Exhibit No.: 002NP
Issue: Transaction and Finance Update
Witness: Terry Bassham
Type of Exhibit: Supplemental Direct Testimony
Sponsoring Party: Great Plains Energy Incorporated and Kansas City Power & Light Company
Case No.: EM-2007-0374
Date Testimony Prepared: August 8, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

SUPPLEMENTAL DIRECT TESTIMONY PURSUANT TO THE SCHEDULING ORDER

OF

TERRY BASSHAM

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
August 2007

"[redacted]**" Designates "Highly Confidential" Information**
Has Been Removed
Pursuant to 4 CSR 240-2.135

SUPPLEMENTAL DIRECT TESTIMONY

PURSUANT TO THE SCHEDULING ORDER

OF

TERRY BASSHAM

Case No. EM-2007-0374

Q: Are you the same Terry Bassham who submitted direct testimony in this proceeding?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: My testimony will address four topics. First, I will address the value of the combination of Great Plains Energy Incorporated ("Great Plains") and Aquila, Inc. ("Aquila") to customers, the community and shareholders. Secondly, I will address the importance of credit quality to a utility in general and specifically to Kansas City Power & Light Company ("KCPL") and Aquila. Third, I will address the existence and treatment of Net Operating Losses ("NOLs") in the transaction, and finally, I will describe Great Plains' request for regulatory treatment of synergies, NOLs, and costs to achieve the transaction.

I. VALUE OF THE TRANSACTION

Q: Please provide an overview of the benefits of Great Plains' acquisition of Aquila.

A: The combination of Great Plains and Aquila creates value for customers, the community at large and shareholders. The customers of Aquila and KCPL will benefit from the significant synergy savings that the combination of these two companies will produce.

These synergies will generate net savings over the next five-years of $305 million. These benefits, which are created by more efficiently running two companies as one, will continue long after the initial five-year period used to calculate synergies in this case and will serve to reduce costs and help keep customer rates more affordable for years to come. Witness Robert Zabors has estimated these additional savings at $450 million over the five years following the synergy sharing period, *i.e.*, 2013-2017. Through these savings, Great Plains can invest more capital, at a more affordable cost, to maintain and improve system reliability and customer service. Individual customers, and the community as a whole, will benefit from a larger, stronger regional utility that can be a better corporate citizen and provide low-cost reliable service. The combination of the two companies is also anticipated to create value for Great Plains' shareholders.

Q: Please describe the costs necessary to complete the transaction and achieve the benefits described above?

A: There are costs associated with any transaction of this nature. There are costs to develop and close the transaction itself, and costs to integrate the businesses. "Costs to achieve" are normally categorized as transaction or transition-related costs. Both types of costs are necessary to complete the transaction and produce synergies.

Q: What are "transaction costs"?

A: Transaction costs are comprised primarily of investment banker, consulting, and legal fees associated with the evaluation, bid, negotiation, and structure of the deal. These costs were essential to the evaluation of the combination, the appropriate pricing of Great Plains' offer, and to the negotiation of a very complex transaction. The three-party structure of this transaction is unique for utility acquisitions. This complexity was necessary, however, given the significant risks involved for Great Plains to purchase Aquila as a whole. Aquila has operations spread across many states in both the electric and gas distribution business and recent repositioning efforts made the valuation complex. The parties' use of investment bankers and consultants lowered the risk of the transaction by utilizing the significant collective transaction experience of the group to conduct the most detailed due diligence possible. The lawyers were necessary to assist in the negotiation of the complexities inherent in a three-party transaction.

Q: **What are "transition-related costs"?**

A: Transition-related costs are comprised of the costs incurred to integrate Aquila into Great Plains. Without incurring these costs, the companies could not achieve the synergies while maintaining or improving system reliability for Aquila's and KCPL's customers. Witness Robert Zabors presents the roll-up of all of the synergy work undertaken by the company, including the transaction and transition-related costs included in the "costs to achieve".

Q: **Did you work with Mr. Zabors in the preparation of the synergy analysis?**

A: Yes. Along with a large team of employees from both KCPL and Aquila, we worked for many months in the evaluation of the possible synergies created by this combination. I support his analysis and believe the synergy savings outlined in his testimony and others are achievable. In the final section of my testimony I address our request for treatment of costs to achieve.

II. IMPORTANCE OF CREDIT QUALITY

Q: **What is the importance of maintaining credit quality for a utility?**

A: Maintaining an investment-grade credit quality is very important to a utility, especially utilities such as KCPL and Aquila, which are in the midst of building infrastructure. This very concern was addressed by the KCPL Comprehensive Energy Plan ("CEP"). The parties to the CEP, and the Commission, agreed to support a regulatory tool known as "Additional Amortizations" to support KCPL's credit rating during the construction of the many projects included in the CEP.

Q: Why is an investment-grade credit rating important to customers?

A: Many times a company is required to go to the capital markets in support of a capital spending program. In doing so, credit quality plays an important role in both the cost and availability of that capital. Although a company's credit rating applies most directly to its access and cost of debt, companies with a lower credit quality also find fewer equity investors willing to risk their investment dollars on their stock. In both instances, debt and equity investors demand a higher cost or return on their investment dollars to compensate them for the higher credit risk. This increased cost of capital can translate directly into higher costs for customers.

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

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

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

A: In the near term, no. Aquila's cost of debt following the acquisition will be significantly lower than it is today, but will likely continue to be greater than the imputed seven percent (7%). Nonetheless, Aquila's customers will benefit significantly from the stability that results from an improved credit rating, as I have already discussed. We request that the Commission allow the recovery of the actual cost of debt incurred post merger to ensure access to lower cost capital to finance the capital investments being made on behalf of the Aquila and KCPL customers.

Q: How do "Additional Amortizations" assist in the support of KCPL's credit rating?

A: The allowance of Additional Amortizations, consistent with the stipulation of the parties in KCPL's CEP regulatory plan, has been critical to the support of KCPL's investment-grade credit rating. Although the company remains on track with its plan for the building of the many projects under the CEP, cash remains tight. The strain that a more than $1.5 billion construction program puts on the short-term cash requirements of a company the size of KCPL concerns the credit rating agencies. The Commission's allowance of Additional Amortizations to support that short-term cash flow concern has greatly assisted KCPL in meeting the credit rating agency metrics, which in turn, allows KCPL to maintain its investment-grade rating. As part of the company's merger request, Great Plains has requested the same type of Additional Amortizations treatment for the Aquila properties post-closing. This will again allow Great Plains to maintain the investment-grade credit rating at KCPL and the investment grade credit rating we expect Aquila to receive soon after closing.

Q: What is Great Plains' plan for refinancing Aquila's debt and obtaining an investment-grade credit rating?

A: Witness Michael Cline provides a detailed explanation of the plan and prudence of retiring and/or refinancing approximately **[redacted]** of the outstanding Aquila debt. In short, a portion of the debt buy-down comes from Great Plains ability to sell Aquila's non-Missouri assets and use the proceeds to reduce Aquila's debt outstanding. Great Plains also plans to refinance **[redacted]** of Aquila's debt with a hybrid security that enables the company to significantly reduce, or even eliminate, the amount of Additional Amortizations needed to support the combined company's investment-grade rating. This refinancing plan is a key element in our plan to maintain investment-grade credit ratings for both KCPL and Aquila. Mr. Michael Cline presents the detail of the refinancing plan for improving the credit quality of Aquila. The overall plan of refinancing Aquila's debt, recovery of the actual debt cost and provision for Additional Amortizations treatment are all important pieces of the Great Plains plan to reduce the overall capital cost structure of Aquila, protect KCPL's cost structure and combine these companies to build a stronger investment-grade regional utility.

III. NET OPERATING LOSSES

Q: Please describe the NOLs associated with Aquila and how they were treated in the valuation of Aquila.

A: Aquila has approximately $1 billion of NOL's on its balance sheet. As of year end 2006, Great Plains Energy believes that the potential tax benefit associated with those NOLs is $426 million, net of proposed IRS adjustments and tax reserves. The nature of the transaction, specifically the sale of significant utility assets to Black Hills Corporation, uniquely enabled the use of much of Aquila's NOLs. It would take several years for Aquila as a stand-alone company to utilize these tax attributes, and to the extent not fully utilized, they would have been lost. Great Plains' ability to pay the price necessary to win the auction of Aquila and deliver synergies was significantly supported by our ability to fully utilize the tax losses of Aquila.

Q: How were the NOLs generated?

A: For a regulated utility such as Aquila, NOLs are generated in large part through unregulated activities and regulated activities that are not allowed in rates. As an example, as Aquila's actual debt cost increased over the past several years, but its ability to recover those costs did not, the additional costs were born by shareholders and, therefore, created an under earning situation. In Aquila's case, that under earning grew to a point that when combined with its unregulated losses, the company generated actual operating and capital losses. Great Plains expects to utilize these losses in the transaction to offset future earnings. The benefit of that utilization is part of Great Plains' valuation and pricing of Aquila. As mentioned before, without retaining those benefits generated outside the regulatory environment, the price offered to Aquila shareholders would have been reduced.

IV. REQUEST FOR RECOVERY OF COSTS AND SYNERGIES

Q: In your direct testimony, debt interest savings were included as synergies. Is that still the case?

A: No. In our update, we have eliminated the initial request for a sharing of the interest savings because these savings primarily result from a combination of the reset of interest rate triggers (*i.e.*, interest rate step downs) that occur when Aquila returns to an investment-grade utility, and Great Plains' refinancing of debt following the acquisition. Great Plains requests that the Commission include these costs in its evaluation of the merger. We assume these costs will be recovered in future rate cases.

Q: **Is the Company still proposing to share synergy costs between customers and shareholders?**

A: Yes, however, we propose to offset the synergies by the transition-related costs prior to sharing 50/50. Consequently, customers will retain more synergies than in our original proposal and we believe this request is more consistent with past commission practice. Total non-fuel operating synergies were $305 million. After subtracting transition-related costs of $45 million and using the 50/50 synergy sharing ratio, synergy sharing is $130 million over five years.

Q: **How do you propose to account for transaction and transition-related costs?**

A: As in my direct testimony, we request that the Commission authorize KCPL and Aquila to establish a deferred asset for transaction and transition-related costs and allow the companies to amortize these costs over five years. Our request is 100% recovery of transaction costs and 50% of transition-related costs consistent with netting transition costs with synergies.

Q: **After payment of all costs to achieve, does this transaction meet the regulatory test of no detriment to customers?**

A: Yes. Mr. Marshall and Mr. Zabors provide in their testimonies a description of the conservative nature of our synergy analysis. The conservative nature of their analysis is confirmed by witness William Kemp. We have only requested sharing of those costs we can clearly document as achievable. We have not taken credit for other synergies that will occur in the future but cannot be clearly quantified today. Even after the payment of $95 million of necessary and prudent transaction expense, there are $35 million of net synergies for customers in the first five years. As Mr. Zabors explains in his testimony, an additional $450 million in net synergies will occur in the five years following synergy sharing. These additional synergies more than offset any additional short-term costs associated with the debt tender and actual debt costs.

Q: **Does the Company still request the Commission to authorize use of Additional Amortizations for Aquila in future rate cases?**

A: Yes, as I describe above and further explained in Mr. Michael Cline's testimony, Additional Amortizations may be required in future rate cases to maintain Aquila's and thus, Great Plains' investment-grade credit rating.

Q: **Does that conclude your testimony?**

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF TERRY BASSHAM

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

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

1. My name is Terry Bassham. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as Executive Vice President and Chief Financial Officer.

2. Attached hereto and made a part hereof for all purposes is my Supplemental Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of nine (9) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

TB
Terry Bassham

Subscribed and sworn before me this 8th day of August 2007.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

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