

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Joint Application of Aquila, Inc., d/b/a)
Aquila Networks - WPK ("WPK") and Mid-Kansas)
Electric Company, LLC ("MKEC"), Joint Applicants, for)
an Order Approving the Transfer to MKEC of WPK's)
Certificate(s) of Convenience with Respect to All of)
WPK's Kansas Electric Business, Including its Generation,)
Transmission and Local Distribution Facilities Located in)
the State of Kansas, and for Other Related Relief)

Docket No. 06-MKEE-524-ACQ

DIRECT TESTIMONY OF RAFFIQ NATHOO

1 **I. INTRODUCTION**

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

3 A. My name is Raffiq Nathoo and I am a Senior Managing Director in the Corporate Advisory
4 Services practice of the Blackstone Group L.P. ("Blackstone"). My business address is 345
5 Park Avenue, New York, New York 10154.

6 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS WITH RESPECT TO THIS**
7 **TESTIMONY.**

8 A. I received a Bachelor of Arts degree from Dartmouth College and a Masters in Business
9 Administration degree from Harvard University. I have over 16 years of merger and
10 acquisition related financial advisory experience, over 14 of which I have spent at Blackstone.
11 As a Senior Managing Director in the Corporate Advisory Services practice of Blackstone, I
12 am responsible for advising on all aspects of client engagements involving mergers,
13 acquisitions, divestitures, and corporate financial strategy. Included among the transactions in

1 which I have been involved are the sale of CrossCountry Energy to a consortium including GE
2 Capital and Southern Union, various asset sales as part of the restructuring of Enron
3 Corporation, E.ON's acquisition of PowerGen, the sale of LG&E Energy to PowerGen, the
4 merger between New Century Energies and Northern States Power to form Xcel Energy, and
5 LG&E Energy's acquisition of KU Energy. Most recently, I have been advising Aquila, Inc.
6 ("Aquila") on its repositioning plan, as announced on March 14, 2005 ("Repositioning Plan").

7 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION**
8 **COMMISSION?**

9 A. Yes. I testified in Docket No. 02-UTCG-701-GIG.

10 **Q. WHAT ROLE DID YOU HAVE IN THE TRANSACTION BETWEEN AQUILA AND**
11 **MID KANSAS ELECTRIC COMPANY, LLC ("MKEC")?**

12 A. In this particular transaction, I was responsible for leading the Blackstone team in advising
13 Aquila on various aspects of the divestiture, including design of the divestiture process,
14 selection and solicitation of potential bidders, preparation of marketing materials, negotiation
15 with potential bidders and selection of assets to be ultimately divested.

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

17 A. The purpose of my testimony is to discuss the general parameters of Aquila's proposed sale of
18 its Kansas Electric operations to MKEC.

19 **Q. WHAT IS THE PURCHASE PRICE UNDER THE AGREEMENT AND WHAT**
20 **ASSETS ARE BEING SOLD?**

21 A. The Base Purchase Price for the business being sold is \$255,200,000. This Base Purchase
22 Price assumes a net property, plant and equipment for the business being sold of \$187,013,000

1 as of June 30, 2005. The differences between this figure and the actual net property, plant and
2 equipment at the time of transaction closing will be credited to or debited against the Base
3 Purchase Price paid to Aquila. Note that net property, plant and equipment is defined as:
4 (Plant in Service) plus (Plant Held for Future Use) plus (Completed Construction not
5 Classified) less (Accumulated Depreciation) less (Accumulated Amortization and Depletion).

6 Additionally, Aquila will be credited over and above the Base Purchase Price for the
7 book value of certain working capital and other assets anticipated to be transferred with the
8 business being sold. Specifically, Aquila would be credited with the book value of FERC
9 accounts related to accounts receivable, inventory, prepayments, deferred charges and buyouts
10 related to vehicle leases.

11 **Q. HOW WAS THE PURCHASE PRICE DETERMINED BY AQUILA AND MKEC?**

12 A. The announcement that Aquila intended to potentially pursue a divestiture of its Kansas
13 Electric Operations was made on March 14, 2005. Following this announcement, over 100
14 companies were contacted regarding their possible interest in the Kansas Electric Operations,
15 of which 41 signed confidentiality agreements and received Confidential Information
16 Memoranda which provided information related to the business. The bidding process was
17 designed as a traditional "two phase" process. On June 13, 2005, several parties within this
18 group submitted non-binding, confidential, indicative bids for Aquila's Kansas Electric
19 Operations. Of these, a subset was selected to pursue further due diligence on and attend
20 management presentations related to the Kansas Electric Operations. Negotiations were
21 pursued with multiple parties until a definitive agreement was signed with MKEC.

22 **Q. WHAT IS AQUILA ESTIMATING THE NET PROCEEDS WILL BE FROM THE**

1 **SALE OF ITS KANSAS ELECTRIC BUSINESS?**

2 A. Aquila anticipates the net proceeds realized will exceed the Base Purchase Price of
3 \$255,200,000. Because of Aquila's substantial Net Operating Loss and Capital Loss attributes,
4 taxes paid are expected by Aquila to be relatively de minimus. While it is impossible to
5 estimate the exact amount of the transaction adjustments at closing given the impact of
6 seasonality, total transaction adjustments would have exceeded \$10,000,000 as of June 30,
7 2005.

8 **Q. YOU MENTIONED AQUILA'S REPOSITIONING PLAN. UNDER THE**
9 **REPOSITIONING PLAN, WHAT IS AQUILA PLANNING TO DO WITH THE NET**
10 **PROCEEDS FROM THE SALE OF ITS KANSAS ELECTRIC BUSINESS?**

11 A. Aquila's primary use of proceeds will be the reduction of debt. Aquila may also use proceeds
12 to fund capital investment to maintain the integrity of its utility operations, consistent with the
13 Repositioning Plan objectives.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.

VERIFICATION

STATE OF NEW YORK)
COUNTY OF NEW YORK)^{ss:}

Raffiq Nathoo, being first duly sworn, deposes and says that he is Raffiq Nathoo referred to in the foregoing document entitled "Direct Testimony of Raffiq Nathoo" before the State Corporation Commission of the State of Kansas and the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.



Raffiq Nathoo

SUBSCRIBED AND SWORN to before me this 10 day of NOVEMBER, 2005.



Notary Public

My Appointment Expires:

MARY ALLEN CONNALLY
Notary Public, State of New York
No. 01CO6037222
Qualified in New York County
Commission Expires 2/14/2006

