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Issue:	Policy
Witness:	Chris B. Giles
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Sponsoring Party:	Great Plains Energy Incorporated and Kansas City Power & Light Company
Case No.:	EM-2007-0374
Date Testimony Prepared:	November 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-0374

SURREBUTTAL TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
November 2007

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

SURREBUTTAL TESTIMONY

OF

CHRIS B. GILES

Case No. EM-2007-0374

Q: Please state your name and business address.

A: My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri 64106.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCPL") as Vice President, Regulatory Affairs. KCPL is a direct, wholly-owned subsidiary of Great Plains Energy Incorporated ("Great Plains Energy").

Q: What are your responsibilities?

A: My responsibilities include all aspects of regulatory activities including cost of service, rate design, revenue requirements, and tariff administration.

Q: Please describe your education, experience and employment history.

A: I graduated from the University of Missouri at Kansas City in 1974 with a Bachelor of Arts degree in Economics and in 1981 with a Master of Business Administration degree with concentrations in accounting and quantitative analysis. I was first employed at KCPL in 1975 as an Economic Research Analyst in the Rates and Regulation Department. I held positions as supervisor and manager of various rate functions until 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the rate area as Director, Regulatory Affairs. In March of 2005, I was promoted to Vice-President, Regulatory Affairs.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("Commission") or before any other utility regulatory agency?

A: I have previously testified before both the Commission and the Kansas Corporation Commission ("KCC") on numerous issues regarding utility rates and regulation.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is (i) to address Staff's position that KCPL needs Commission approval to operate in the manner contemplated by the applicants after the acquisition of Aquila by Great Plains Energy; (ii) to clarify the request to waive any affiliate transaction rules related to the operation of KCPL and Aquila; (iii) to address the issues of the Staff and the Office of Public Counsel ("OPC") with extending the provisions of the Additional Amortizations mechanism, currently applicable to KCPL, to Aquila after the acquisition closes and after Aquila achieves investment-grade credit metrics; and (iv) to address issues raised by the City of Kansas City, Missouri ("Kansas City") concerning the possibility of adopting an earnings sharing mechanism in this case and the appropriateness of committing in this case to having KCPL and Aquila file a consolidated rate case.

OPERATION OF AQUILA

Q: Mr. Schallenberg appears to take the position in pages 2-12 of his Staff Report that KCPL and Aquila will be merging or consolidating their systems, and have not asked for Commission approval to do so as required by Missouri law. Do you agree with Staff's position?

A: No, I do not. There is a merger, but it doesn't involve KCPL. As Mr. Bassham described in his Direct Testimony, the proposed transaction involves the merger of Gregory Acquisition Corp., a special purpose subsidiary of Great Plains Energy, with and into Aquila. Aquila will be the surviving corporation in this merger. After the merger, KCPL and Aquila will be separate subsidiaries of Great Plains Energy. Aquila will continue to own its power plants, its transmission and distribution facilities, and its other assets. Aquila will continue to serve its customers under its separate electricity and steam tariffs. Our joint application appropriately requests authorization for this merger.

It is true that much of the benefit to KCPL and Aquila customers from this transaction comes from integrating various KCPL and Aquila functions and activities. Our testimony in this case goes into great detail regarding these synergy opportunities. It is also true that our witnesses have used various labels for this integration – "merger," "combination," "consolidation," among others. Mr. Schallenberg attempts to use these various labels as evidence that KCPL and Aquila will be "merging" or "consolidating," as those terms are used in Section 393.190.1, RSMo 2000, without having sought authorization from the Commission. However, Mr. Schallenberg and the Staff Report have not shown that the combined activities of KCPL and Aquila fall within the meaning of Section 393.190.1. I have been advised that Mr. Schallenberg's argument is not supported by law. Further, if Mr. Schallenberg's argument were applied to inter-utility arrangements, it would lead to the inescapable conclusion that these arrangements would require Commission approval. This conclusion would be contrary to longstanding practices among Missouri utilities that, to my knowledge, Staff has never before raised an objection to until this proceeding. Such a position would also be contrary to the proposition that utilities have the power to manage and conduct their own business and operations.

While the terms "merge" and "consolidate" are not defined in the referenced Section, they are well-defined in Missouri corporate law. For example, Section 351.450 describes the effect of a merger where all but one of the corporations involved in the merger ceases to exist. In our transaction there is no merger of KCPL and Aquila, because both companies will continue to exist after the transaction. The same section also describes that a consolidation results in a new company, and that the old companies cease to exist. Again, there is no consolidation because no new company is being formed, and KCPL and Aquila will continue their separate corporate existences. I am sure that the discussion on this topic will move from Mr. Schallenberg and me to the lawyers in briefing this matter.

Public utilities have for years co-owned generation and transmission facilities. While there are multiple owners, one utility typically operates and maintains the facilities. Iatan Station is a good example. KCPL, Aquila and The Empire District Electric Company are co-owners of Iatan Unit 1. However, KCPL has been the operator of that unit ever since it went into operation in 1980. KCPL employees operate and maintain the unit. KCPL buys the coal, material and supplies for the unit, and bills its co-owners for their proportionate shares. If Mr. Schallenberg's theory is correct, there has been a "merger" or "consolidation" of a part of KCPL's, Aquila's and Empire's systems at Iatan Unit 1 for 27 years that no one recognized and that the Commission didn't approve. The combined operations of KCPL and Aquila contemplated after the transaction are no different in concept than what KCPL has done for decades for Aquila's and Empire's ownership shares of Iatan Unit 1.

Q: Does Mr. Schallenberg's mischaracterization of the proposed transaction affect his analysis of the synergy savings?

A: Yes. As set forth in the Staff Report at page 21, his inaccurate and hyper-technical analysis of the relationship of Aquila and KCPL post-merger has led him to remove all of the synergies and other cost-savings that will be realized by Great Plains Energy's common ownership and operation of the two utilities. Page 43 of the Staff Report similarly argues that because KCPL and Aquila have not requested to merge, Staff has recommended that the Commission find there are no merger synergies to be realized or transition costs to be incurred. Staff's position that $260 million in synergies must be disregarded is based upon its erroneous factual and legal view of the transaction. The Commission should reject Staff's analysis and consider the synergy savings that will clearly be achieved by Great Plains Energy operating Aquila and KCPL as efficiently as possible.

Q: Mr. Schallenberg asserts at page 17 of the Staff Report that Great Plains Energy "influence[s] ... KCPL outside the parameters of independent corporate governance ... in this case." Do you agree?

A: No, I do not. Mr. Schallenberg's arguments exalt form over substance and demonstrate a lack of understanding regarding the full extent of the fiduciary and statutory duties of KCPL directors, officers and employees. The fact is that Great Plains Energy and KCPL are not independent. They are affiliated companies. I am advised that under corporate law, KCPL directors, officers and employees, owe their fiduciary duties to KCPL's shareholder – Great Plains Energy. KCPL also has a statutory duty to provide safe and efficient electric service at just and reasonable rates to its customers. I believe the evidence demonstrates that the transaction is in the best interests of KCPL's customers, as well as its shareholder, Great Plains Energy.

Mr. Schallenberg purports to provide several examples of Great Plains Energy's "operation outside the parameters of independent corporate governance." These claims have no merit. For example, at page 4 of his Staff Report Mr. Schallenberg notes that KCPL is not a signatory to the merger agreement. However, KCPL has no reason to be a signatory because it has no rights or obligations under the merger agreement. Mr. Schallenberg states that there is no "contract or agreement authorizing KCPL employees to provide services" to Great Plains Energy. While there is no *written* agreement, none is required either under contract law or the Commission's affiliate transaction rules. We strive to comply in all respects with the Commission's affiliate transaction rules.

Mr. Schallenberg also states at pages 17-18 of the Staff Report that neither KCPL nor Aquila are parties to the Transition Services Agreement. This is true, but Mr. Schallenberg fails to note that, through the merger with Gregory Acquisition Corp., Aquila will assume that company's obligations and essentially become a party to the contract.

Finally, Mr. Schallenberg notes at page 17 of the Staff Report that there is no written agreement between KCPL and Great Plains Energy regarding services to be provided to Black Hills Corporation ("Black Hills") under the Transition Service Agreement, or between KCPL and Aquila. As Staff knows, and as shown in our testimony, KCPL employees continue to work with Black Hills and Aquila employees on planning for operations when the transaction closes. We anticipate that when the details regarding operations and the services to be provided by KCPL to Aquila and Black Hills are completed post-closing, we will formalize them in written agreements.

AFFILIATE TRANSACTION RULES WAIVER REQUEST

Q: Staff objects to the Joint Application's request for a waiver from the affiliate transaction rules for transactions between KCPL and Aquila. What is the reason for the waiver request?

A: The affiliate transaction rules are premised on asymmetric pricing to prevent a public utility from subsidizing its affiliates. Therefore, goods and services provided by a public utility to *any* affiliate are to be priced at the higher of market value or the cost to the public utility in providing the goods and services. Conversely, goods and services provided by *any* affiliate to a public utility are to be priced at the lower of market value or the cost to the public utility in providing the goods and services to itself. In this way, the public utility should be indifferent as to whether it sells or receives goods and services from an affiliate or a third party.

This concept is appropriate where the transactions involve a public utility and an unregulated affiliate. However, if both parties are public utilities subject to the affiliate transaction rules, the rationale underlying the rules doesn't apply because the utilities already are subject to Commission regulation. In such a utility-to-utility situation, the asymmetric pricing mechanism is also unworkable. If a public utility is to provide a service to an affiliated public utility, the public utilities are on the opposite sides of the asymmetric pricing requirements. The synergies contemplated by Great Plains Energy in this transaction are premised on the ability of KCPL and Aquila to exchange goods and services at cost. To the extent the asymmetric pricing dictated by the affiliate transaction rules prevent KCPL and Aquila from doing so, the synergies will be reduced to the detriment of the utilities' Missouri customers.

That is why the Joint Application requested a waiver from the affiliate transaction rules for transactions between KCPL and Aquila. KCPL explained in a data request (reproduced on page 65 of the Staff Report) that the intention of the parties is to price non-power transactions between the two utilities at cost, and power transactions pursuant to applicable FERC rates. The applicants, therefore, seek a waiver as requested in the Application and in accordance with the data request response.

Q: What is your response to the objections to the waiver request as stated on pages 64-67 of the Staff Report?

A: Staff objects to the waiver on the ground that it's premature, arguing that KCPL and Aquila need to adopt a merger plan. As explained earlier in my testimony, Staff's assertion that there is or should be a "merger" or "consolidation" between KCPL and Aquila is wrong.

Staff also asserts that the Joint Application doesn't comply with the waiver requirements. We believe that Staff's Report and my testimony do provide an adequate basis for the Commission to consider the request.

ADDITIONAL AMORTIZATIONS PROVISION FOR AQUILA

Q: Please describe the purpose of the Additional Amortizations provision contained in the Regulatory Plan of KCPL, approved by the Commission in Case No. EO-2005-0329.

A: The Additional Amortizations provision is intended to *maintain* KCPL's and Great Plains Energy's investment-grade credit rating during the construction of (i) environmental facilities at KCPL's LaCygne and Iatan 1 generating plants; (ii) wind generation; and (iii) the new Iatan 2 plant. Given the amount of capital required to fund this large construction program, KCPL would have been downgraded to below investment grade upon announcement of these investments absent some assurance that KCPL and Great Plains Energy would have sufficient funds from operations to maintain investment-grade credit during the construction period. Since any future increases in rates are dependent on the unpredictable outcome of future rate cases and decisions relative to return on equity, the Additional Amortizations mechanism will provide sufficient cash flows to convince rating agencies to maintain the companies' investment-grade credit.

Q: Is Aquila a partner with KCPL in any of these facilities?

A: Yes, Aquila is a partner at both Iatan 1 and Iatan 2.

Q: Did Aquila have a similar provision in either a regulatory plan or some other agreement to provide some assurance they could maintain investment-grade credit?

A: No. Aquila was below investment grade at the time the decision was made to invest in additional facilities at the Iatan generation site. As a result, there was no reason for a provision to keep Aquila at investment grade.

Q: Both OPC witness Trippensee and Staff witness Schallenberg object to applying the Additional Amortizations provision to the Aquila facilities after the acquisition because the KCPL Regulatory Plan included other provisions related to KCPL's overall investment strategy. Do you agree with OPC and Staff?

A: No, I do not. Although the Additional Amortizations provision was one piece of an overall Stipulation and Agreement entered into by the signatory parties and approved by the Commission in 2005, this provision stood independent from the other provisions of the Stipulation with one exception. The exception is that the deduction to rate base for Additional Amortizations should remain in place for ten years, notwithstanding any changes in the law. I agree that this provision should also be part of the Additional Amortizations mechanism that should be applied to the Aquila facilities post-closing.

The purpose of the Additional Amortizations in the 2005 Stipulation is to keep KCPL and Great Plains Energy investment grade during this current period of construction. Mr. Trippensee lists some of the other provisions of that Stipulation on page 8 of his Rebuttal Testimony. With the exception noted above, not a single item listed is relevant to this goal of maintaining investment-grade credit during construction.

Once acquired by Great Plains Energy, Aquila will achieve investment-grade credit metrics. Although Mr. Cline testified to this fact in his Direct Testimony, Staff continues to ignore or overlook this critical element of the transaction and takes the position that Great Plains Energy is requesting to use the Additional Amortizations provision to *attain* an investment-grade credit rating for Aquila. This is not the case. The Additional Amortizations provision requested for Aquila is to *maintain* investment-grade credit metrics once Aquila reaches that status. Great Plains Energy believes that it would be unwise and inconsistent for the Commission to approve the use of this mechanism in 2005 so that KCPL and Great Plains Energy could maintain their investment-grade status, only to deny that same treatment for an expected investment-grade quality Aquila, which is a partner of KCPL in the construction of Iatan 2. After the acquisition, Aquila will satisfy the credit metrics for investment-grade status. However, given the amount of capital required to fund construction of Iatan 2, it is unlikely that the Commission will grant a return on equity in future rate cases to generate sufficient funds from operations to maintain Aquila's investment-grade credit quality. Therefore, the Commission should extend the Additional Amortizations treatment to Aquila in order to avoid the undesirable result of Aquila losing investment-grade credit metrics.

Q: **Can you provide an example of why the provisions listed by Mr. Trippensee on page 8 of his Rebuttal Testimony are not relevant to Aquila?**

A: Yes, I can. KCPL decided to pursue a comprehensive energy plan in 2004 that dealt with a wide range of issues related to generation construction; environmental compliance; demand response, energy efficiency and affordability programs; rate design; and other issues. KCPL sought to enter into a stipulation and agreement to formalize the agreement of the signatory parties that these investment decisions were correct and the time to commit to them was proper. In contrast, the applicants in this proceeding only ask that when Aquila achieves investment-grade quality post-closing, the Additional Amortizations mechanism be employed to preserve that status. The Commission clearly possesses the authority to permit Aquila to utilize this provision in future rate cases.

Q: **Does the Staff Report indicate other reasons why the Additional Amortizations mechanism should not be authorized for Aquila?**

A: Yes, Staff lists four reasons on pages 61 through 63 of its report. The argument is that amortizations would be used to subsidize Aquila's non-regulated activities. This is simply wrong. As I previously stated, the purpose of the amortizations is to provide some assurance that Great Plains Energy and Aquila will maintain investment-grade credit quality during the construction at Iatan 1 and 2. Aquila will meet the metrics required for an investment-grade credit rating subsequent to the close of the acquisition, and the Additional Amortizations provision would only be relevant in future rate cases to *maintain* Aquila's credit quality. The only reason Additional Amortizations would be needed is for continuing funding of operations, primarily the financing of construction activities at Iatan 1 and 2. Staff's second argument is that the Additional Amortizations would not be used to support acknowledged prudent improvements in infrastructure. The Staff Report on page 62 states: "The additional amortizations in the separate KCPL and Empire regulatory plans were designed to serve this purpose." However, as is obvious, the construction of Iatan 2 and the environmental equipment upgrades at Iatan 1 are the same prudent improvements for Aquila, just as they are for Empire and KCPL. Empire, Aquila, and KCPL are partners in each of the Iatan generation units. To my knowledge, Staff has never alleged that these improvements, while prudent for KCPL and Empire, are imprudent for Aquila.

I would like to note that on page 63 of the Staff Report there is the following statement, "The additional amortization is designed to provide the supporting economics of this acquisition of Aquila and related merger of the Aquila and KCPL systems and operation by providing assurance that the rating agencies need not be concerned about that reliability of the **[redacted]**"

This statement is incorrect. In fact, the Additional Amortizations mechanism has nothing to do with the reliability of the synergy estimates in this proceeding or whether KCPL and Aquila actually achieve the estimated synergies. Only to the extent synergies are non-cash would they have any impact on Additional Amortizations. I am not aware of any synergies in this proceeding that are non-cash related.

On page 63 of the Report Staff argues that the joint applicants have provided no evidence that Aquila needs an Additional Amortizations mechanism in order to provide safe, adequate and reliable electric service. As noted above and elsewhere in the direct testimony of KCPL and Great Plains Energy witnesses, Aquila is currently below investment grade but will become investment grade subsequent to the acquisition. The Commission should embrace policies that promote strengthening utilities when a reasonable proposal, such as utilizing the Additional Amortizations mechanism, is proposed in the context of this transaction. The purpose of the Additional Amortizations is to *maintain* investment-grade credit for Great Plains Energy, KCPL, and Aquila subsequent to close of the transaction and during the construction of Iatan 1 and 2.

<u>ISSUES RAISED BY THE CITY OF KANSAS CITY, MISSOURI</u>

Q: In the Rebuttal Testimony of Mr. Robert Hix, on behalf of Kansas City at pages 6-8, he proposes that the Commission condition approval of the merger on the Company participating in an earnings sharing mechanism. Is an earnings sharing mechanism appropriate in this case?

A: No such mechanisms are not appropriate. Mr. Hix is clearly not familiar with the current operations of KCPL and Aquila, including the major generation construction programs currently underway for both companies, as well as the continued need to raise additional capital, beyond the current construction of facilities, to meet environmental regulations. These infrastructure programs will require both Aquila and KCPL to file rate cases with the Commission requesting revenue increases in the year after the transaction closes, regardless of how the synergies are ultimately shared between customers and shareholders. These rate increases will be needed to recover the costs of new facilities as they are placed into service, combined with increasing fuel costs and other increasing operations and maintenance expenses. Such costs will exceed the total estimated synergies of the acquisition during the next several years. However, it must be recognized that the synergies resulting from the merger will require a smaller increase in rates than would have been required absent the transaction. In other words, contrary to the premise underlying Mr. Hix's proposal, there will be no excess earnings to share.

Q: Are you familiar with the concept of earnings sharing mechanisms as described by Mr. Hix?

A: Yes, I am. These mechanisms have been used in other mergers, when cost of service is expected to be flat or declining over the time that the synergies are expected to occur. Absent increases in cost of service, synergies would result in excess earnings above the authorized rate of return. Under such circumstances some state utility commissions have in certain cases adopted an earnings sharing mechanism that required utilities to share synergies between customers and shareholders. Such circumstances plainly do not exist in this proceeding. Therefore, it would not be appropriate for this Commission to condition the merger on a concept that is not relevant to Great Plains Energy's acquisition of Aquila.

Q: On page 4 of his Rebuttal Testimony Mr. Hix recommends that the Commission order Great Plains Energy and/or KCPL to file a proposal to integrate financial operations and electric system operations of Aquila and KCPL by a certain date. Do you agree with Mr. Hix's recommendation?

A: No, I do not. Mr. Hix may not understand the transaction before the Commission at this time. Great Plains Energy, the parent company of KCPL is requesting approval to acquire Aquila and merge it into a subsidiary of Great Plains Energy. Although Aquila will be renamed, it will remain a separate legal entity and a subsidiary of Great Plains Energy. KCPL and the renamed Aquila will maintain separate generation, transmission, and distribution systems until such time as a merger of the renamed Aquila and KCPL may be appropriate. It is premature at this time to set a date when it may become appropriate to merge the two subsidiaries of Great Plains Energy. Any decision by Great Plains Energy in this regard will be largely dependent on future investments required for the two companies and respective rate levels. As pointed out in my testimony above, Great Plains Energy intends to use the integrated work forces of Aquila and KCPL to operate the two companies, from a customer perspective, as one.

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 CHRIS B. GILES

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

Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of Fifteen (15) 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.

Chris B. Giles

Chris B. Giles

Subscribed and sworn before me this 13th day of November 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