Exhibit No.:	
Issue:	Overview of the Merger
Witness:	R. Thomas Fleener
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Aquila, Inc.
Case No.:	EM-2007-____
Date Testimony Prepared:	April 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-2007-____

DIRECT TESTIMONY

OF

R. THOMAS FLEENER

ON BEHALF OF

AQUILA, INC.

Kansas City, Missouri

April 2007

DIRECT TESTIMONY OF R. THOMAS FLEENER,
VICE PRESIDENT, CORPORATE DEVELOPMENT FOR AQUILA, INC.

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is R. Thomas Fleener and my business address is 20 West 9th Street, Kansas City, Missouri. I am presently employed by Aquila, Inc. ("Aquila") as Vice President, Corporate Development.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I have been in my current position with Aquila since mid-2004. Prior to this I served as Vice President of Corporate Development for Aquila Merchant Services. I began my employment with Aquila in July 2001. Prior to joining Aquila, I worked for Verizon Corporation where I was involved in corporate development, finance and accounting matters. I have an MBA from the University of Texas at Austin and a Bachelor of Science degree in business from Trinity University.

Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AT AQUILA?

A. Among other duties, I am primarily responsible for leading corporate development, mergers and acquisitions, and other strategic initiatives for Aquila. In this transaction, I was responsible for managing the execution of the strategy, and I am currently involved in satisfying the conditions to close the transaction.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to describe the process that Aquila utilized to sell its Missouri and Colorado electric assets and its gas assets in Colorado, Iowa, Kansas and

Nebraska to Great Plains Energy Incorporated and Black Hills Corporation as part of a two-step transaction.

III. AQUILA'S DECISION PROCESS

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

A. Simply put, the timing was right. As Aquila completed its repositioning plan and strengthened its financial condition over the past few years, Aquila was approached about the possibility of a strategic transaction. Given Aquila’s September 2005 announcement of the sale of four utility operations and its need to effectively deploy those sale proceeds, the Aquila Board of Directors (“Aquila’s board”) determined that it would be appropriate to conduct a strategic review of Aquila’s remaining operations and consider alternatives to its stand-alone plan that could provide greater shareholder value. As part of this strategic review, Aquila compared its baseline stand-alone plan against other corporate business structure alternatives, such as a potential business combination or additional asset sales. As a result of the strategic review, Aquila’s board determined that shareholder value would most likely be maximized through a sale of Aquila.

Q. WHEN DID AQUILA BEGIN ITS STRATEGIC REVIEW?

A. Aquila began its strategic review process in the fall of 2005. Aquila continued to refine its strategic plan and underlying financial models throughout 2006. For example, Aquila updated its stand-alone analysis as part of its normal quarterly process during 2006 and again when Aquila concluded its annual budgeting process in the fall of 2006.

IV. FINANCIAL ADVISORS

Q. WHO WERE THE FINANCIAL ADVISORS RETAINED BY AQUILA?

A. Aquila retained The Blackstone Group L.P. ("Blackstone") and Lehman Brothers Inc. ("Lehman Brothers") to advise Aquila on this transaction, and Evercore Group L.L.C. ("Evercore") to advise the independent members of Aquila's board regarding this transaction.

Q. HAD AQUILA PREVIOUSLY WORKED WITH BLACKSTONE, LEHMAN BROTHERS OR EVERCORE?

A. Yes, most recently, Aquila worked with Blackstone and Lehman Brothers in connection with the sale of Aquila's Michigan, Minnesota and Missouri gas operations and Kansas electric operations. Evercore has acted as the financial advisor to Aquila's independent directors since 2002, having provided advice to the independent directors on numerous aspects of Aquila's strategic restructuring transactions (including its liability management plans, asset sales and now, merger).

V. BID PROCESS

Q. HOW MANY POTENTIAL BUYERS DID AQUILA CONTACT AS PART OF ITS SALE PROCESS?

A. In May 2006, Aquila's financial advisors recommended and Aquila's board authorized Aquila's management to approach nine parties identified as potential buyers. In determining which parties to contact, Aquila considered, among other things, the "logical" potential bidders (in terms of operational synergies, financial wherewithal, M&A capability, etc.) and the parties that expressed an interest previously in acquiring all or portions of Aquila. The nine parties included seven strategic parties and two financial parties.

Q. HOW MANY CONTACTED PARTIES SIGNED CONFIDENTIALITY AGREEMENTS?

A. Seven (five strategic and two financial) of the nine contacted parties signed confidentiality agreements. The two other contacted parties declined to participate in the process, citing (i) in one case, an unwillingness to participate in an auction process and a view that delivering a premium to the then-current share price of approximately $4.20 could be challenging, and (ii) in the other case, an interest only in a portion of Aquila's regulated operations. Of the seven parties that signed confidentiality agreements, six were provided with confidential marketing materials, including the Company's financial projections. The seventh party elected not to continue in the process.

Q. HOW MANY PARTIES SUBMITTED INDICATIVE BIDS, AND WHAT WERE THE INDICATIVE PRICE RANGES?

A. Five parties submitted non-binding indicative bids in July 2006. Each indication of interest was conditional upon further due diligence and the confirmation of certain assumptions made by the party submitting the indication of interest. An overview of the indicative bids follows:

Indicative Bidder	Description of Participant	Indicative Bid Range per Aquila Share	Form of Consideration
A	Financial entity partnering with a strategic entity	$4.50 - $5.00	100% Cash
B	Strategic entity*	$4.50 - $4.95	100% Stock
C	Strategic entity	$4.50	100% Cash
D	Strategic entity**	$4.15 - $4.60	100% stock (potential 20% cash option)
E	Great Plains/Black Hills	$4.15 - $4.60	60% stock/40% cash

* This bidder subsequently indicated it would partner with another strategic party, which would acquire Aquila's gas operations.

** This bidder subsequently partnered with another strategic entity, which was to acquire Aquila's gas operations.

Q. HOW MANY BIDDERS WERE INVITED TO SUBMIT FINAL PROPOSALS IN THE "SECOND" ROUND OF THE PROCESS?

A. Each of the five parties that submitted a non-binding indication of interest was invited to conduct detailed due diligence and to submit a definitive offer in the "second" round of the sale process. In late August or early September of 2006, Aquila's management made presentations about Aquila's business operations to four of the five bidding entities participating in the second round of the process. The fifth participant declined an invitation to receive a management presentation.

Q. HOW MANY PARTICIPANTS IN THE SALE PROCESS SUBMITTED FINAL BIDS?

A. Of the five participants invited into the second round, only one bidder group (the Great Plains-Black Hills bidder consortium) submitted an offer in late November 2006. It was non-binding and contingent on the Company entering into exclusive negotiations to finalize the commercial terms of definitive agreements. The reasons cited by the other parties for not submitting final bids, based on conversations between the non-bidding parties and Aquila's financial advisors, include:

Indicative Bidder	Month of Withdrawal (2006)	Reasons Cited
A	September	Prioritized other foreign and domestic opportunities (including previously-announced transactions)
B	October	Indicated a willingness to proceed only if granted exclusivity and at a price reflecting an approximate 20% discount to its then-current share price
C	October	Cited concerns about the size of the transaction and potential regulatory issues
D	November	Cited regulatory and other considerations

Q. DID AQUILA EVER ENTER INTO EXCLUSIVE NEGOTIATIONS WITH ANY OF THE BIDDERS?

A. Yes. One of the conditions of the Great Plains-Black Hills proposal was that Aquila agree to negotiate exclusively with them. On December 8, 2006, after receiving detailed presentations regarding the status of the sale process and terms of the bid received from Great Plains and Black Hills, Aquila's board authorized Aquila to enter into exclusive negotiations with Great Plains and Black Hills in pursuit of a sale of Aquila.

Q. THROUGHOUT THE SALE PROCESS, DID ANY OTHER PARTIES CONTACT AQUILA OR ITS ADVISORS REGARDING A POTENTIAL BUSINESS COMBINATION?

A. No. At no point during the process did Aquila or its advisors receive any credible, unsolicited expressions of interest (that is, legitimate proposals from companies with sufficient balance sheet capacity, utility experience or M&A experience), even though reports of a potential sale of Aquila existed in the marketplace. For example, articles reported during the process include:

- July 2006: *Power Finance and Risk* reported Aquila had put itself up for sale;
- July 2006: *Reuters* reported on the *Power Finance and Risk* article, and the *Reuters* article was subsequently picked up by other sources, such as *The Energy Daily* and the *Kansas City Star;*
- July 2006: *The Australian Financial Review* reported that Aquila was for sale and that Australian companies were likely bidders;
- July 2006: *The Kansas City Star* reported on the market speculation surrounding Aquila having reportedly put itself up for sale;
- July 2006: *The Deal* listed Aquila in its "New on the Block" section, which tracks companies that have (or reportedly have) put themselves up for sale;
- July 2006: *Corporate Finance Weekly* reported Aquila had launched a sales process and hoped to "hook" a buyer in the $5.00 - $5.50 per share range; and
- November 2006: *Financial Times* reported Aquila was evaluating bids for a potential sale of the company.

Q. DID AQUILA CONFIRM OR DENY THESE REPORTS?

A. Like many companies, Aquila's long-standing policy has been, and continues to be, not to comment on speculation regarding Aquila's future. For obvious reasons, Aquila maintained this policy during the sales process.

VI. AQUILA'S BOARD OF DIRECTORS REVIEW OF FINANCIAL ADVISOR OPINIONS

Q. HOW INVOLVED WAS AQUILA'S BOARD OF DIRECTORS IN THE SALE PROCESS?

A. As shown by Aquila's Securities and Exchange Commission filings, Aquila's board was closely involved in the events that occurred throughout the period leading to the merger announcement. The process was discussed at every regularly-scheduled Aquila's board meeting, and between October 2006 and February 6, 2007, Aquila's board held eight special meetings solely to discuss the sale. Aquila's board also received updates periodically from management throughout the process, particularly as significant events occurred (such as the withdrawal of a bidder or events that could impact Aquila's stand-alone value).

Q. DID AQUILA'S BOARD RECEIVE ANY FAIRNESS OPINIONS BEFORE APPROVING THE MERGER?

A. Yes. Before unanimously approving the merger on February 6, 2007, Aquila's board received opinions from Blackstone and Lehman Brothers, and the independent members of Aquila's board received an opinion from Evercore, to the effect that, as of February 2007, based upon the assumptions and other qualifications contained in their opinions, the consideration to be received by Aquila's shareholders in the merger was fair from a financial point of view.

VII. FINANCIAL QUESTIONS

Q. WHAT WERE THE KEY ASSUMPTIONS MADE BY YOUR FINANCIAL ADVISORS IN RENDERING FAIRNESS OPINIONS?

A. The fairness analyses of Blackstone, Lehman Brothers and Evercore will be described in detail in Aquila's merger proxy statement, which will be filed when it is available. At Aquila’s request, however, the financial advisors prepared drafts of the information they will be required to provide for Aquila’s merger proxy statement with respect to their fairness opinions. The materials prepared by Blackstone, Lehman Brothers and Evercore are attached as an exhibit to the Schedule 14A filed with the Securities and Exchange Commission by Aquila on March 7, 2007, which is available at:
http://www.sec.gov/Archives/edgar/data/66960/000006696007000032/0000066960-07-000032-index.htm

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

R. Thomas Fleener, of lawful age, being first duly sworn on oath, states:

That he is the Vice President, Corporate Development of Aquila, Inc., named in the foregoing Direct Testimony, and is duly authorized to make this affidavit; that he has read the foregoing Direct Testimony, and knows the contents thereof; and that the facts set forth therein are true and correct to the best of his knowledge, information and belief.

R. Thomas Fleener

R. Thomas Fleener

SUBSCRIBED AND SWORN to before me this 2nd day of April, 2007.

Debra S. Bellville

Notary Public

My Commission Expires:

DEBRA S. BELLVILLE
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
Commission # 06907212
My Commission Expires: June 28, 2010