KCPL's  
6 vendor-managed inventory programs to Aquila's warehouses and building  
7 upon purportedly superior supplier relationships that KCPL has fostered with  
8 certain suppliers. Thus, a portion of the claimed \$6.7 million of warehouse  
9 and inventory savings is estimated to occur as a result of simply  
10 implementing process and program changes that could be implemented  
11 absent the merger.

- 12 • Mr. Buran discusses anticipated savings of \$1.5 million resulting from Asset  
13 Recovery and Reclamation processes. A portion of the claimed \$1.5 million  
14 savings is expected to occur as a result of negotiating better terms and  
15 conditions with vendors buying scrap and recycled materials from the larger  
16 merged entity. However, clearly a portion of such savings was estimated by  
17 assuming an exchange of best practices between KCPL and Aquila regarding  
18 recycling, replacing and refurbishing equipment.

19  
20 **Q. PLEASE FURTHER EXPLAIN WHY YOU BELIEVE "ENABLED"**  
21 **SYNERGY SAVINGS SHOULD BE REMOVED FROM ANY ANALYSIS**  
22 **THAT ATTEMPTS TO EVALUATE WHETHER THE MERGER WILL**  
23 **RESULT IN A BENEFIT OR DETRIMENT TO RATEPAYERS.**

1     A.     I believe any savings attributable to an acquisition or merger should be limited  
2           to savings that are quantifiable and clearly related to structural differences in  
3           ownership or operations. By “structural differences” I am referring to unique  
4           and definite considerations such as economies of scale, geographic synergies,  
5           geographic advantage related to interconnections with other utilities,  
6           preferential tax or preferential financing treatment which simply would not be  
7           available to the former owners of the stand alone entities no matter what level of  
8           effort was put forth by the previous management. I do not believe that savings  
9           generated simply by greater efficiencies of new management *which could have*  
10          *or should have been implemented by former owners/managers* of the stand  
11          alone entities should be utilized to offset the various incremental costs being  
12          incurred exclusively to facilitate the transaction (i.e., transaction costs and  
13          incremental interest costs).

14  
15     **Q.     IF THE MERGED ENTITY IS ABLE TO PROVIDE UTILITY SERVICE**  
16           **MORE EFFICIENTLY, AND THUS, AT A LOWER COST THAN THE**  
17           **PREVIOUS STAND-ALONE OWNERS/MANAGERS, WOULDN'T IT**  
18           **BE APPROPRIATE TO ALLOW THE MERGED ENTITY TO RETAIN**  
19           **SUCH SAVINGS TO OFFSET IN WHOLE OR IN PART**  
20           **TRANSACTION COSTS, INCREMENTAL INTEREST COSTS OR ANY**  
21           **OTHER COSTS EXCLUSIVELY INCURRED TO FACILITATE THE**  
22           **MERGER?**

1       A.     First of all, savings from any new-found or recently-implemented efficiencies  
2             will inure to the benefit of the merged entity prior to the first rate case and,  
3             thereafter, in between rate cases until all efficiencies are fully implemented and  
4             reflected in rates. Therefore, to a certain extent – due to the phenomena of  
5             regulatory lag – the merged entity will benefit from implementation of  
6             efficiency gains indirectly resulting from the transaction even if such efficiency  
7             savings are ultimately incorporated in the ratemaking formula at the time of rate  
8             case proceedings.

9  
10            Second, it is generally agreed that regulation is intended to be a surrogate for  
11            competition. In a non-regulated environment, companies not operating  
12            efficiently would be forced to become efficient if they are to survive and  
13            prosper. If a merged regulated utility company implements efficiencies *which*  
14            *could have been implemented under prior stand-alone ownership*, the  
15            conclusion drawn is that the previous owners were not providing reliable service  
16            at the lowest cost possible consistent with prudent safety standards and that  
17            regulation, perhaps temporarily, had failed in its role as a surrogate for  
18            competition. Arguably, ratepayers are no worse off if the merged entity retains  
19            the savings from efficiencies gained from the exchange of ideas, processes and  
20            procedures between the previous two stand alone entities to “offset” or “pay  
21            for” transaction costs or merger premiums related to the merger. However,  
22            under such scenario ratepayers will never benefit from the merger – or will not  
23            benefit from the merger for an extended period of time. Further, if as in the

1 instant case, all of the incremental cost associated with the transaction proposed  
2 by the joint applicants exceed the sum of “created” as well as “enabled”  
3 savings, ratepayers will clearly be harmed as a result of the merger.

4  
5 In summary, when analyzing the economics of the proposed merger it is neither  
6 appropriate or necessary to utilize savings from newly implemented operational  
7 efficiencies (i.e., enable synergy savings) as an offset to incremental costs  
8 directly associated with, and resulting from, the transaction.

9  
10 **VII. ANALYSIS OF OTHER CLAIMED SYNERGY SAVINGS**

11 **Q. HAVE YOU COMPREHENSIVELY INVESTIGATED THE**  
12 **REASONABLENESS AND RELIABILITY OF THE JOINT**  
13 **APPLICANTS’ CLAIMED “CREATED” SAVINGS?**

14 A. No, resource constraints did not permit comprehensive discovery regarding, and  
15 analysis of, the joint applicants’ various claims of “created” synergy savings.  
16 Further, I note that analysis of claimed synergy savings under the proposed  
17 transaction is complicated by the fact that Aquila currently provides gas and  
18 electric service to several divisions in five states. As such, it is difficult to  
19 estimate what corporate overhead costs can be expected to be incurred as  
20 GPE/KCPL become responsible for corporate tasks and functions currently  
21 undertaken by Aquila for a completely different organization than will exist  
22 when GPE/KCPL manages just Aquila’s Missouri electric properties. That

1           stated, from the review I was able to undertake, I did observe at least some  
2           instances of biases toward overstating claimed merger savings.

3  
4       **Q.   PLEASE DISCUSS THE BIASES YOU OBSERVED WHEREIN YOU**  
5       **OBSERVE THE JOINT APPLICANTS HAVE OVERSTATED**  
6       **CLAIMED “CREATED” SYNERGY SAVINGS.**

7       A.   The joint applicants have identified a number of Aquila management positions  
8           that will be eliminated if the merger is consummated that should result in  
9           savings. This is typically an expected result as typically mergers can achieve  
10          economies of scale when the combined entity can accomplish certain tasks with  
11          fewer personnel than is occurring with two stand alone entities. This occurs  
12          most frequently with regard to corporate overhead functions such as treasury,  
13          information technology, accounting, human resources, and corporate  
14          governance functions. In this case, Aquila’s Missouri electric operations are  
15          already part of a larger Aquila organization owning and operating utilities in  
16          five states. As a result of already being part of a larger utility organization  
17          wherein one would expect economies of scale for corporate overhead functions  
18          to already exist, the typical overhead savings expected from mergers are not as  
19          certain to result.

20  
21          While the joint applicants have estimated savings in personnel expected from  
22          consolidating duplicate activities, they have not considered that as a result of  
23          merged entity being larger, that GPE and KCPL executives and upper

1 management will likely demand higher compensation packages. Compensation  
2 for corporate executives and top management is typically established by  
3 considering the compensation being paid other corporate officers/top  
4 management in comparably sized corporations. GPE/KCPL's synergy studies  
5 have incorporated the savings anticipated from eliminating Aquila officers and  
6 management, but have not added an allowance for increased pay for GPE/KCPL  
7 executives and managers that will likely result as compensation studies present  
8 higher pay packages of larger "comparables." In response to a question  
9 regarding compensation studies for GPE/KCPL officers and employees,  
10 GPE/KCPL indicated that it was unlikely that the larger size of the merged  
11 company would have an impact on the "comparables" employed in future  
12 compensation studies<sup>7</sup>. That stated, they indicated that they would not be  
13 agreeable to limiting compensation for officers, executives and employees  
14 above that which would reasonably be expected if the merger were not  
15 consummated. Further, they agreed that the assumption of *not* increasing  
16 compensation for the increased size of the merged entity was not a  
17 "conservative assumption."

18  
19 **Q. DO YOU HAVE ANOTHER EXAMPLE OF A BIAS TOWARD**  
20 **OVERSTATING SYNERGY SAVINGS?**

21 A. Yes. The Joint Applicants have estimated synergy savings associated with  
22 headquarters facilities consolidation, and more specifically, savings attributable

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<sup>7</sup> Response to Public Counsel Data Request No. 5035.



1 to the closure of Aquila's 20 West 9<sup>th</sup> headquarters office space and parking  
2 garage. Mr. Zabors has included \$21 million of savings expected to occur by  
3 avoidance of return, depreciation and operating costs associated with Aquila's  
4 investment in its 20 West 9<sup>th</sup> headquarters. The joint applicants have assumed  
5 that that facility will be sold – thus avoiding the revenue requirements  
6 associated with supporting that facility. While one can easily observe the joint  
7 applicants' calculation of avoided costs expected to be achieved with the sale of  
8 such facility, I have not been able to observe *any* incremental cost in the form of  
9 increased office leases or other office operating costs that might be anticipated  
10 as GPE/KCPL absorb some Aquila employees. Perhaps the thought is that all  
11 800 to 900 Aquila employees being absorbed by GPE/KCPL can work in  
12 existing Aquila, GPE or Aquila facilities. However, at best, it hardly seems to  
13 be a "conservative" assumption that 228,000 feet of office space and 565  
14 downtown parking spaces can be abandoned with no increase in space or cost at  
15 any of GPE/KCPL/Aquila's other facilities.

16  
17 More importantly, the joint applicants have failed to consider the probable  
18 offset to claimed facilities savings that will occur as a result of a probable loss  
19 on the sale of the 20 West 9<sup>th</sup> office and garage space. The current net  
20 depreciated book value of the 20 West 9<sup>th</sup> facilities is approximately \$46.5  
21 million (Staff DR No. 0301). In response to OPC Data Request No. 5039,  
22 affixed to this testimony as Schedule JRD-2, the joint applicants provided an  
23 estimate of the probable sales price for the 20 West 9<sup>th</sup> facilities. As shown

within the noted response, the firm of Grubb & Ellis provided the following high and low estimates of sales prices for the facilities:

Estimated Sales Price of 20 West 9 <sup>th</sup> Facilities		
Facility	Low (000s)	High (000s)
20 West 9 <sup>th</sup> Office	\$14,872	\$21,736
Garage	\$3,390	\$4,068
Total Facility – Office & Garage	\$18,210	\$25,804

At the low and high end of the estimated sales prices provided, GPE would incur a before-tax loss on the sale of such facilities of between \$20.9 and \$28.5 million.

**Q. IS GPE/KCPL EXPECTING TO CHARGE RATEPAYERS FOR THE LOSS ANTICIPATED TO BE INCURRED IN THE SALE OF AQUILA'S HEADQUARTERS FACILITIES?**

**A.** Yes. In OPC Data Request No. 5040 the joint applicants were asked to:

Please discuss the applicants' proposed rate treatment for any gain or loss on the sale of Aquila's 20 West 9<sup>th</sup> office building.

The joint applicants' responded:

Because an allocated portion of the building has been included in Missouri jurisdictional cost of service, an allocated portion of any gain/loss recognized upon sale should be flowed back/recovered from Missouri ratepayers. We have not yet considered the appropriate amortization period.

**Q. HAVE YOU CALCULATED THE PROBABLE COST TO MISSOURI RATEPAYERS IF THE 20 WEST 9<sup>TH</sup> FACILITIES ARE SOLD AT A**

**LOSS AS YOU DESCRIBED EARLIER, AND GPE/KCPL IS ALLOWED  
TO PASS ON SUCH LOSS TO MISSOURI ELECTRIC RATEPAYERS?**

A. Yes. On Schedule JRD-3 I show the total company as well as Missouri-allocated portion of expected losses under the Grubbs & Ellis estimates of the high and low prices to be received from the sale. As shown on the schedule, I have calculated that GPE/KCPL will be requesting Missouri ratepayers to absorb between \$11.3 and \$15.4 million of a before-tax loss resulting from the sale that has not been reflected within the joint applicants' synergy studies.

I note that Schedule JRD-3 also shows the range of probable losses on the sale that presumably would be absorbed by shareholders. It should also be remembered that shareholder-allocated losses of this kind could have an impact upon GPE's, KCPL's or Aquila's credit rating. Further, if in the alternative this Commission were to assign 100% of the loss on the Aquila headquarters sale to shareholders, the exposure upon credit ratings would be magnified.

**Q. WAS THE GRUBBS & ELLIS VALUATION REPORT PREPARED  
BEFORE THE JOINT APPLICANTS FILED SUPPLEMENTAL  
DIRECT TESTIMONY ON AUGUST 8, 2007?**

A. Yes, the Grubbs & Ellis Broker Opinion of Value is dated June 19, 2007 – several weeks prior to the time the joint applicants' supplemental direct testimony in this case would have been prepared.

1     **Q.     DO YOU BELIEVE THE OMISSION OF A PROBABLE SIGNIFICANT**  
2           **LOSS ON THE SALE OF THE 20 WEST 9<sup>TH</sup> FACILITIES AS AN**  
3           **OFFSET TO OTHER CLAIMED SYNERGY SAVINGS IS A**  
4           **“CONSERVATIVE” ASSUMPTION?**

5     A.    No.   Within the joint applicants’ testimonies one can observe numerous  
6           references to the “conservative” nature in which synergy savings were  
7           purportedly developed. Perhaps GPE/KCPL has reasons to believe that the only  
8           independent valuation of the properties is not credible. But if that is the case,  
9           they certainly have not stated such an opinion – or provided the basis for such  
10          an opinion. Based upon the only valuation provided to date, omission of an  
11          estimate of the loss on the sale of the headquarters facilities does not provide a  
12          “conservative” estimate of synergy savings to be realized from “facilities  
13          consolidations.” In fact, given that the joint applicants intend to pass this  
14          probable loss on the headquarters facilities sale on to ratepayers, I believe it  
15          would have been appropriate to add the estimated loss on the sale of the facility  
16          to the other “transaction” or “transition” costs that the joint applicants intend to  
17          try to charge ratepayers once such loss estimate became available.

18

19    **Q.     DO YOU TAKE EXCEPTION TO OTHER ASSUMPTIONS**  
20           **EMPLOYED AS BEING CHARACTERIZED AS “CONSERVATIVE?”**

21    A.    I would simply observe that I do not view the application of a CPI-inflation  
22           factor to calculated synergy savings as “conservative.” It is reasonable to  
23           expect that gains in productivity would offset some of the impact of price

inflation experienced with wages, goods and services being purchased by GPE/KCPL. Accordingly, I do not view the application of an inflation factor to calculated merger savings to be “conservative.”

## **VIII. RECOVERY OF TRANSACTION COSTS**

**Q. IN EARLIER TESTIMONY YOU EXPRESSED YOUR OPINION THAT THE ENTIRE MERGER SHOULD BE REJECTED, INCLUDING THE JOINT APPLICANTS’ PROPOSED RECOVERY OF TRANSACTION COSTS. BEYOND THE STATED CONCERNS THAT THERE ARE NOT ADEQUATE SYNERGY SAVINGS TO “OFFSET” OR “PAY FOR” INCREMENTAL INTEREST, TRANSACTION AND TRANSITION COSTS ASSOCIATED WITH THE MERGER, DO YOU HAVE OTHER CONCERNS REGARDING THE JOINT APPLICANTS’ PROPOSED RECOVERY OF TRANSACTION COSTS?**

**A.** Yes. Public Counsel’s primary position is that the merger and attendant rate plan should be rejected as they will result in a detriment to ratepayers. That stated, even if the economics of the transaction were significantly better than now projected (i.e., synergy savings greatly exceeded the sum of incremental interest expense and transition costs) I do not believe transaction costs should be directly charged to ratepayers through cost of service amortization as is being proposed by the joint applicants in this proceeding.

**Q. PLEASE EXPLAIN WHY NOT.**

1       A.     First, it should be recognized that transaction costs consist of cost incurred by  
2             both the acquiring company as well as the acquired company to simply  
3             complete the transaction. Transaction costs consist of items such as legal,  
4             banking and consulting fees directly related to closing the transaction.  
5             Inasmuch as these costs are only incurred to facilitate consummation of the  
6             transaction – and not to facilitate the provision of utility service – such costs are  
7             properly considered to be a part of the purchase price of the acquisition.

8  
9             As stated previously, absent the specific rate and accounting treatment being  
10            requested by the joint applicants, pursuant to Generally Accepted Accounting  
11            Principles, transaction costs would be added to the value of the consideration  
12            being given by GPE for the Aquila stock being acquired to arrive at the total  
13            purchase price of the transaction. The excess of total purchase price, including  
14            transaction costs, over the fair market value of assets being acquired would be  
15            initially recorded as a goodwill asset subject to impairment testing for potential  
16            immediate write-down or write-off.

17  
18       **Q.     HAS THIS COMMISSION HISTORICALLY ALLOWED UTILITY**  
19            **COMPANIES TO RECOVER A RETURN ON, OR AMORTIZATION**  
20            **OF, THE EXCESS PRICE – INCLUDING TRANSACTION COSTS –**  
21            **PAID ABOVE THE NET DEPRECIATED BOOK VALUE OF ASSETS**  
22            **BEING ACQUIRED?**

1       A.     To the best of my knowledge, this Commission has never allowed a utility to  
2             directly or indirectly recover in retail rates the excess of the purchase price  
3             above the net depreciated book value of utility assets being acquired. This  
4             would include a return on or return of the goodwill consideration given to  
5             acquire the utility assets.

6

7       **Q.     WHY SHOULD THIS COMMISSION NOT ALLOW RECOVERY OF**  
8       **GOODWILL – INCLUDING TRANSACTION COSTS - IN RATES?**

9       A.     Historically utility businesses have been considered a franchised monopolistic  
10            service. As such, regulated utilities have enjoyed certain privileges in exchange  
11            for accepting certain obligations which are generally not applicable to non-  
12            regulated, competitive businesses. Often referred to as the “regulatory  
13            compact,” utilities are generally required to provide non-discriminatory, safe  
14            and reliable utility service at prescribed prices in exchange for receiving the  
15            right to a certificated service territory (i.e., a non-competitive market), the right  
16            of property condemnation as well as the opportunity to recover all reasonable  
17            costs and the opportunity to earn a fair and reasonable rate of return. Under this  
18            arrangement, utilities are shielded from certain market and operating risks  
19            which plague competitive businesses. In exchange for these privileges, utilities  
20            are generally prohibited through rate regulation from earning unreasonably high  
21            “windfall” profits.

22

1           Decades ago, regulators realized that the intent of protecting ratepayers from  
2           providing unreasonable returns to utilities would be circumvented if rates were  
3           developed by considering a return on investments above net depreciated original  
4           costs. If investments above net depreciated original cost were included in rate  
5           base and allowed depreciation or amortization recovery, investors could receive  
6           windfall profits, otherwise not achievable vis-à-vis continued ownership, by  
7           simply exchanging or selling utility property. To avoid this undesirable  
8           consequence, regulators have generally limited rate recovery to return of and  
9           return on net depreciated original cost utility investment.

10          As noted near the outset of this testimony, Aquila elected to pursue a sale of all  
11          its remaining assets to maximize value for its shareholders. It did not enter into  
12          the transaction for the benefit of its ratepayers. Accordingly, the transaction  
13          costs which are *not* being incurred to facilitate provision of utility service, but  
14          rather, to facilitate a transaction to maximize value to shareholders, should not  
15          be directly passed onto ratepayers as the joint applicants are proposing.

16  
17       **Q.    SHOULD THE JOINT APPLICANTS HAVE BEEN AWARE OF THIS**  
18       **COMMISSION'S PRECEDENTS REGARDING RECOVERY OF**  
19       **TRANSACTION COSTS WHEN THEY NEGOTIATED THE ENTIRE**  
20       **COMPLEX TRANSACTION – INCLUDING THE PURCHASE PRICE**  
21       **ULTIMATELY AGREED TO BY THE PARTIES?**

22       **A.**    Yes, very much so. Both GPE/KCPL as well as Aquila have been involved in  
23       numerous merger and acquisitions proposals before this Commission and are no



doubt intimately familiar with this Commission's long standing precedent of *not* allowing recovery of goodwill or merger premiums including transaction costs.

**Q. BEYOND THE CONCEPTUAL REASONING YOU DISCUSS REGARDING ADHERENCE TO LIMITING UTILITY INVESTMENT RECOVERY TO ORIGINAL COST, IS THERE ANY OTHER REASON WHY TRANSACTION COSTS ARE NOT PROPERLY RECOVERABLE FROM RATEPAYERS?**

A. Included within the transaction costs that the joint applicants propose to recover through rates are change in control payments for Aquila executives. Such contracts are entered into to protect the financial interests of executives and top management in the event the company is acquired, as well as in some instances, to dissuade an unwanted suitor from attempting a hostile take over. In any event, the payment of change in control payments to outgoing executives is not a necessary cost to providing ongoing utility service, and as such, should not be recovered from ratepayers.

**IX. CONDITIONS TO IMPOSE TO AVOID A DETRIMENT TO RATEPAYERS**

**Q. ARE YOU OR THE PUBLIC COUNSEL IN ANY WAY FUNDAMENTALLY OPPOSED TO A TRANSACTION WHEREIN GPE/KCPL WOULD ACQUIRE AQUILA'S ELECTRIC PROPERTY?**

1     A.     No. With adjoining service territories, GPE/KCPL's acquisition of Aquila's  
2           Missouri electric properties should be expected to generate real and fairly  
3           significant synergy savings. It would be beneficial if those savings were  
4           actually achieved and passed on to Missouri retail ratepayers. Further, Public  
5           Counsel would welcome a scenario under which Missouri ratepayers would no  
6           longer be exposed to subsidizing Aquila's failed unregulated business  
7           operations. Therefore, if a deal could be had with terms that would not expose  
8           Missouri ratepayers to detriments, Public Counsel would welcome such a  
9           transaction wherein GPE/KCPL could acquire Aquila's Missouri electric  
10          properties.

11  
12     **Q.     ARE YOU OR PUBLIC COUNSEL CONCEPTUALLY OPPOSED TO**  
13           **THE TRANSACTION GOING THROUGH WITH APPROPRIATE**  
14           **CONDITIONS IMPOSED THAT WOULD PROTECT RATEPAYERS**  
15           **FROM DETRIMENTS YOU ENVISION TO RESULT FROM THE**  
16           **MERGER?**

17     A.     Neither I nor Public Counsel are conceptually opposed to the proposition of this  
18           Commission simply ordering conditions that would protect ratepayers from  
19           probable detriments stemming from the transaction. Indeed, regulatory  
20           commissions occasionally authorize acquisitions and mergers subject to  
21           conditions designed to protect ratepayers from detriments envisioned to  
22           potentially result from a merger or acquisition. However, as stated previously, I

1 cannot envision a scenario wherein enough conditions could be imposed that  
2 would adequately protect ratepayers from detriments resulting from this merger.  
3

4 **Q. PLEASE EXPAND UPON WHY YOU DO NOT BELIEVE ADEQUATE**  
5 **CONDITIONS COULD BE IMPOSED IN THIS CASE TO PROTECT**  
6 **RATEPAYERS?**

7 A. When entering into the transaction it is likely that GPE/KCPL observed a need  
8 to immediately achieve an investment grade rating on the Aquila debt being  
9 acquired through the transaction so as to avoid a downgrade on GPE/KCPL's  
10 debt ratings. In 2005 GPE/KCPL sought, and ultimately was authorized, to  
11 implement a unique rate plan whereby it is permitted to charge rates above that  
12 which could be justified utilizing traditional cost of service rate development in  
13 order to achieve financial metrics thought to be necessary to maintain an  
14 investment grade rating. Notwithstanding this unique and favorable regulatory  
15 plan, if GPE takes on the high cost Aquila debt envisioned with the merger, and  
16 cannot immediately pass on such high cost debt in rates, as well as transaction  
17 and transition costs over a relatively short period of time, there is very real  
18 exposure that not only will Aquila not achieve an investment grade rating  
19 following the merger, but additionally, GPE/KCPL will lose their current  
20 investment grade rating. The loss of a GPE/KCPL investment grade rating will  
21 lead to a detriment to ratepayers. Further, it would be ironic and most  
22 unfortunate for GPE/KCPL to lose its investment grade rating as a result of the  
23 acquisition of Aquila's Missouri electric properties at this time. As this

1 Commission is well aware, pursuant to a comprehensive rate plan approved by  
2 this Commission, KCPL is charging its Missouri retail customers an amount  
3 above that which can be justified employing a traditional approach to cost of  
4 service development to avoid an investment rating downgrade. It would be a  
5 most egregious outcome if KCPL were to be downgraded as a result of the  
6 merger following a period of time that Missouri ratepayers have been paying  
7 rates in excess of that which could be justified under traditional ratemaking to  
8 avoid just such an event.

9  
10 As previously noted, Aquila's high cost debt is directly related to its failed  
11 unregulated business operations, and therefore, allowing recovery of such high  
12 cost debt in rates will result a significant detriment to ratepayers. Arguably the  
13 Commission could order a condition that would limit interest cost recovery in  
14 rates to that which it has presently determined to be reasonable – namely, the  
15 approximate seven percent (7.0%) regulatory interest rate discussed previously.  
16 Under this scenario, Aquila ratepayers would continue to be protected from  
17 paying for the cost of Aquila's unregulated business failures. However, if  
18 GPE/KCPL debt is downgraded by virtue of GPE guaranteeing Aquila's debt  
19 without the attendant regulatory assurance of rate recovery of Aquila's *actual*  
20 high interest costs, GPE/KCPL would be exposed to losing its investment grade  
21 rating on its debt securities, thus ultimately leading to higher interest rates for  
22 KCPL ratepayers. For these reasons, it is difficult to envision a scenario  
23 wherein conditions could be imposed that would adequately protect all

1           ratepayers from detriments. Accordingly, while Public Counsel and I are not  
2           *conceptually* opposed to imposing conditions that might protect rate payers  
3           from detriments resulting from the transaction, we are unable to envision a  
4           scenario where such conditions could realistically be established and enforced.  
5           Therefore, Public Counsel urges total rejection of the proposed merger and  
6           attendant regulatory plan.

7

8    **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9    A.    Yes, it does.

## Identification and Quantification of Savings That Are Not Dependent Upon Consummation of Merger to Achieve

Description of Clearly Identified "Enabled" Savings	Witness Reference	"Enabled" Synergy Savings Claimed (Millions)
The joint applicants intend to install an Automated Meter Reading system on portions of Aquila's metropolitan service territory, similar to that already utilized by KCPL, to achieve savings in meter reading personnel, vehicles and other billing costs. This is a system that could be installed absent the merger.	Zabors' Supplemental Direct, page 10	\$ 5
The joint applicants intend to optimize the operation of Aquila's Sibley #3 by utilizing KCPL's combustion expertise and outage management. This effort is designed to deliver 30 MWs of additional baseload capacity that is expected to reduce purchased power expense	Crawford's Supplemental Direct, pages 2 - 4	17
The joint applicants intend to implement KCPL's Boiler Tube Failure Reduction and Cycle Chemistry Program for Aquila's Sibley #3 thereby increasing availability of the unit and reducing purchased power expense.	Crawford's Supplemental Direct, pages 4 - 5	6
The joint applicants intend to optimize Aquila's Sibley Units 1 & 2 by utilizing KCPL techniques to improve fuel blending and combustion tuning, thereby reducing outage time for both units	Crawford's Supplemental Direct, pages 6 - 7	2
The joint applicants intend to improve the heat rate efficiencies of Aquila's base load coal units by installing OSI-PI data acquisition and EndResult performance monitors as currently exists on KCPL's coal-fired units.	Crawford's Supplemental Direct, pages 7 - 8	1
The joint applicants intend to enhance KCPL's rate revenue realization by leveraging Aquila's skills, intellectual properties and processes	Zabors' Supplemental Direct, page 12	13
The joint applicants intend to implement KCPL's energy efficiency programs for Aquila's electric customers thereby generating avoided capacity and energy cost savings.	Zabors' Supplemental Direct, page 12	13
The joint applicants intend to implement KCPL's internal transmission and distribution fleet maintenance practices to achieve fleet cost savings for Aquila.	Buran Supplemental Direct, pages 16 - 17	2
<b>Total Merger Savings Claimed by Joint Applicants that are <i>not</i> Dependent Upon Consummation of the Merger to Achieve</b>		<b>\$ 59</b>

DATA REQUEST– Set OPC\_20070816

Case: EM-2007-0374

Date of Response: 08/24/2007

Information Provided By: Tim Rush

Requested by: Dittmer Jim

Question No. : 5039

Please provide any and all studies, analyses, market surveys, etc. addressing the probable sales price, net proceeds, and likely gain or loss on the sale of Aquila's 20 West 9th office building.

Response:

Grubb & Ellis provided the Broker Opinion of Value (BOV) for 20 W. 9<sup>th</sup>. Please see attached document to preview the BOV. Response provided by Joe Jacobs.

Attachment:

Q5039\_20 W 9<sup>th</sup> Analysis.pdf

# Broker Opinion of Value

Date: 6/19/2007

Property Address: 20 W. 9<sup>th</sup> Street, Kansas City, MO  
850 Main Street, Kansas City, MO

## PROPERTY PROFILE

Site Size (Acres):	TBD	Total Building (S.F.):	231,724
		20 West Ninth Street (S.F.):	184,724
Parking Ratio:	3.10/1000 (565 spaces)	850 Main Street (S.F.):	47,000
		Warehouse Space:	N/A
Zoning:	Office	Storage Space:	2,924
Year Built:	1890, Renovated 1996	Office Space (S.F.):	228,800
		20 West Ninth Street (S.F.):	181,800
Floor Plate Size:	18,180	850 Main Street (S.F.):	47,000
		HVAC Type:	New System 1996
Number of Floors:			
20 West Ninth Street:	10		
850 Main Street:	2		

## Tax Roll Information

- Property value per tax rolls = \$11,320,312 (\$62.26/sf on office portion)
- Land value per tax rolls = \$595,125 (\$3.27/sf on office portion)

Please rate the following:

	Excellent	Good	Fair	Poor
Location		X		
Accessibility			X	
Exterior Appearance	X			
Interior Appearance	X			
Highway Visibility				X
Physical Condition	X			

Current Use/Potential Alternate Uses: Currently used as headquartered office facility. Most likely use in the future is for office space although residential condo conversion could be considered.

Market Rental/Sale Rates, Trends, & Conditions: Despite a lack of significant leasing activity, the Downtown submarket is creating a stir. Through community, government and private investment, there is \$4.5 billion being pumped into the area. Phase I of The Power & Light entertainment district is less than a year away from completion, creating the "play" portion for those individuals looking Downtown to live, work and play. In addition to the entertainment district, projects include the 18,000-seat Sprint Center, numerous residential condominium projects, a new Federal Reserve Bank, the IRS Service Center, the Kauffman Center for the Performing Arts, and the H&R Block headquarters. The population in this submarket has grown to over 15,000 residents and there has been an increase in companies touring Downtown options when shopping for new space. As the largest and most visible submarket in the city, the Downtown submarket can go a long way toward the resurgence of the office market in Kansas City. With the economy slowing and limited job growth expected, it may take an opportunistic out-of-town user looking to take advantage of low market rents in order to jump-start the recovery. Grubb & Ellis/The Winbury Group anticipates low to moderate net absorption in 2007 with asking rents remaining at present levels. Look for Downtown to make strides following the completion of the many current projects in 2008 and 2009.

Estimated Downtime If property is vacated, lease up to 90% could take up to 24-36 months.



## Comparable Transactions

### Grubb and Ellis G2 Report

Bryan Johnson  
3/2/2007



#### 1. 811 Main St, Kansas City, MO

Downtown

<b>Property Type:</b>	Class B	<b>Trans. Type:</b>	User Sale
<b>Trans. Size:</b>	230,000 rsf	<b>Sale Price:</b>	\$10,750,000
<b>Close Date:</b>	2/28/2005	<b>Price per rsf:</b>	\$46.74
		<b>Year Built:</b>	1959

Buyer reportedly plans to make some renovations.

#### 2. 920 Main St, Kansas City, MO

10 Main Center

Downtown

<b>Property Type:</b>	Class B	<b>Trans. Type:</b>	Investment Sale
<b>Trans. Size:</b>	294,871 rsf	<b>Sale Price:</b>	\$13,750,000
<b>Close Date:</b>	12/6/2005	<b>Price per rsf:</b>	\$46.63
<b>NOI:</b>	N/A	<b>Year Built:</b>	1975
<b>Cap Rate:</b>	N/A	<b>Occ. at Sale:</b>	N/A

2005 Appraised Value \$8,150,000

\* Sale Price: Seller reported the sale price shown does not reflect a credit of \$350,000 to cover costs of leasing commissions and build out if current tenant did not renew lease.

#### 3. 911 Main St, Kansas City, MO

Commerce Tower

Downtown

<b>Property Type:</b>	Class B	<b>Trans. Type:</b>	Investment Sale
<b>Trans. Size:</b>	438,000 rsf	<b>Sale Price:</b>	\$20,750,000
<b>Close Date:</b>	4/24/2006	<b>Price per rsf:</b>	\$47.37
<b>NOI:</b>	N/A	<b>Year Built:</b>	1965
<b>Cap Rate:</b>	N/A	<b>Occ. at Sale:</b>	N/A

2005 Appraised Value \$13,280,085

#### 4. 925 Grand Blvd, Kansas City, MO

Federal Reserve Bank

Downtown

<b>Property Type:</b>	Class B	<b>Trans. Type:</b>	Investment Sale
<b>Trans. Size:</b>	247,800 rsf	<b>Sale Price:</b>	\$12,000,000
<b>Close Date:</b>	7/1/2005	<b>Price per rsf:</b>	\$48.43
<b>NOI:</b>	N/A	<b>Year Built:</b>	1921
<b>Cap Rate:</b>	N/A	<b>Occ. at Sale:</b>	N/A

\* Condition: (Sale Leaseback) Seller will lease property from buyer for 3 years until their new office is constructed. No further information was available.

\* Property Address: The Federal Reserve Bank of Kansas City is located at 925 Grant Street, and 920 Mcgee is a parking structure.

#### 5. 4400 Main, Kansas City, MO

H&R Block

Plaza/Midtown

<b>Property Type:</b>	Class A	<b>Trans. Type:</b>	User Sale
<b>Trans. Size:</b>	144,000 rsf	<b>Sale Price:</b>	\$16,000,000
<b>Close Date:</b>	11/30/2006	<b>Price per rsf:</b>	\$111.11
		<b>Year Built:</b>	N/A

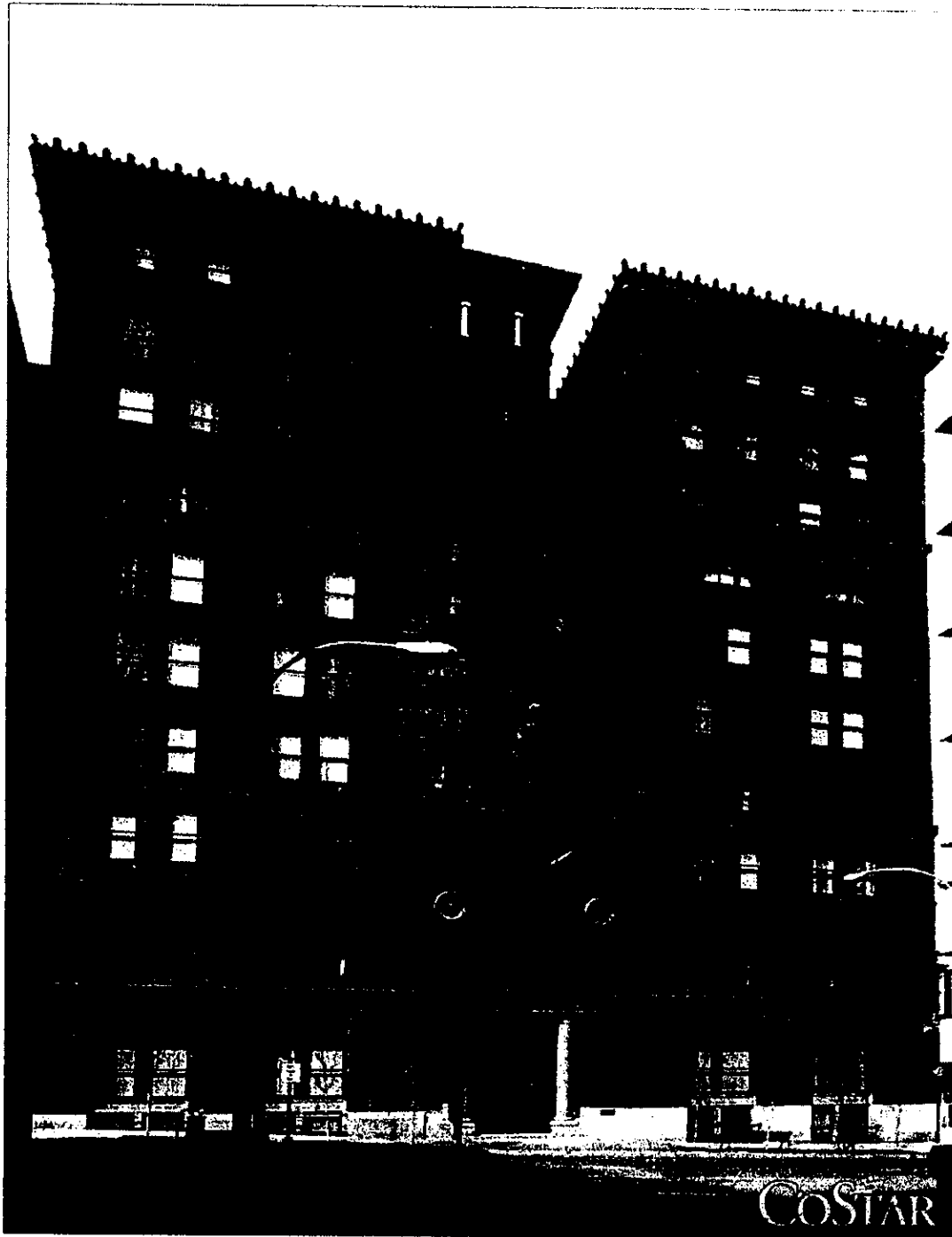
The sale included adjacent lots and 2 small buildings of 4400 and 3700 sf worth roughly \$2,000,000 for a total price of \$18,000,000.

## ***Broker Opinion of Value***

### **Estimated market value for this property?**

Based upon a completely vacant property and anticipating relatively high costs to convert at least part of the part of the building to multi-tenant office space, the estimated range of value is \$65 - \$95/sf or \$14,872,000 to \$21,736,000. The range is fairly wide depending upon whether a user could be identified that would purchase and occupy substantially all of the building. If there was not a large owner/user in the market and the property was sold to a re-developer, the building would sell at the lower range.

The parking structure which totals 565 spaces is a significant part of the values to the range noted above. The cost to build said structure at today's numbers would be \$15 - \$20,000/space or \$8,475,000 to \$11,300,000. Unfortunately, current parking rates in the market for the immediate area are only \$80 - \$90/space/month. After expenses the net per space is \$50 - \$60 which supports a value on the garage of \$3,390,000 to \$4, 068,000 at a 10 cap.





**Analysis of Probable Gain/(Loss) on Sale of  
Aquila's 20 West 9th Headquarters Building and Garage**

Line No.	Description	Grubb and Ellis - Broker Opinion of Value 228,000 Sq Ft -Office		Reference
		Low \$65/sf	High \$95/sf	
1	Estimated Value of 20 West 9th			
2	Headquarters Office Space	\$ 14,872,000	\$ 21,736,000	OPC DR 5039
3	Garage Space	3,390,000	4,068,000	OPC DR 5039
4	Total Estimated Value	\$ 18,262,000	\$ 25,804,000	Line 2 + Line 3
5	Approximate Net Depreciated			
6	Book Value of 20 West 9th			
7	Office Building and Garage	46,500,000	46,500,000	Staff DR 0301
8	Estimated Total Company Before-Tax			
9	Loss on Sale of 20 West 9th Headquarters			
10	and Garage Space	\$ (28,238,000)	\$ (20,696,000)	Line 4 - Line 7
11	Missouri Electric Factor Employed			
12	to Allocate Aquila Headquarters/Garage			
13	Rate Base Values	54.47%	54.47%	OPC DR 5046
14	Estimated Portion of Pre-tax Loss			
15	on Sale Proposed to be Allocated to			
16	Missouri Ratepayers	\$ (15,381,239)	\$ (11,273,111)	Line 10 X Line 13
17	Estimated Portion of Pre-tax Loss on			
18	Sale Assumed to be Assigned to			
19	Shareholders	\$ (12,856,761)	\$ (9,422,889)	Line 10 - Line 16