

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY

OF

MARK A. RUELLE

WESTAR ENERGY

ON BEHALF OF PRAIRIE WIND TRANSMISSION, LLC

DOCKET NO. 08-PWTE-1022-COC

I. INTRODUCTION

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2

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

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4

**A. My name is Mark A. Ruelle. My address is 818 South Kansas
Avenue, Topeka, Kansas 66612.**

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Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

7

**A. I am testifying on behalf of Prairie Wind Transmission, LLC (Prairie
Wind).**

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9

**Q. BY WHOM ARE YOU CURRENTLY EMPLOYED AND IN WHAT
CAPACITY?**

10

11

**A. I am employed by Westar Energy, Inc. (Westar). I serve as
Westar's executive vice president and chief financial officer. I am**

12

1 also a member of the Board of Managers of Prairie Wind
2 Transmission, LLC.

3 **Q. WHAT ARE YOUR DUTIES FOR WESTAR?**

4 A. I am responsible for Westar's finance, accounting, treasury, risk
5 management, information technology, human resources and I
6 oversee a substantial portion of the company's construction
7 program.

8 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
9 **EDUCATION.**

10 A. I hold a B.A. and an M.A. in economics from the University of North
11 Dakota. My graduate studies curriculum was the economics and
12 finance of regulated public utilities. In addition, I have taught
13 undergraduate economics courses at the University of North
14 Dakota and at Washburn University. I have worked in the utility
15 industry for over 20 years. I began my career at The Kansas
16 Power and Light Company in 1986. During my tenure with the
17 company and its affiliates, I worked as a Rate Economist, Manager
18 of Financial Analysis, Director of Corporate Development,
19 Executive Director of Corporate Finance, Vice President of
20 Corporate Development and Strategic Planning, and as President
21 of a gas marketing subsidiary. I left what was then Western
22 Resources in 1997. Prior to rejoining Westar in 2003, I worked at
23 Sierra Pacific Resources, Inc. from 1997 through 2002, first as

1 Senior Vice President, Chief Financial Officer for the holding
2 company and its utility operating units and then as President of
3 Nevada Power Company, the larger of the two operating utilities. In
4 January 2003, I returned to Westar and assumed responsibilities
5 for finance, accounting, and risk management and later assumed
6 responsibilities for the other areas I have identified.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. I will describe the plan for operation of Prairie Wind and Prairie
9 Wind's proposed capital structure.

10 **Q. PLEASE DESCRIBE THE MANNER IN WHICH PRAIRIE WIND**
11 **WILL BE OPERATED.**

12 A. Prairie Wind will be managed by a board of four managers, as well
13 as by a staff of officers. The managers and officers have been
14 chosen from officers and employees of Westar, American Electric
15 Power Company, Inc. (AEP) and MidAmerican Energy Holdings
16 Company (MEHC). Prairie Wind will have no employees; however,
17 it will have access to Westar, AEP and MEHC employees through
18 service contracts.

19 It is anticipated that contractors subject to oversight by
20 employees of Westar, AEP and MEHC will perform construction
21 and maintenance of Prairie Wind's facilities. AEP will enter into a
22 contract with Prairie Wind to provide engineering, design and
23 project management for construction of the facilities. Westar,

1 because of its proximity to the facilities, will have oversight
2 responsibility for line siting and right of way acquisition and will
3 enter into a contract with Prairie Wind to provide administrative
4 services, such as accounting and regulatory compliance functions.
5 MEHC will enter into a contract with Prairie Wind to provide
6 business and administrative services as agreed to by Prairie Wind
7 from time to time. The contracts for services provided by Westar,
8 AEP and MEHC to Prairie Wind will provide for Prairie Wind to pay
9 Westar and AEP their fully allocated costs to provide such services.
10 Because Prairie Wind will be an affiliated interest with Westar, AEP
11 and MEHC under Kansas law, any management, construction,
12 engineering or similar contracts between Prairie Wind and Westar,
13 AEP or MEHC will be filed with the Commission before they
14 become effective.

15 Westar and AEP anticipate that because of economies of
16 scale, the provision of such services to Prairie Wind will be
17 performed without any significant increase to their staff or other
18 costs. Consequently, Westar's provision of such services to Prairie
19 Wind should be beneficial to Westar's retail customers.

20 **Q. WHY WAS PRAIRIE WIND CREATED?**

21 A. Prairie Wind was created for three primary reasons to finance,
22 construct, own and operate the proposed 765 kV transmission
23 facilities. First, the Prairie Wind ownership structure provides a

1 means for Westar, AEP and MEHC to bring their separate
2 experience, skills and capabilities cooperatively to bear on an
3 important transmission project with broad regional benefits.

4 Second, as addressed elsewhere in this application, the
5 need for capital investment is significant. Bringing in qualified joint
6 venture partners reduces both the capital expenditure obligations
7 and the risks to the individual owners. As the Commission is
8 aware, Westar has additional significant capital needs within
9 Kansas that it intends to address as part of its strategic plan. Thus,
10 it is beneficial to have another equity participant with whom Westar
11 is comfortable doing business and that has the ability to raise its
12 own debt capital without relying on Westar's balance sheet.

13 Third, the joint venture will have as its sole focus the electric
14 transmission business in Kansas.

15 **Q. WHAT WILL PRAIRIE WIND'S SOURCES OF CAPITAL BE?**

16 A. Prairie Wind will be capitalized through a combination of equity
17 contributions from its members and debt incurred by Prairie Wind
18 itself. The members will invest equity capital into the projects as
19 approved by the Board of Managers. All projects must be approved
20 by unanimous consent of the Board.

21 **Q. WHAT IS PRAIRIE WIND'S TARGET CAPITAL STRUCTURE?**

22 A. Prairie Wind has a target capital structure similar to Westar;
23 approximately 50% debt and 50% equity.

1 **Q. WHY WAS A CAPITAL STRUCTURE TARGET OF 50/50 DEBT**
2 **TO EQUITY ESTABLISHED FOR PRAIRIE WIND?**

3 A. The target capital structure of 50% equity and 50% debt for Prairie
4 Wind is reasonable for utility financing and well within the range
5 expected by the rating agencies and capital markets. It is a capital
6 structure that reflects a reasonable balance of financial strength,
7 through equity, and lower-cost debt financing. As the Commission
8 is aware, debt is less costly than equity, but debt cannot be raised
9 without significant equity backing. Use of that capital structure will
10 help to achieve reasonable debt costs for financing by Prairie Wind.
11 Reasonable debt costs will inure to the benefit of the SPP
12 customers who ultimately will pay in their utility rates the cost of
13 service for the project.

14 **Q. PLEASE EXPLAIN WHY THIS CAPITAL STRUCTURE IS**
15 **REASONABLE FOR PRAIRIE WIND.**

16 A. Based on SPP's current estimate for the cost of building 765 kV
17 facilities, it will cost approximately \$600 million, over a five-year
18 period beginning in 2009, to plan, permit, engineer and construct
19 the proposed 765 kV transmission facilities. As stated above, the
20 target capitalization for Prairie Wind is 50% debt and 50% equity.
21 In turn, Westar and Electric Transmission America, LLC (ETA) are
22 each expected to contribute half of the equity. Experience, logic,
23 and the input received from the capital markets all strongly argue

1 that, to fund a project of this magnitude and importance on
2 favorable terms, the capital structure of Prairie Wind should be
3 within the range with which the financial community is familiar and
4 comfortable. Capital structures in the range of 50% debt and 50%
5 equity are typical for regulated electric utilities. Access to the
6 capital markets on favorable terms will be facilitated by this capital
7 structure. Moreover, Prairie Wind will operate with an *actual*
8 capitalization of approximately 50% debt and 50% equity upon
9 completion of construction as well.

10 **Q. HOW MIGHT THE CAPITAL STRUCTURE OF PRAIRIE WIND**
11 **VARY FROM THE PERMANENT TARGET CAPITAL**
12 **STRUCTURE DURING THE CONSTRUCTION PHASE?**

13 A. Until such time as more definitive project work begins, there is no
14 need to raise the huge sums that will ultimately be required to build
15 the project. Consequently, for the time being, Prairie Wind will
16 operate with modest equity infusions from Westar and ETA.
17 Westar and ETA expect to operate Prairie Wind largely with equity
18 through at least the second quarter of 2009, and possibly longer,
19 until they complete financings for Prairie Wind. However, once the
20 need to make substantial expenditures for right-of-way acquisition
21 and construction becomes imminent, significant borrowings will
22 take place. While construction proceeds, the precise debt-to-
23 capital ratio will vary as new borrowings are made and new equity

1 is invested. Subject to the completion of financings by Prairie
2 Wind, our intent is to closely maintain the targeted 50/50 debt-to-
3 equity ratio during the project construction period as much as is
4 commercially reasonable. When the proposed transmission
5 facilities are completed and placed into service, the target capital
6 structure for Prairie Wind will be approximately 50% debt and 50%
7 equity.

8 **Q. DESCRIBE HOW PRAIRIE WIND WILL OBTAIN EQUITY**
9 **FUNDING AND TRANSITION TO ITS ULTIMATE CAPITAL**
10 **STRUCTURE.**

11 A. Our current financial projections include equity contributed by the
12 members. As construction commences, we plan to use a
13 combination of debt financing and additional equity contributions to
14 provide the necessary capital, all with a 50-50 target capitalization.

15 **Q. WHAT IS THE ESTIMATED TIME THAT IT WILL TAKE TO**
16 **ACHIEVE THIS RESULT?**

17 A. Our expectation is that Prairie Wind will use interim project debt
18 financings, which may take the form of a single or multiple tranches
19 of debt and which will be superseded by permanent financings
20 when the project is placed in service. Assuming regulatory
21 approvals and construction both proceed as projected, five years
22 would be a reasonable time frame to anticipate.

23 **Q. THANK YOU.**