

Exhibit No.: 037NP
Issue: Regulatory Treatment
Witness: Terry Bassham
Type of Exhibit: Additional Supplemental Direct
Testimony
Sponsoring Party: Great Plains Energy Incorporated and
Kansas City Power & Light Company
Case No.: EM-2007-0374
Date Testimony Prepared: February 25, 2008

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY

OF

TERRY BASSHAM

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri

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

Company Exhibit No. 037NP
Case No(s) EM-2007-0374
Date 4-22-08 Rptr PF

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY

OF

TERRY BASSHAM

Case No. EM-2007-0374

1 **Q: Are you the same Terry Bassham who submitted Direct Testimony, Supplemental**
2 **Direct Testimony, and Surrebuttal testimony in this proceeding?**

3 **A: Yes, I am.**

4 **Q: What is the purpose of your Additional Supplemental Direct Testimony?**

5 **A: My testimony addresses the decision of Great Plains Energy Incorporated ("Great Plains**
6 **Energy"), Kansas City Power & Light Company ("KCP&L"), and Aquila, Inc.**
7 **("Aquila") (collectively, "Joint Applicants") to withdraw several of their previous**
8 **requests for regulatory treatment, specifically with respect to synergies, transaction and**
9 **transition costs, interest expense, and regulatory or "additional" amortization.**

10 **Q: Why are the Joint Applicants withdrawing several of their previous requests for**
11 **regulatory treatment, as described in the Joint Application and your and other Joint**
12 **Applicant witnesses' Supplemental Direct Testimony filed on August 8, 2007?**

13 **A: During the hearings held in December 2007 a number of concerns were raised by some**
14 **parties, as well as Commissioners, about the Joint Applicants' proposals. The Joint**
15 **Applicants carefully considered the comments expressed by the Commissioners and other**
16 **parties and, as explained in this testimony, have addressed those concerns by**
17 **withdrawing several of the Joint Applicants' requests for regulatory treatment. For**

1 example, it became apparent to the Joint Applicants that net benefits to customers needed
2 to be realized sooner. Although the original request demonstrated net benefits to
3 customers over a five and ten year period, customers would not realize a net annual
4 benefit until late in the five-year period after close of the transaction. This result was
5 primarily caused by including in the original request recovery from customers of interest
6 costs associated with non-investment grade Aquila debt. The additional interest cost
7 above interest cost associated with investment-grade debt is not included in Aquila's
8 current rates. During the course of the hearing it also became apparent to the Joint
9 Applicants that they might be able to address other issues in a different manner from the
10 original request, continue to maintain the credit quality of Great Plains Energy and
11 KCP&L, and benefit all stakeholders. The Joint Applicants requested the Commission to
12 recess the hearing to allow time for development of a revised regulatory request and to
13 allow time for the Joint Applicants to meet with other parties to discuss a settlement of
14 the case. The parties to this case have met several times and exchanged proposed
15 settlement agreements. However, we have not been able to come to an agreement. Thus,
16 the Joint Applicants request that the Commission approve the transaction based on the
17 revisions (withdrawals) to the original request as further described in my testimony.

18 **Q: Please describe the Joint Applicants' current request concerning the recovery of**
19 **Aquila's debt interest costs?**

20 **A:** The Joint Applicants withdraw their request for recovery of Aquila's actual debt interest
21 cost and instead propose to follow the debt interest cost recovery procedure utilized in the
22 most recent Aquila Missouri rate cases. This means any non-investment grade debt of
23 Aquila will be assigned for purposes of setting retail rates, investment-grade interest rates

1 for comparable debt. In the Joint Applicants' original request Great Plains Energy
2 proposed to refinance all but one \$500 million issuance that was due in 2011. Great
3 Plains Energy does not currently plan to refinance Aquila's below investment-grade debt
4 and Aquila will not request recovery of the cost of refinancing the below investment-
5 grade debt or the additional interest cost above investment-grade debt related to its non-
6 regulatory activities in any future rate case. Great Plains Energy expects Aquila to
7 receive an investment-grade credit rating soon after the transaction closes. Great Plains
8 Energy proposes that after Aquila receives an investment-grade credit rating any new
9 debt issued in the future would receive the same expense recovery as any other utility
10 debt.

11 **Q: Has the amount of synergies or benefits contained in the original request filed on**
12 **August 8, 2007 changed?**

13 A: No, synergies were estimated based on a detailed evaluation by the transaction
14 integration teams, including members of Aquila and KCP&L management and
15 individuals responsible to achieve the synergies. Over a ten-year period synergies are
16 expected to be \$755 million with \$305 million achieved during the first five years after
17 the transaction. Importantly, these amounts represent total savings. On a Missouri
18 jurisdictional basis, total synergies are equal to \$549 and \$222 million for ten and five
19 years, respectively.

20 **Q: Please describe the Joint Applicants' current request concerning synergy sharing?**

21 A: The Joint Applicants withdraw their request for a specific synergy savings adder and
22 instead propose to utilize the natural regulatory lag that occurs between rate cases to
23 retain any portion of synergy savings. The Joint Applicants believe that this will result in

1 benefits to customers in every year after the close of the transaction. Both Aquila and
2 KCP&L will file rate cases in 2008 to include in rate base new environmental plant at
3 Iatan 1 and, in the case of Aquila, to include new environmental plant at Sibley 3. Both
4 Aquila and KCP&L will file rate cases in 2009 to include in rate base the newly
5 constructed Iatan 2 generation unit. Synergy savings will be included in the test year cost
6 of service of those rate cases, allocated to all jurisdictions, and flowed through to
7 customers in rates effective in 2009 and 2010. Great Plains Energy proposes to retain
8 only those synergies achieved between rate cases in excess of those synergies previously
9 included in rates.

10 **Q: Are the Joint Applicants requesting that the Commission approve a regulatory or**
11 **"additional" amortization provision for Aquila in this case?**

12 **A:** No. The Joint Applicants continue to believe that an amortization provision for Aquila,
13 similar to the provision contained in KCP&L's 2005 Stipulation and Agreement
14 approved by the Commission, is appropriate and helpful in the protection of customers.
15 However, the Joint Applicants withdraw their request for consideration of an additional
16 amortization provision and instead intend to initiate discussions, post-close of the
17 transaction, with interested parties to develop a regulatory plan for Aquila that might
18 include an amortization provision as part of that regulatory plan.

19 **Q: Do the Joint Applicants propose that the Commission authorize an amortization of**
20 **transaction costs?**

21 **A:** Yes. With two exceptions, the Joint Applicants continue their request that they be
22 permitted to recover in general rate cases the majority of the transaction costs. The Joint
23 Applicants withdraw their request to recover any change-in-control costs associated with

1 Aquila's senior management, including change-in-control payments, including the tax
2 "gross up" thereof, and the funding of the rabbi trust, representing Aquila's supplemental
3 executive retirement plan. The amount of these costs is \$16.7 million and the Missouri
4 jurisdictional amount is \$12.2 million. The Joint Applicants believe that the severance
5 costs included in the original request were incorrectly categorized as transaction costs and
6 should instead be treated as transition costs. This amount is \$13.6 million and the
7 Missouri jurisdictional amount is \$9.9 million. This results in \$64.9 million remaining as
8 transaction costs of which \$47.2 million is Missouri jurisdictional, and \$58.9 million of
9 transition costs, of which \$42.8 million is Missouri jurisdictional. The changes are
10 reflected on Schedule CBG-1 in the Additional Supplemental Direct testimony of Chris
11 B. Giles where he demonstrates the impact of the synergy savings and transaction and
12 transition costs by Missouri jurisdiction. Joint Applicants request that the Commission
13 allow the surviving entities to defer both transaction and transition costs and to amortize
14 them over a five-year period beginning with the first rate cases post transaction for
15 Aquila and KCP&L subject to "true up" of actual transition and transaction costs in those
16 future cases.

17 **Q: Have Great Plains Energy and KCP&L considered the impact the withdrawals of**
18 **these requests will have on the credit quality of Great Plains Energy, KCP&L, and**
19 **Aquila?**

20 **A:** Yes, as explained in the Additional Supplemental Direct Testimony of Michael W. Cline,
21 Great Plains Energy vetted the withdrawals summarized herein with the credit rating
22 agencies. ** [REDACTED]

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

5 **A:** Yes. Mr. Marshall and Mr. Zabors provide in their testimonies a description of the
6 conservative nature of our synergy analysis. The conservative nature of their analysis is
7 confirmed by witness William Kemp. There should be no doubt that synergies will be
8 achieved by this transaction. Our revised proposal flows through 100% of synergies
9 included in any test year cost of service. We have not taken credit for other synergies
10 that will occur in the future but that cannot be clearly quantified today. Even after the
11 payment of \$90 million of Missouri jurisdictional necessary and prudent transaction and
12 transition expense, there are \$100 million of net synergies for customers in the first five
13 years and an additional \$250 million, Missouri jurisdictional, in the next five years. At a
14 bare minimum the Commission should authorize the deferral and amortization of
15 transition costs of \$58.9, \$42.8 million Missouri jurisdictional, or approximately \$8.6
16 million annually for a five-year period beginning with the effective date of new rates in
17 Missouri. This would result in a net benefit to Missouri customers of \$140 million in the
18 first five years after the close of the transaction.

19 **Q: Is Great Plains Energy willing to demonstrate that there is a net savings to the**
20 **customer in future rate cases that is adequate to cover any transaction and/or**
21 **transition costs approved for recovery by this Commission?**

22 **A:** Yes, it is. As noted in Lori Wright's Direct Testimony, if the Commission so desires,
23 Great Plains Energy is willing to track synergy savings achieved. The synergies achieved

1 can be compared to the transaction and transition cost amortization and to the extent the
2 synergies do not cover the amortization, the cost would continue to be deferred until such
3 time that the demonstrated savings from the merger exceeds the related cost.

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

5 **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 Requested Relief)
)
) Case No. EM-2007-0374
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)
)

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 Additional Supplemental Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of Seven (7) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


Terry Bassham

Subscribed and sworn before me this 25th day of February 2008.


Notary Public

My commission expires: Feb. 4, 2011

