

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

SUPPLEMENTAL DIRECT TESTIMONY OF

TERRY BASSHAM

ON BEHALF OF

**GREAT PLAINS ENERGY INCORPORATED
AND
KANSAS CITY POWER & LIGHT COMPANY**

STATE CORPORATION COMMISSION

AUG 08 2007

 **Docket
Room**

**IN THE MATTER OF THE JOINT APPLICATION OF GREAT PLAINS ENERGY
INCORPORATED, KANSAS CITY POWER & LIGHT COMPANY,
AND AQUILA, INC. FOR APPROVAL OF THE ACQUISITION OF AQUILA, INC.
BY GREAT PLAINS ENERGY INCORPORATED**

DOCKET NO. 07-KCPE-1064-ACQ

1 **Q: Are you the same Terry Bassham who submitted direct testimony in this**
2 **proceeding?**

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

4 **Q: What is the purpose of your testimony?**

5 **A: I will address the value of the combination of Great Plains Energy Incorporated (“Great**
6 **Plains”) and Aquila, Inc. (“Aquila”) to customers, the community and shareholders. I**
7 **will also describe Great Plains’ request for regulatory treatment of synergies and costs to**
8 **achieve the transaction.**

1 **I. VALUE OF THE TRANSACTION**

2 **Q: Please provide an overview of the benefits of Great Plains' acquisition of Aquila.**

3 A: The combination of Great Plains and Aquila creates value for customers, the community
4 at large and shareholders. The customers of Aquila and Kansas City Power & Light
5 Company ("KCPL") will benefit from the significant synergy savings that the
6 combination of these two companies will produce. These synergies will generate net
7 savings over the next five-years of \$305 million. These benefits, which are created by
8 more efficiently running two companies as one, will continue long after the initial five-
9 year period used to calculate synergies in this case and will serve to reduce costs and help
10 keep customer rates more affordable for years to come. Witness Robert Zabors has
11 estimated these additional savings at \$450 million over the five years following the
12 synergy sharing period, *i.e.*, 2013-2017. Through these savings, Great Plains can invest
13 more capital, at a more affordable cost, to maintain and improve system reliability and
14 customer service. Individual customers, and the community as a whole, will benefit from
15 a larger, stronger regional utility that can be a better corporate citizen and provide low-
16 cost reliable service. The combination of the two companies is also anticipated to create
17 value for Great Plains' shareholders.

18 **Q: Please describe the costs necessary to complete the transaction and achieve the**
19 **benefits described above?**

20 A: There are costs associated with any transaction of this nature. There are costs to develop
21 and close the transaction itself, and costs to integrate the businesses. "Costs to achieve"
22 are normally categorized as transaction or transition-related costs. Both types of costs are
23 necessary to complete the transaction and produce synergies.

1 **Q: What are “transaction costs”?**

2 A: Transaction costs are comprised primarily of investment banker, consulting, and legal
3 fees associated with the evaluation, bid, negotiation, and structure of the deal. These
4 costs were essential to the evaluation of the combination, the appropriate pricing of Great
5 Plains’ offer, and to the negotiation of a very complex transaction. The three-party
6 structure of this transaction is unique for utility acquisitions. This complexity was
7 necessary, however, given the significant risks involved for Great Plains to purchase
8 Aquila as a whole. Aquila has operations spread across many states in both the electric
9 and gas distribution business and recent repositioning efforts made the valuation
10 complex. The parties’ use of investment bankers and consultants lowered the risk of the
11 transaction by utilizing the significant collective transaction experience of the group to
12 conduct the most detailed due diligence possible. The lawyers were necessary to assist in
13 the negotiation of the complexities inherent in a three-party transaction.

14 **Q: What are “transition-related costs”?**

15 A: Transition-related costs are comprised of the costs incurred to integrate Aquila into Great
16 Plains. Without incurring these costs, the companies could not achieve the synergies
17 while maintaining or improving system reliability for Aquila’s and KCPL’s customers.
18 Witness Robert Zabors presents the roll-up of all of the synergy work undertaken by the
19 company, including the transaction and transition-related costs included in the “costs to
20 achieve”.

21 **Q: Did you work with Mr. Zabors in the preparation of the synergy analysis?**

22 A: Yes. Along with a large team of employees from both KCPL and Aquila, we worked for
23 many months in the evaluation of the possible synergies created by this combination. I

1 support his analysis and believe the synergy savings outlined in his testimony and others
2 are achievable. In the final section of my testimony I address our request for treatment of
3 costs to achieve.

4 II. REQUEST FOR RECOVERY OF COSTS AND SYNERGIES

5 **Q: In your direct testimony, debt interest savings were included as synergies. Is that**
6 **still the case?**

7 A: No. In our update, we have eliminated the initial request for a sharing of the interest
8 savings because these savings primarily result from a combination of the reset of interest
9 rate triggers (*i.e.*, interest rate step downs) that occur when Aquila returns to an
10 investment-grade utility, and Great Plains' refinancing of debt following the acquisition.

11 **Q: Is the Company still proposing to share synergy costs between customers and**
12 **shareholders?**

13 A: Yes, however, we propose to offset the synergies by the transition-related costs prior to
14 sharing 50/50. Consequently, customers will retain more synergies than in our original
15 proposal and we believe this request is more consistent with past commission practice.
16 Total non-fuel operating synergies were \$305 million. After subtracting transition-
17 related costs of \$45 million and using the 50/50 synergy sharing ratio, synergy sharing is
18 \$130 million over five years.

19 **Q: How do you propose to account for transaction and transition-related costs?**

20 A: As in my direct testimony, we request that the Commission authorize KCPL to establish a
21 deferred asset for transaction and transition-related costs and allow the company to
22 amortize these costs over five years. Our assumption is 100% recovery of transaction
23 costs and 50% of transition costs consistent with netting transition costs with synergies.

1 **Q: After payment of all costs to achieve, does this transaction meet the public interest**
2 **benefit test of Kansas?**

3 A: Yes. Mr. Marshall and Mr. Zabors provide in their testimonies a description of the
4 conservative nature of our synergy analysis. The conservative nature of their analysis is
5 confirmed by witness William Kemp. We have only requested sharing of those costs we
6 can clearly document as achievable. We have not taken credit for other synergies that
7 will occur in the future but cannot be clearly quantified today. In addition, when the
8 revised jurisdictional allocations are applied to the company's joint and common costs,
9 Kansas customers benefit.

10 **Q: Does the Company still request the Commission to authorize use of CIAC in future**
11 **rate cases?**

12 A: Yes, as I describe above and further explained in Mr. Michael Cline's testimony, this
13 merger is not intended to change the provisions agreed to in the Stipulation and
14 Agreement in the 1025 Docket.

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

16 A: Yes, it does.

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

In the Matter of the Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for approval of the Acquisition of Aquila, Inc. by Great Plains Energy Incorporated)
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) **Docket No. 07-KCPE-1064-ACQ**
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AFFIDAVIT OF TERRY BASSHAM

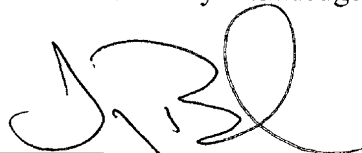
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

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 Kansas City Power & Light Company as Vice President and Chief Financial Officer.

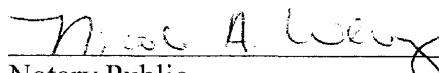
2. Attached hereto and made a part hereof for all purposes is my Supplemental Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of five (5) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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 07 day of August 2007.



Notary Public

My commission expires: Feb 4 2011

