

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

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DOCKET NO. 06-MKEE-524-ACQ

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**PREFILED DIRECT TESTIMONY AND EXHIBITS OF  
DENNIS R. EICHER  
PRESIDENT  
POWER SYSTEM ENGINEERING, INC.**

**ON BEHALF OF  
MID-KANSAS ELECTRIC COMPANY, LLC**

November \_\_, 2005

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**PART I - QUALIFICATIONS**

**Q. Please state your name and business address.**

A. My name is Dennis R. Eicher. My business address is 12301 Central Avenue, N.E., Suite 250, Blaine, Minnesota 55434.

**Q. What is your profession?**

A. I am a Professional Engineer ("P.E."), employed by Power System Engineering, Inc. ("PSE"), which is headquartered at 2000 Engel Street, Suite 100, Madison, Wisconsin 53713. I am President of PSE.

**Q. Please summarize your educational and work experience.**

A. A copy of my curriculum vitae is provided as Exhibit \_\_ (DRE-1).

**Q. Have you ever testified before the State Corporation Commission of the State of Kansas ("KCC" or "Commission")?**

A. No.

1 **Q. What is the purpose of your testimony in this case?**

2 A. Mid-Kansas Electric Company, LLC (“MKEC”) has asked me to coordinate testimony on  
3 the savings it expects to achieve as a result of its acquisition of Aquila, Inc., d/b/a Aquila  
4 Networks-WPK (“WPK”) facilities. MKEC is owned by Sunflower Electric Power  
5 Corporation’s (“Sunflower”) five member distribution cooperatives and one subsidiary  
6 company owned by Sunflower’s sixth member distribution cooperative.

7  
8 **Q. How are you defining savings for purposes of this case?**

9 A. When I use the term “savings” in the context of this case, I am referring to MKEC’s belief  
10 that it will be able to provide electric service in the acquired area at a cost (i.e., revenue  
11 requirements) less than what Aquila projected it would experience absent the acquisition.  
12 The difference between 1) Aquila’s projected revenue requirements and 2) MKEC’s  
13 projected revenue requirements is referred to herein as “savings.” In many instances, the  
14 projected savings are unique to the characteristics of MKEC, its members and Sunflower  
15 and reflect the resources that they are able to bring to the table.

16  
17 **Q. How is your testimony organized?**

18 A. I have organized my testimony by subject area. MKEC will be offering a panel of experts  
19 to be examined on each area as follows:

- 20
- 21 • Power Supply -- Mr. Kyle E. Nelson, Executive Manager, Power Production,  
Sunflower Electric Power Corporation.
  - 22 • Transmission and Dispatching -- Mr. Noman L. Williams, Executive Manager,  
23 Transmission Services, Sunflower Electric Power Corporation.
  - 24 • Distribution -- Mr. Dennis R. Eicher, President, Power System Engineering, Inc.

- 1           • Administrative and General and Other -- Mr. Sidney J. Severson, Senior Vice  
2           President and CFO, Sunflower Electric Power Corporation.

3

4           Copies of the curricula vitae for Messrs. Nelson, Williams and Severson are attached as  
5           Exhibits \_\_ (DRE-2) through \_\_ (DRE-4), respectively.

6

7           **Q. Are Messrs. Nelson, Williams and Severson providing prefiled Direct Testimony?**

8           A. No. I will incorporate MKEC's estimated savings in each of the four areas into my  
9           prefiled Direct Testimony. Messrs. Nelson, Williams and Severson will be available as a  
10          panel of expert witnesses to address questions by the Commission and/or other parties to  
11          the case.

12

13          **Q. Are you sponsoring any exhibits?**

14          A. Yes. I am sponsoring the following exhibits:

- 15               • Exhibit \_\_ (DRE-1) Curriculum Vitae -- Dennis R. Eicher  
16               • Exhibit \_\_ (DRE-2) Curriculum Vitae -- Kyle E. Nelson  
17               • Exhibit \_\_ (DRE-3) Curriculum Vitae -- Noman L. Williams  
18               • Exhibit \_\_ (DRE-4) Curriculum Vitae -- Sidney J. Severson  
19               • Exhibit \_\_ (DRE-5) Projected Reduction in WPK Area Revenue Requirements

20

21          **Q. Were these exhibits prepared by you or under your direct supervision?**

22          A. Yes, with input on the curricula vitae for Messrs. Nelson, Williams and Severson provided  
23          by Sunflower.

24

**PART II - DIRECT TESTIMONY**

**A. Summary of Projected Savings**

**Q. Please summarize MKEC's projection of savings in the cost of providing service to the acquired area.**

A. MKEC believes that it will be able to achieve the following annual savings vis-a'-vis what it would have cost Aquila to serve the subject area:

	<b><u>Projected Savings</u></b>	
	<b><u>@ Year 5</u></b>	<b><u>Cumulative</u></b>
	<b><u>Annual</u></b>	<b><u>First 5 Years</u></b>
	<b><u>(\$000)</u></b>	<b><u>(\$000)</u></b>
1. Power Supply	10,003	42,534
2. Transmission	4,530	14,731
3. Distribution	-0-	-0-
4. A&G	7,674	36,238
5. Income Tax	<u>4,995</u>	<u>24,975</u>
6. Total	27,203	118,477

A summary of the estimated savings is provided in Exhibit \_\_ (DRE-5).

**B. Power Supply Related Savings**

**Q. Please summarize the savings that MKEC expects to achieve relative to power supply for the acquired area.**

A. Power supply savings are associated with the value of replacing gas/oil-produced energy with coal-produced energy. This includes not only savings in the cost of fuel, but also reductions in labor cost and capital expenditures ("CapEx") made possible by a redeployment of the former WPK's generating assets. A summary of the savings that MKEC expects to achieve relative to power supply for the acquired area is provided as follows:

		<u><b>@ Year 5</b></u>	<u><b>Cumulative</b></u>
		<u><b>Annual</b></u>	<u><b>First 5 Years</b></u>
		(\$000)	(\$000)
1	1. Diversity (i.e., reduced capacity required)	1,150	5,750
2	2. Value of replacing gas/oil-produced energy	6,000	30,000
3	with coal-based energy <sup>1</sup>		
4	3. Reduced staffing levels at generating station	<u>2,400</u>	<u>7,200</u>
5	4. Subtotal	9,550	42,950
6	5. Capital Expenditures (annual cost)	<u>453</u>	<u>(416)</u>
7	6. Total	10,003	42,534

8 **Q. Before getting into the details of how the projected savings were determined, please**  
9 **explain how MKEC expects to utilize the power supply assets it is acquiring from**  
10 **Aquila, along with other resources to which Sunflower/MKEC has access, to supply**  
11 **the power and energy requirements in the acquired area.**

12 A. MKEC will acquire the following power supply assets from Aquila:

<u>Resource</u>	<u>Location</u>	<u>Year Installed</u>	<u>Fuel</u>	<u>Capacity</u>	<u>% of Total</u>	<u>Net Energy 2004</u>
				(MW)	(%)	(GWh)
Arthur Mullergren #3	Great Bend	1963	Gas	96	17	76
Cimarron River #1-2	Liberal	1963-67	Gas	72	13	56
Clifton #1-2	Clifton	1974	Gas/Oil	71	13	1
Judson Large #4	Dodge City	1968	Gas	142	25	286
Jeffrey #1-3 (Lease) <sup>2</sup>	St. Mary's	1978-83	Coal	<u>177</u>	<u>32</u>	<u>1,202</u>
Subtotal				558	100	1,620
Other - Purchased						<u>1,428</u>
Total						3,048

20 <sup>1</sup> Sunflower believes that the fuel cost savings shown above are achievable, but that the actual  
21 savings could be greater or lower.

22 <sup>2</sup> The Jeffrey Energy Center ("JEC"), located near St. Marys, Kansas, consists of three 720  
23 MW coal-fired units. WPK has a long-term lease for an 8 percent interest in the plant.  
24 Westar, who functions as the plant operator, has an 84 percent interest in the generating station, with Missouri Public Service holding the remaining 8 percent.

1 In addition, WPK purchases capacity and energy from the market (including excess  
2 energy from Sunflower's Holcomb generating station); but these arrangements will not  
3 flow through to MKEC as a result of the acquisition.

4  
5 With a projected 2005 peak load of 522 MW, WPK has an installed reserve level of  
6 approximately 36 MW or 7 percent, excluding market or third-party purchases. While  
7 WPK has sufficient capacity of its own (including the Jeffrey lease) to cover its peak load  
8 and provide approximately 7 percent in installed reserves, approximately 380 MW (68  
9 percent) of the capacity is in oil/gas-fired equipment which, due to the high price of fuel,  
10 is currently uneconomical to run. MKEC estimates that an optional mix of resource fuels  
11 should be closer to 60 to 70 percent base load (i.e., coal), with the remaining 30 to 40  
12 percent oil/natural gas (i.e., peaking). Thus, MKEC believes that WPK is roughly 140 to  
13 190 MW short of what it should have in base load generation; and this deficiency has led  
14 to very high costs in producing electric energy and, correspondingly, high Energy Cost  
15 Adjustments ("ECA") that must be paid by Aquila's ratepayers.

16  
17 Voltage constraints on the transmission system compound the problem, requiring Judson  
18 Large and Cimarron River to be operated as Reliability Must Run ("RMR") units (i.e.,  
19 these units must be run many hours beyond what economics would dictate in order to  
20 maintain reliability on the transmission and distribution delivery systems), limiting WPK's  
21 ability to utilize low-cost base load energy if and when it is available.

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1 **Q. Please explain the savings associated with diversity.**

2 A. MKEC and Sunflower estimate that there is approximately 20 MW of peak load diversity  
3 between WPK and Sunflower. This translates into 20 MW of generating capacity that  
4 MKEC does not have to provide. If this is priced at the estimated cost of a long-term  
5 peaking generating unit (e.g., combustion turbine), the value of the diversity is estimated  
6 to be approximately \$113.25/kW/year or \$2,605,000/year. However, in the interest of  
7 being conservative, MKEC and Sunflower have chosen to attribute an annual savings  
8 value of \$1,150,000 (i.e., \$50.00/kW/year) to the transaction.

9  
10 **Q. What additional resources does Sunflower/MKEC bring to the table that will help**  
11 **this situation?**

12 A. Sunflower and MKEC expect to bring to the table additional coal-based generating  
13 resources that should produce significant fuel cost savings both in the short run (five  
14 years) and even greater savings in the long run. In the short run, Sunflower believes that it  
15 should be able to supply additional coal-fired energy and access to economical purchased  
16 power over and above the amount supplied by WPK's 8 percent share of Jeffrey and  
17 WPK's current contract with Sunflower.<sup>3</sup> And as discussed later, by implementing certain  
18 upgrades on the transmission system, MKEC should be in a position to utilize that energy  
19 effectively in the WPK area by removing the RMR status of the Cimarron River, Judson

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21 <sup>3</sup> At the present time, Sunflower has a contract to sell excess coal-based energy from its  
22 Holcomb Unit No. 1 to WPK. Under this contract, WPK has been receiving something in the  
23 range of 300,000 MWh of base load energy from Sunflower's Holcomb No. 1 unit. This  
24 contract has recently been renewed; and, thus, this energy will continue to be available to  
supply the acquired WPK area.



1 Large and Arthur Mullergren Stations. MKEC estimates that the combination of 1)  
2 removing the RMR status from these stations and 2) increasing access to coal-based  
3 resources will produce annual fuel cost savings of \$4,000,000 to \$8,000,000 compared to  
4 WPK's current operations, although the exact amount has yet to be determined. For  
5 purposes of tabulating projected savings in this section, we have chosen to use a  
6 conservative estimate of \$6,000,000/year. It is important to emphasize, however, that  
7 achieving these savings is dependent upon completing the transmission projects that will  
8 enable Sunflower to move Judson Large and Cimarron River off their current "must run"  
9 status.

10  
11 In the long run, as discussed in Mr. Watkins' prefiled Direct Testimony, Sunflower is  
12 planning to install a second unit at its Holcomb Station which will provide an additional  
13 low-cost, coal-based resource.

14  
15 **Q. Will the current WPK customers benefit from the savings associated with reduced**  
16 **fuel and purchased power costs?**

17 A. Yes. The majority of these savings should be passed on to the current WPK customers  
18 through the ECA mechanism.

19  
20 **Q. What other operational savings in the power supply area has MKEC been able to**  
21 **identify?**

22 A. As discussed above, MKEC and Sunflower expect to operate the system in a manner that  
23 further reduces the production levels from Arthur Mullergren, Judson Large and Cimarron  
24 River Stations, accelerating the trend already established for these assets. As market

1 conditions drive the most economic solutions for operating the system generating assets,  
2 MKEC and Sunflower anticipate taking advantage of natural attrition and planned  
3 retirements that will have the net effect of reducing personnel.

4  
5 Current expectations are that the staffing levels at Arthur Mullergren, Judson Large and  
6 Cimarron River Stations will be reduced a total of 24 positions, resulting in a savings of  
7 approximately a \$2,400,000/year when all changes have been implemented. The schedule  
8 for achieving these savings will be driven by transmission system improvements that will  
9 allow these units to move off their current RMR status. At the present time, MKEC  
10 estimates that the Arthur Mullergren status change could occur as early as one year  
11 following the date of the sale; and that the Judson Large and Cimarron River status change  
12 could occur as early as three years following the date of the sale.

13  
14 **Q. Will changing the status of the Arthur Mullergren, Judson Large and Cimarron**  
15 **River Stations from RMR to a more normal operation result in the loss of jobs?**

16 A. No job losses are anticipated. All current Sunflower and WPK system personnel at the  
17 generating stations will be offered employment with Sunflower, either at their current  
18 location or at Sunflower's Garden City or Holcomb generating stations. Even when the  
19 RMR status of the Arthur Mullergren, Judson Large and Cimarron River Stations is  
20 removed, they still must be staffed at some level, since each existing unit is necessary to  
21 provide sufficient system capacity to serve the combined system peak load requirements.  
22 Each unit must be operated a short period at least annually and operated at full load at  
23 least once every three years in order to meet the Southwest Power Pool ("SPP") Criteria  
24 12 requirements for accrediting generating capacity.

1 Furthermore, as discussed previously, part of the long-term strategic plan for the system is  
2 to provide more coal-based generating resources. This will be accomplished through  
3 construction of a new coal-fired unit at Sunflower's Holcomb Station site. This project  
4 will require a considerable number of additional operations and maintenance personnel  
5 beyond Sunflower's current staffing levels. The present WPK system employees are an  
6 ideal human resource for this project. The long-term net effect on the MKEC system will  
7 be the appearance of a reduction of personnel while the system as a whole (Sunflower and  
8 MKEC) is actually increasing staffing levels due to the addition of a new generating  
9 resource at the Holcomb site.

10  
11 **Q. Are there any other Operation and Maintenance (O&M) savings in the power supply**  
12 **function that can be realized through the purchase of Kansas Electric?**

13 A. Additional potential savings are difficult to predict, but there are likely savings in several  
14 other areas such as joint purchasing of services and commodities. Examples include  
15 services such as contract maintenance for outage work. MKEC and Sunflower could  
16 arrange for contract maintenance such that workers could mobilize for work in the area  
17 and move from one unit to the other in succession at a lower cost than would be available  
18 to either Sunflower or the MKEC assets separately. Other examples of joint purchase of  
19 services or commodities include technical services for control systems, technical services  
20 for environmental support, purchase of bulk and specialty chemicals, and purchase of  
21 stock materials.

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24

1 **Q. Does MKEC anticipate savings in generation capital expenditures?**

2 A. Yes. Based on current expectations of production levels from the assets and a review of  
3 the condition of the facilities during the due diligence process, MKEC anticipates a net  
4 savings of approximately \$2,150,000 in CapEx over the first five years after the sale  
5 (“five-year window”).  
6

7 **Q. Please provide an overview of how these CapEx savings were estimated.**

8 A. The savings were developed from a combination of the elimination and/or deferral of  
9 certain capital projects forecasted by Aquila for WPK. Eliminated capital projects are  
10 generally the result of transmission improvements that allow MKEC to change the status  
11 of the Arthur Mullergren Station from a RMR unit at Year 1 from the date of sale and a  
12 change in the status of the Judson Large and Cimarron River Stations from RMR units at  
13 Year 3 from the date of sale. Deferred projects refer to projects that may be deferred,  
14 allowing MKEC the opportunity to review their need and see if they fit into an overall  
15 asset management program.  
16

17 **Q. What generation related capital projects previously anticipated by WPK does  
18 MKEC expect to eliminate?**

19 A. MKEC expects to eliminate the following generation related capital projects previously  
20 planned by WPK:

- 21 • Purchase of spare equipment such as circulating water pump motor, boiler feed  
22 pump motor, and generator step-up transformer at the Judson Large Station and a  
23 spare 13.8 kV breaker at the Cimarron River Station at a capital savings of  
24 \$1,365,000.

- 1           • Environmental projects such as pond liners at Judson Large at a capital savings of
- 2           \$500,000. MKEC intends to close the ponds and replace them with a direct
- 3           discharge line by the end of 2010.
- 4           • Abatement projects such as removing existing stacks on decommissioned units at
- 5           the Judson Large Station at a capital savings of \$100,000.
- 6           • Acquisition of new water supply at the Judson Large Station at a capital savings of
- 7           \$100,000. MKEC plans to install water processing equipment to utilize existing
- 8           supply.
- 9           • Installation of a fire protection system on the Arthur Mullergren Station at a
- 10          savings of \$350,000.
- 11          • Installation of boiler furnace camera on Cimarron River at a savings of \$50,000.
- 12          • Non-specific budget adjustments of \$230,000 carried against Judson Large,
- 13          Cimarron River and Clifton Stations.

14

15          The total estimated savings in CapEx due to the elimination of these projects is

16          \$2,695,000.

17

18          **Q. What generation related capital projects are expected to be deferred beyond the five-**

19          **year window?**

20          A. The following generation related capital projects are expected to be deferred beyond the

21          five-year window:

- 22               • Upgrade of the access road at the Judson Large Station at a savings of \$50,000.
- 23               • Replacement of generator seal oil systems on Arthur Mullergren, Judson Large and
- 24               Cimarron River Stations at a savings of \$600,000.

- 1 • System upgrades such as breakers, breaker upgrades, motor control center  
2 upgrades and generator relaying on Arthur Mullergren, Judson Large, Cimarron  
3 River and Clifton Stations at a savings of \$1,750,000.
- 4 • Installation of Honeywell process equipment upgrades on Cimarron River at a  
5 savings of \$250,000.
- 6 • Installation of an automatic voltage regulator on Cimarron River at a savings of  
7 \$100,000.
- 8 • Installation of a new turbine control system on Cimarron River at a savings of  
9 \$100,000.
- 10 • Installation of a new Reverse Osmosis (“RO”) unit at Cimarron River at a savings  
11 of \$100,000.
- 12 • Installation of a new station battery, standby diesel generator, VFD equipment  
13 room, forklift, warehouse crane and asphalt road at Arthur Mullergren and turbine  
14 oil cooler and turbine enclosure upgrades at Clifton Station at a savings of  
15 \$355,000.

16  
17 The total deferred CapEx is estimated to be approximately \$3,305,000.

18  
19 **Q. Are there any additional capital expenditures not previously included in WPK’s**  
20 **plans necessary to support the purchase of WPK by MKEC?**

21 A. Yes. The largest and most immediate expenditures will be required to support  
22 environmental permits associated with National Pollution Discharge Elimination System  
23 (“NPDES”) discharges from the steam units. The first priority will be the Judson Large  
24 unit, where MKEC plans to install a high capacity RO unit to treat the station’s low-

1 quality groundwater and an associated deep injection well to dispose of the RO reject  
2 stream. MKEC and Sunflower project the need for an additional \$1,900,000 in capital  
3 expenditures above base WPK budget in 2006 and an additional \$1,700,000 above the  
4 base WPK budget in 2007. These changes will bring the total estimated expenditure for  
5 the RO system at Judson Large to \$2,300,000 in 2006 and \$2,100,000 in 2007.

6  
7 The NPDES permit for Arthur Mullergren that is expected to be issued yet this year will  
8 likely contain engineering evaluations that could identify future CapEx improvements  
9 necessary to maintain the permit. Similarly, the Cimarron River permit, due to expire in  
10 November 2007, will require re-application in May 2007. Engineering evaluations prior  
11 to and following the permit renewal notice are expected. No other CapEx obligations are  
12 expected for either facility. Our estimates for the engineering associated with these  
13 engineering studies, evaluations and reports are believed to be less than \$250,000 above  
14 the current WPK budget projections for these projects.

15  
16 These added CapEx projects will offset approximately \$3,850,000 of the projected  
17 \$6,000,000 CapEx savings, resulting in a net CapEx savings of approximately \$2,150,000.

18  
19 **C. Transmission Related Savings**

20 **Q. Please summarize the savings that MKEC expects to achieve in the area of**  
21 **transmission and dispatching.**

22 **A. MKEC expects to achieve the following savings in the area of transmission and**  
23 **dispatching:**

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	<u>Projected Savings</u>	
	<u>@ Year 5</u>	<u>Cumulative</u>
	<u>Annual</u>	<u>First 5 Years</u>
	(\$000)	(\$000)
1. Combine WPK and Sunflower Control Centers	650	2,450
2. Eliminate duplicative SPP interface	250	1,250
3. Eliminate contracted O&M	250	1,250
4. Less: Added communications expense	<u>(180)</u>	<u>(900)</u>
5. Subtotal	970	4,050
6. Capital Expenditures (equivalent annual cost)	<u>3,560</u>	<u>10,681</u>
7. Total	4,530	14,731

**Q. Before getting into the details of the anticipated savings related to transmission, please provide an overview of the way MKEC anticipates the transmission system to be operated after the acquisition takes place.**

A. MKEC plans to integrate the transmission system assets of WPK with those of Sunflower in central and western Kansas. The combined transmission network will be dispatched as a single, integrated system which will allow for better management and coordination of line loading and voltage profiles across the integrated system. The combination of the transmission system will also internalize the interfaces between the MKEC (former WPK) and Sunflower systems, allowing for better management of the flows and potential constraints that may exist.

MKEC plans to leave the former WPK transmission assets in the Southwest Power Pool (“SPP”) Regional Reliability Organization (“RRO”) and move the security coordination from the Midwest Independent System Operator (“MISO”) to the SPP Security Coordinator. If functional control of the WPK transmission assets has not been transferred to the SPP Regional Transmission Organization (“RTO”) at the time of transfer to MKEC, it is MKEC’s plan to transfer functional control of the transmission



1 assets to the SPP RTO at the same time that Sunflower transfers control of its transmission  
2 assets to the SPP RTO. The transfer of control will be after approval of the KCC and the  
3 Rural Utilities Service (“RUS”), if their approval is required.

4  
5 MKEC plans to adopt the current Open Access Transmission Tariff (“OATT”) of WPK.  
6 This will provide for a seamless transfer of tariff service to existing wholesale customers  
7 and provide for short-term transmission rate stability. However, MKEC will review the  
8 overall transmission tariff and make updates to that tariff that are mandated and required  
9 to integrate new transmission facilities. MKEC will leave the regional administration of  
10 its OATT under the umbrella of the SPP Regional Tariff and SPP RTO.

11  
12 **Q. Does MKEC plan to consolidate control centers with Sunflower.**

13 A. Yes, MKEC plans to close WPK’s Great Bend system operations center and consolidate  
14 operations into a single center located at Sunflower’s Garden City complex. The  
15 Sunflower Energy Management System (“EMS”) system is fully capable of integrating the  
16 WPK transmission, subtransmission and generation assets and providing for the dispatch  
17 of the single, larger combined system.

18  
19 **Q. Will the combination of control centers mean that some employees will lose their  
20 jobs?**

21 A. No. All current Sunflower and WPK system operations personnel will remain as  
22 employees of Sunflower. The added size and complexity of the system will require that  
23 additional resources be deployed to dispatch the combined generation resource and to  
24 operate the high voltage transmission and 34.5 kV subtransmission systems. However,

1 MKEC expects to achieve an overall reduction in staffing through natural attrition and  
2 planned retirement and anticipates that, over the next five years, staff will be reduced by  
3 four positions, resulting in approximately \$400,000/year savings in labor beginning in the  
4 third year. In addition, MKEC expects a reduction of approximately \$250,000/year in  
5 office expense; largely the result of relocating the system control function to Sunflower's  
6 Garden City facilities.

7  
8 **Q. Are there any other savings in the transmission area that MKEC expects to achieve**  
9 **as a result of the merging of the two systems?**

10 A. Yes. By combining control center functions into one location, the need for two separate  
11 SPP market interfaces (equipment and personnel) will be reduced to one with an estimated  
12 initial one-time savings on equipment (CapEx) and software of at least \$350,000, plus  
13 \$250,000/year in staffing.

14  
15 MKEC also anticipates staffing a high-voltage transmission line crew in the Great Bend  
16 area along with the existing crew in the Garden City area to perform maintenance and  
17 construction activities for both the MKEC and Sunflower transmission systems. This  
18 crew will replace a contract crew that currently performs these activities for WPK.  
19 MKEC anticipates this decision will provide annual savings of \$250,000/year.

20  
21 **Q. Are there any anticipated CapEx savings related to transmission?**

22 A. Yes. MKEC anticipates a net savings of approximately \$16,883,000 in CapEx over the  
23 first five years after the sale, based on the current load forecast and MKEC's review of the  
24 system during the due diligence process

1 **Q. Please explain how these savings were determined.**

2 A. The savings were developed from a combination of the elimination, deferral and/or re-  
3 estimation of cost of certain capital projects originally forecasted by WPK. Some of the  
4 projects eliminated would have become duplicate facilities after the purchase. The  
5 deferred projects will provide opportunity for MKEC and Sunflower to review their need  
6 and see if they fit into an overall regional plan that will provide broader benefits to our  
7 members and consumers. MKEC/Sunflower also re-estimated the cost of certain retained  
8 projects based on its recent experience that more accurately reflects a cooperative cost and  
9 financial structure.

10

11 **Q. What transmission related capital projects originally planned by WPK does MKEC**  
12 **plan to eliminate?**

13 A. MKEC plans to eliminate and/or reduce planned expenditures for the following  
14 transmission related capital projects previously planned by WPK:

- 15 • Eliminate the EMS System Upgrade at a savings of \$1,434,000.
- 16 • Eliminate the ongoing upgrade costs of \$150,000/year (\$750,000 over the next 5  
17 years).
- 18 • Reduce the system protection blanket items by \$50,000/year (\$250,000 over the  
19 next 5 years).
- 20 • Reduce the transmission blanket items by \$500,000/year (\$2,500,000 over the next  
21 5 years).
- 22 • Reduce the substation blanket items by \$25,000/year (\$125,000 over the next 5  
23 years).

24

- 1           • Reduce and/or eliminate unspecified substation and line additions by \$500,000 due  
2           to lower growth expectations.

3

4           Total CapEx savings attributable to eliminated projects are estimated to be approximately  
5           \$6,059,000.

6

7           **Q. What transmission related capital projects does MKEC plan to defer beyond the**  
8           **five-year window?**

9           A. MKEC expects to defer the following transmission related capital projects beyond the  
10          five-year window:

- 11           • Concordia area system improvements of \$1,367,000.  
12           • Ellsworth to Rice County transmission tie for \$1,227,000.

13

14          Total CapEx savings attributed to deferred projects are estimated to be approximately  
15          \$2,594,000.

16

17          **Q. Please summarize the projects that MKEC has re-estimated and the associated cost**  
18          **reductions.**

19          A. The following transmission improvement projects scheduled by WPK for the next five  
20          years have been re-estimated with the resulting cost reductions:

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<u>Item</u>	<u>Aquila Original Cost Estimate</u> (\$000)	<u>MKEC Revised Cost Estimate</u> (\$000)	<u>MKEC Estimated Savings</u> (\$000)
Storm guys in the Phillipsburg-to-Plainville and Smith Center-to-Glen Elder 115-kV lines.	1,200	200	1,000
Static wire replacement Medicine Lodge-to-Greensburg.	1,500	800	700
Substation battery replacement.	500	200	300
Capacitor bank switch replacement (2 years).	675	615	60
Replace whips and bottles at Sun City and Greensburg Substations.	260	110	150
Relay replacement at Harper on the Wichita transmission line.	79	59	20
Add differential relaying at Milan and South Dodge.	115	65	50
Spearville-to-Dodge City 115-kV line addition (3-year project).	9,382	4,500	4,882
Spearville-to-Dodge City conversion of existing 115-kV line to 230-kV (3-year project).	3,900	2,900	1,000
Phillipsburg/Plainville reliability improvements.	3,750	2,750	1,000
MWE/Heizer 115-kV interconnection.	<u>1,018</u>	<u>700</u>	<u>318</u>
Total	22,379	12,899	9,480

**Q. Are there any offsetting additional operating expenses or CapEx necessary to support the purchase of WPK by MKEC?**

A. Yes. There will be some additional communication expenditures necessary to move the real-time data that is currently collected at the Great Bend operations center to the Garden City operations center. MKEC estimates this to cost approximately \$10,000/month or \$120,000/year. There will also be cost associated with the interface of the field radio system with the radio systems of Sunflower and its members. This cost has not yet been fully developed, but is anticipated to be in the range of \$5,000/month or \$60,000/year.

1 MKEC also anticipates the installation of approximately 50 new revenue metering points  
2 at wholesale delivery points on the MKEC system. These metering points will be at  
3 various substations with voltages ranging from 13.8 kV, 34.5 kV and 115 kV, although  
4 MKEC expects that the majority of these new metering installations will be at the 34.5 kV  
5 voltage level. The estimated cost for these installations is \$1,250,000.

6  
7 **D. Distribution**

8 **Q. Please summarize the savings that MKEC expects to achieve in the distribution  
9 delivery function area.**

10 A. MKEC expects that there will be some savings related to the distribution delivery function  
11 as a result of merging the operations of WPK's distribution system with the operation of  
12 MKEC's members' distribution systems. However, these savings are expected to be much  
13 less than the savings projected for the other areas (e.g., power supply, transmission and  
14 Administrative and General ("A&G")); and no estimates have been made to date.  
15 Furthermore, such savings may be at least partially offset by the cost of increased capital  
16 expenditures to improve service quality and reliability in the former WPK area.

17  
18 **E. Administrative and General**

19 **Q. Please summarize the savings that MKEC expects to achieve in the area of A&G  
20 expense.**

21 A. MKEC expects to achieve the following savings in A&G expense:  
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	<u>Projected Savings</u>	
	<u>@ Year 5</u>	<u>Cumulative</u>
	<u>Annual</u>	<u>First 5 Years</u>
	(\$000)	(\$000)
1. Elimination of Direct IBU Expense	375	1,770
2. Elimination of Indirect IBU Expense	3,389	16,046
3. Elimination of Direct ESF Expense	692	3,268
4. Elimination of Indirect ESF Expense	<u>3,218</u>	<u>15,154</u>
5. Total	<u>7,674</u>	<u>36,238</u>

**Q. Please provide an overview of the savings MKEC projects in the A&G category.**

A. Aquila allocates/assigns certain centralized support and corporate activities costs to each of its utility divisions, including WPK. These costs are divided into the following categories:

- Direct Inter-Business Unit (“IBU”);
- Indirect IBU;
- Direct Enterprise Support Function (“ESF”); and
- Indirect ESF.

A summary of these centralized support and corporate activities is provided in the following chart:

	<u>Direct IBU</u>	<u>Indirect IBU</u>	<u>Direct ESF</u>	<u>Indirect ESF</u>
1	Customer Care/Billing/Collections	Customer Services		
2	Information Technology	Field Resource Center IT Services		Information Technology Group
3	Insurance		Direct ESF	
4	Tax Services			Tax
	Environmental		Direct ESF	
	Legal			Office of the General Counsel
5	Regulatory Services	Regulatory Services		
6	Human Resources	External Affairs		Human Resources
	Credit	HR/Central Safety		Credit and Trading Risk
7	Corporate Records			Office of the General Counsel
8	Finance and Accounting	Financial Management		Corporate Controller
		Accounting Accruals		Other
9	Treasury	Benefits Residual		Chief Financial Officer
	Facilities			Corporate Services
10	Contract Management and Procurement	Other		
	Gas Supply Services	Gas Supply Services		
11	Executive Management	Headquarters		Chief Executive Officer
12				Chief Financial Officer
13				Chief Operating Officer
14				Corporate Compliance
15				External Communication

MKEC believes that it can reduce these costs significantly.

**Q. Please explain MKEC's estimated savings in costs currently classified by Aquila as**

**Direct IBU.**

**A. MKEC expects that it will be able to reduce or eliminate the following Direct IBU costs:**

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	<b>Aquila Projected 2006 (\$000)</b>	<b>MKEC Estimated Costs (\$000)</b>	<b>MKEC Estimated Savings (\$000)</b>
Labor and Loads	585	282	283
Other	<u>1,013</u>	<u>962</u>	<u>51</u>
Total	1,598	1,244	334

**Q. Please explain MKEC's estimated savings in costs currently classified by Aquila as Indirect IBU.**

A. MKEC expects that it will be able to eliminate the following allocated Indirect IBU costs:

	<b>Aquila Projected 2006 (\$000)</b>	<b>MKEC Estimated Costs (\$000)</b>	<b>MKEC Estimated Savings (\$000)</b>
Allocated Financial Management Cost	143	0	143
Allocated Headquarters Cost	220	0	220
Allocated Field Resource Cost	102	0	102
Allocated IT Services Cost	1,355	0	1,355
Allocated VP Energy Resources Cost	872	0	872
Allocated Other Cost	694	0	694
Less: Projected Six Sigma Savings <sup>5</sup>	<u>(314)</u>	0	<u>(314)</u>
Total	3,072	0	3,072

**Q. Please explain MKEC's estimated savings in costs currently classified by Aquila as Direct ESF.**

A. MKEC expects that it will be able to reduce or eliminate the following Direct ESF costs:

<sup>4</sup> Only the categories of IBU and ESF where savings are projected are listed.

<sup>5</sup> Aquila has implemented an internal cost cutting program referred to as "Six Sigma," which is intended to reduce IBU and ESF costs from that which has been projected for WPK. Since MKEC is not familiar with the details of the Six Sigma Program and, in the interest of being conservative in estimating savings, WPK's projected IBU and ESF costs have been credited with these cost reductions.

	<b>Aquila Projected 2006 (\$000)</b>	<b>MKEC Estimated Costs (\$000)</b>	<b>MKEC Estimated Savings (\$000)</b>
Labor and Loads	117	0	117
Outside Services	147	0	147
Other	<u>353</u>	<u>0</u>	<u>353</u>
Total	617	0	617

**Q. Please explain MKEC's estimated savings in costs currently classified by Aquila as Indirect ESF.**

A. MKEC expects that it will be able to eliminate the following allocated Indirect ESF costs:

	<b>Aquila Projected 2006 (\$000)</b>	<b>MKEC Estimated Costs (\$000)</b>	<b>MKEC Estimated Savings (\$000)</b>
Allocated Chief Executive Officer Cost	320	0	320
Allocated Chief Financial Officer Cost	509	0	509
Allocated Chief Operating Officer Cost	74	0	74
Allocated Corporate Compliance Cost	182	0	182
Allocated Corporate Controller Cost	583	0	583
Allocated Corporate Services Cost	1,082	0	1,082
Allocated External Communications Cost	150	0	150
Other Costs	<u>763</u>	<u>0</u>	<u>763</u>
Less: Projected Six Sigma Savings	<u>(830)</u>	0	<u>(830)</u>
Total	2,833	0	2,833

**F. Other**

**Q. Are there any other anticipated savings?**

A. Yes. As an LLC, MKEC allocates all profits to its member owners (i.e., the six distribution cooperative members of Sunflower). Since these member owners are all tax exempt distribution cooperatives, they will not be subject to income tax on their share of MKEC's profits. In its Order in Docket No. 04-AQLE-1065-RTS, the Commission included approximately \$4,995,000 allowance for income tax.

1 **Q. Mr. Eicher, you have identified a significant amount of savings related to the**  
2 **proposed transaction. Could these savings have been achieved by WPK absent the**  
3 **transaction?**

4 A. In my opinion, the vast majority of the savings identified could not have been achieved by  
5 WPK alone. Only through the synergies brought by MKEC could these savings be  
6 achieved.

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8 **Q. Does this conclude your Prefiled Direct Testimony?**

9 A. Yes.

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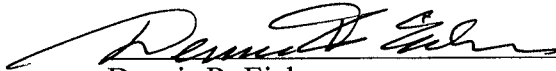
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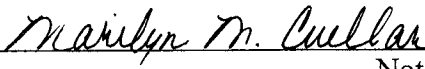
**VERIFICATION OF DENNIS R. EICHER**

STATE OF Minnesota )  
) ss:  
COUNTY OF Anoka )

Dennis R. Eicher, being first duly sworn, deposes and says that he is Dennis R. Eicher referred to in the foregoing document entitled Prefiled Direct Testimony and Exhibits of Dennis R. Eicher in Docket No. \_\_\_\_\_ before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and believe.

  
\_\_\_\_\_  
Dennis R. Eicher

SUBSCRIBED AND SWORN to before me this 7th day of November, 2005.

  
\_\_\_\_\_  
Notary Public

My Appointment Expires: 1/31/2010



## **DENNIS R. EICHER, P.E.**

**President**

### ***SUMMARY OF EXPERIENCE & EXPERTISE***

- Over 35 years in the electric utility industry and consulting.
- Experienced in all aspects of electric utility system planning and financial operation.
- Specialized expertise in the areas of economic analysis, power supply planning, wholesale and retail rates, electric industry restructuring, litigation support and debt restructuring.

### ***PROFESSIONAL EXPERIENCE***

#### **Power System Engineering – Blaine, Minnesota (1976 – Present)**

##### ***President (September 2000)***

##### ***Senior Consultant***

Client liaison and project responsibility for analytical projects involving rate and cost of service applications, expert testimony, merger and acquisition analysis, contract negotiations, distribution, transmission, and power supply, load management, load forecasting, etc. Actively involved in assisting clients in addressing the many varied issues related to restructuring of the electric utility industry including the development of restructuring plans, representation before legislatures and commissions, drafting legislation, developing business practices, unbundling rates, competitive positioning strategy, innovative rates, etc.

#### **Daverman Associates, Inc. – Grand Rapids, Michigan (1974 – 1976)**

##### ***Administrator of Power Division***

Administrative and technical responsibilities for Power Division, responsible for all utility related work of the firm.

#### **Stanley Consultants, Inc. – Muscatine, Iowa (1969 - 1974)**

##### ***Head of Power Systems Department***

Line management and technical responsibilities in power system analysis disciplines including power supply and feasibility analysis, interconnection and power supply contract negotiations, financial forecasting, rate applications, distribution and transmission studies, load projections, and control center planning and implementation.

#### **Detroit Edison Company – Detroit, Michigan (1965 – 1969)**

##### ***Engineer***

Engineering responsibilities in Electric Systems Operations Department.

### ***EDUCATION***

Wayne State University – Detroit, Michigan, 1965  
Bachelor of Science Degree in Electrical Engineering  
Postgraduate work in:

- Power System Analysis
- Engineering Mathematics
- Energy Resources
- Valuation
- Accounting

## **DENNIS R. EICHER, P.E.**

**President**

### ***REGISTRATIONS***

- Colorado
- Indiana
- Iowa
- Michigan
- Minnesota
- 
- Nebraska
- New Hampshire
- North Dakota
- Wisconsin

### ***PROFESSIONAL MEMBERSHIPS***

- Institute of Electrical and Electronics Engineers – Senior Member
- Rural Electric Power Committee (IEEE) – Past Chairman
- Minnesota Society of Professional Engineers
- National Society of Professional Engineers

### ***ADDENDUM REFERENCES***

- Expert Testimony
- Presentations
- Technical Papers

### ***EXPERT TESTIMONY***

- Provided before 7 state and/or federal regulatory bodies
- In approximately 70 cases on a wide variety of issues

**KYLE E. NELSON, P.E.**

**Executive Manager, Power  
Production**

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***PROFESSIONAL EXPERIENCE***

**Sunflower Electric Power Corporation - Garden City, Kansas**

***Executive Manager, Power Production (2005 - Present)***

Develops and implements improved processes and practices to operate and maintain Power Production assets efficiently, reliably and cost effectively while maximizing assets availability on all generating units under Sunflower's operational control.

***Supervisor, Holcomb Substation (1994 - 2000)***

Established Sunflower's performance monitoring database and testing program, installed a Continuous Emission Monitoring System (CEMS), a capacity upgrade/re-design and start-up projects at Sunflower's 360 MW Holcomb unit in 1997 (including managing the construction of a new cooling tower), and re-commissioned the 99MW gas fired S-2 unit at Sunflower's Garden City plant facility in 1999.

***Generation Engineer, Holcomb Substation (1989 - 1994)***

**United States Navy (1984 - 1989)**

***Commissioned Officer - U.S.S. ASPRO***

***EDUCATION***

Oklahoma State University – Stillwater, Oklahoma, 1984  
Bachelor of Science Degree in Mechanical Engineering

***PROFESSIONAL MEMBERSHIPS***

- National Society of Professional Engineers
- Kansas Society of Professional Engineers

**NOMAN L. WILLIAMS**

**Executive Manager,  
Transmission Services**

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***PROFESSIONAL EXPERIENCE***

**Sunflower Electric Power Corporation - Garden City, Kansas**

***Executive Manager, Transmission Services (2004 - Present)***

Develop and implement process and methods to maximize the value of the transmission assets of Sunflower. These processes supported the operation, maintenance, construction, dispatching and engineering of the Sunflower transmission system. Develop and maintain technical, O&M and construction support services for Sunflower Member owners. Develop and support Sunflower response to regional and national policy relating to transmission operation, expansion, cost recovery etc.

***Senior Manager, Transmission Services (2000 - 2004)***

Develop and implement process and methods to maximize the value of the transmission assets of Sunflower. These processes support the operation, maintenance, construction, dispatching and engineering of the Sunflower transmission system. Develop and maintain technical, O&M and construction support services for Sunflower Member owners.

***Manager, Transmission Services (1997 - 2000)***

Manage the operation, maintenance, construction, dispatching and engineering of the Sunflower transmission system. Expand and maintain engineering support to the Sunflower Member owners for construction planning, protection system and long range planning.

***Supervising Engineer (1990 - 1997)***

Responsibilities include supervision of the transmission engineering and technical support staff along on going engineering duties. The technical responsibilities include engineering for transmission and substation additions, modifications and construction, providing engineering support for transmission and substation operations and maintenance, system planning and system protection and support of the EMS and system operations and dispatch. Responsible for providing engineering support to the Sunflower Member owners for construction planning, protection system and long range planning.

***Transmission Engineer (1988 - 1990)***

Responsibilities include engineering for transmission and substation additions, modifications and construction, providing engineering support for transmission and substation operations and maintenance, system planning and system protection and support of the EMS and system operations and dispatch.

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**Sunflower Electric Power Corporation**



**NOMAN L. WILLIAMS**

**Executive Manager,  
Transmission Services**

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**Washington Power Company – Spokane, Washington (1981 - 1988)**

***Transmission Planning and Engineering Technical Services (Distribution) (1986-1988)***

***Transmission System Planning (1981-1986)***

***EDUCATION***

Washington State University – Pullman, Washington, 1981  
Bachelor of Science Degree in Electrical Engineering; Minor in Economics  
Colorado State University, Ft. Collins, Colorado, 2003  
Masters Degree in Business Administration

***PROFESSIONAL MEMBERSHIPS***

National Society of Professional Engineers  
Kansas Society of Professional Engineers  
Institute of Electrical and Electronic Engineers (IEEE)  
American Power Dispatchers Association (ADPA)

**SIDNEY J. SEVERSON      Executive Vice President and CFO**

***PROFESSIONAL EXPERIENCE***

**Sunflower Electric Power Corporation - Hays, Kansas (1983 - Present)**

***Executive Vice President and CFO***

Recruited to arrange restructuring of debt and manage all accounting and financial activities. Was lead negotiator in retaining several large customers that represented almost 50 percent of member sales. Responsible for negotiation and administration of power sales and fuel supply contracts. Have lead role in development of second coal-fired power plant at Holcomb site.

**Seminole Electric Cooperative, Inc. - Tampa, Florida**

***Manager, Financial Services (1981 - 1983)***

Managed financing and treasury activities including \$1.1 billion RUS generation loan, pollution control financing, safe harbor and leveraged leasing.

***Supervisor - Internal Audits (1980 - 1981)***

Responsibilities included developing and implementing a corporate internal audit function to perform operational, contractual, and financial audits of all company transactions and activities.

**Campbell Soup Company - Camden, New Jersey**

***Assistant Manager - Cost Accounting (1979 - 1980)***

Responsible for analysis and maintenance of cost, production, and inventory records and budget preparation for the container division.

***Resident Auditor (1978 - 1979)***

Investigated and recommended corrective action for accounting and operational problem areas.

***Corporate Auditor (1976-1978)***

Transferred from Worthington, MN to Camden, NJ in July 1976. Conducted financial and operational audits of company locations throughout the United States and in Europe.

***Supervisor - General Accounting (1976)***

Responsible for maintenance of general ledger, fixed asset records, bank transactions and payroll.

***Supervisor - Accts. Payable (1974-1976)***

Responsible for payment of vendor invoices and maintenance of inventory records.

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**Sunflower Electric Power Corporation**

**SIDNEY J. SEVERSON      Executive Vice President and CFO**

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**Milwaukee Road (1970-1974)**

*Switchman*

Worked evenings and Saturdays while attending college.

***EDUCATION***

Augustana College - Sioux Falls, South Dakota, 1974  
Bachelor of Arts Degree in Accounting; Minor in Business Administration

**Projected Reduction in WPK Area Revenue Requirements**

Line No.	Description	Year 1 (\$000)	Year 2 (\$000)	Year 3 (\$000)	Year 4 (\$000)	Year 5 (\$000)	Total First 5 Years (\$000)	Notes
1	<b>A. Power Supply</b>							
2	<b>O&amp;M</b>							
3	Capacity Diversity (20 MW * 1.15 @ \$50.00/kW/year)	1,150	1,150	1,150	1,150	1,150	5,750	1
4	Fuel Cost	6,000	6,000	6,000	6,000	6,000	30,000	2
5	Labor	480	960	1,440	1,920	2,400	7,200	3
6	Subtotal	7,630	8,110	8,590	9,070	9,550	42,950	
7	<b>CapEx</b>							
8	<b>Eliminated Projects</b>							
9	Purchase of spare equipment @ Judson Large		65	150	300	800	1,315	
10	Environmental projects (pond liners) @ Judson Large			100	400		500	
11	Abatement projects (remove stacks) @ Judson Large					100	100	
12	Acquisition of new water supply @ Judson Large	100					100	
13	Fire protection @ Arthur Mullergren		50	300			350	
14	Boiler furnace camera @ Cimarron River				25	25	50	
15	Purchase spare equipment @ Cimarron River			50			50	
16	Non-specific adjustments against JL, CR & AM	-	100	130	-	-	230	
17	Subtotal	100	215	730	725	925	2,695	
18	<b>Deferred Projects</b>							
19	Upgrade access road @ Judson Large			50			50	
20	Replace generator seal oil systems (all plants)		100	100	100	300	600	
21	System upgrades (e.g., breakers, relaying-all plants)	475	370	410	245	250	1,750	
22	Honeywell process equipment @ Cimarron River		150	100			250	
23	Voltage regulator @ Cimarron River			100			100	
24	Turbine control system @ Cimarron River					100	100	
25	New RO unit @ Cimarron River				100		100	
26	Misc. equipment @ Arthur Mullergren	-	40	110	155	50	355	
27	Subtotal	475	660	870	600	700	3,305	
28	<b>Less: Added Projects</b>							
29	Reverse Osmosis & deep injection well@ Judson Large	(1,900)	(1,700)				(3,600)	
30	NPDES permits @ Arthur Mullergren & Cimarron River	(125)	(125)	-	-	-	(250)	
31	Subtotal	(2,025)	(1,825)	-	-	-	(3,850)	
32	Net CapEx Added Each Year	(1,450)	(950)	1,600	1,325	1,625	2,150	
33	Cumulative CapEx	(1,450)	(2,400)	(800)	525	2,150		
34	Annual Cost Savings of CapEx	(306)	(506)	(169)	111	453	(416)	4
35	<b>Total Power Supply Savings</b>	<b>7,324</b>	<b>7,604</b>	<b>8,421</b>	<b>9,181</b>	<b>10,003</b>	<b>42,534</b>	
36								
37	<b>B. Transmission</b>							
38	<b>O&amp;M</b>							
39	Consolidate control centers	250	250	650	650	650	2,450	5
40	Eliminate duplicate SPP interface	250	250	250	250	250	1,250	
41	Eliminate contract O&M	250	250	250	250	250	1,250	
42	Less: Added communications	(180)	(180)	(180)	(180)	(180)	(900)	
43	Subtotal	570	570	970	970	970	4,050	
44	<b>CapEx</b>							
45	<b>Eliminated Projects</b>							
46	Duplicate SPP interface						500	
47	EMS system upgrade						1,434	
48	Ongoing transmission upgrades						750	
49	System banket protection items						250	
50	Transmission blanket items						2,500	
51	Substation blanket items						125	
52	Reductions in system improvements						500	
53	Subtotal-Eliminated Projects						6,059	
54	<b>Deferred Projects</b>							
55	Concordia Area Projects						1,367	
56	Ellsworth to Rice County transmission tie						1,227	
57	Subtotal-Deferred Projects						2,594	
58	<b>Reestimated Projects</b>						9,480	
59	<b>Less: Added Projects (Metering)</b>						(1,250)	
60	Cumulative Net CapEx	3,377	6,753	10,130	13,506	16,883	16,883	3
61	Annual Cost Savings of CapEx	712	1,424	2,136	2,848	3,560	10,681	4
62	<b>Total Transmission Savings</b>	<b>1,282</b>	<b>1,994</b>	<b>3,106</b>	<b>3,818</b>	<b>4,530</b>	<b>14,731</b>	

**Projected Reduction in WPK Area Revenue Requirements**

Line No.	Description	Year 1 (\$000)	Year 2 (\$000)	Year 3 (\$000)	Year 4 (\$000)	Year 5 (\$000)	Total First 5 Years (\$000)	Notes
63								
64	<b>C. Distribution</b>	-	-	-	-	-	-	5
65								
66	<b>D. Administrative &amp; General</b>							
67	<b>O&amp;M</b>							
68	<b>Direct IBU</b>							
69	Labor and Loads	283	291	300	309	318	1,501	7,8
70	Other	51	52	54	55	57	269	7,9
71	Subtotal-Direct IBU	334	343	354	364	375	1,770	
72	<b>Indirect IBU</b>							
73	Financial management	143	147	152	156	161	759	7
74	Headquarters	220	173	178	184	189	944	7
75	Field resource center	102	105	108	111	115	541	7
76	IT Services	1,355	1,389	1,430	1,473	1,517	7,164	7
77	VP Energy Resources	872	897	924	952	981	4,626	7
78	Other	694	714	735	757	780	3,680	7
79	Less: Projected Six Sigma Program Savings	(314)	(324)	(333)	(343)	(354)	(1,668)	7
80	Subtotal-Indirect IBU	3,072	3,101	3,194	3,290	3,389	16,046	
81	<b>Direct ESF</b>							
82	Labor and Loads	117	121	124	128	132	622	7
83	Outside Services	147	151	156	160	165	779	7
84	Other	353	362	373	384	395	1,867	7
85	Subtotal-Direct ESF	617	634	653	672	692	3,268	
86	<b>Indirect ESF</b>							
87	Chief Executive Officer	320	329	339	349	360	1,697	7
88	Chief Financial Officer	509	523	538	555	571	2,696	7
89	Chief Operating Officer	74	76	79	81	83	393	7
90	Corporate Compliance	182	187	192	198	204	963	7
91	Corporate Controller	583	599	617	636	655	3,090	7
92	Corporate Services	1,082	1,109	1,142	1,176	1,212	5,721	7
93	External communications	150	154	159	164	168	795	7
94	Other	763	823	848	873	899	4,206	7
95	Less: Projected Six Sigma Program Savings	(830)	(855)	(881)	(907)	(934)	(4,407)	7
96	Subtotal-Indirect IBU	2,833	2,945	3,033	3,125	3,218	15,154	
97								
98	<b>Total A&amp;G Savings</b>	<b>6,856</b>	<b>7,023</b>	<b>7,234</b>	<b>7,451</b>	<b>7,674</b>	<b>36,238</b>	
99								
100	<b>E. Taxes</b>	<b>4,995</b>	<b>4,995</b>	<b>4,995</b>	<b>4,995</b>	<b>4,995</b>	<b>24,975</b>	
101								
102	<b>F. Grand Total Savings</b>	<b>20,457</b>	<b>21,616</b>	<b>23,756</b>	<b>25,445</b>	<b>27,203</b>	<b>118,477</b>	

<sup>1</sup> See page 3. Assume 15% reserves.

<sup>2</sup> A conservative estimate of fuel cost savings was calculated as follows:

Minimum estimated replacement of gas-fired generation with coal-fired generation	200,000	MWh
Estimated savings in per unit fuel cost		
Gas-fired energy cost	12,400 Btu/kWh *	\$ 10.00 /mmBtu = \$ 124.00 /MWh
Estimated market price		\$ 60.00 /MWh
Per unit savings		\$ 64.00 /MWh
Projected savings		\$ 12,800,000 /year
	As a conservative estimate, use:	\$ 6,000,000 /year

<sup>3</sup> Assume projected savings are achieved uniformly over a 5 year period.

<sup>4</sup> Annual carrying cost

Cost of Capital (Docket No. 04-AQLE-1065-RTS)	9.0232%
Depreciation	3.0000%
Income Tax 9.0232 * ((1 / 0.602225) - 1)	5.9599%
Property Tax (2004 Taxes Other than Income / Net Plant)	\$6,376,020 / \$205,340,062 = 3.1051%
Total	21.0882%

<sup>5</sup> Assume \$400,000/year savings in labor expense starting in year 3.

<sup>6</sup> While MKEC does expect savings in the distribution delivery function, none are included in this estimate.

<sup>7</sup> Estimate based on Aquila's projections.

<sup>8</sup> Reduce projected labor and loads associated with Direct IBU by 50%.

<sup>8</sup> Reduce projected other expense associated with Direct IBU by 5%.

<sup>9</sup> Income tax included in WPK's approved revenue requirements in Docket No. 04-AQLE-1065-RTS.

**Estimate of Cost of Peaking Generation**

**A. Capital Cost**

1. Estimated overnight installed cost, including contingencies, for a unit ordered in 2003 for completion in 2005, expressed in 2002 dollars. <sup>1</sup>	\$413.00 /kW
2. Adjustment to 2005 dollars. (3 years at average inflation rate) <sup>2</sup>	x <u>1.0756304</u>
3. Adjusted installed cost expressed in 2005 dollars	\$444.24 /kW
4. Estimated AFUDC. Assume avg. 1 year at an assumed capital cost of 9.02% .	x <u>1.0902</u> <sup>3</sup>
5. Estimated installed cost--2005 In service date	\$484.31 /kW
6. Annual carrying cost. <sup>4</sup>	x <u>0.2108821</u>
7. Annual capital cost	\$102.13 /kW/year

**B. Fixed O&M Cost**

1. Fixed O&M cost expressed in 2002 dollars <sup>1</sup>	\$10.34 /kW/year
2. Adjustment to 2005 dollars. (3 years at average inflation rate) <sup>2</sup>	x <u>1.0756304</u>
3. Adjusted fixed O&M cost expressed in 2005 dollars	\$11.12 /kW/year

**C. Summary**

1. Capital costs	\$102.13 /kW/year
2. Fixed O&M costs	<u>\$11.12</u> /kW/year
3. Total costs	\$113.25 /kW/year
	As a conservative estimate, use: <u>\$ 50.00</u> /kW/year

<sup>1</sup> See Department of Energy's (DOE) Annual Energy Outlook (AEO) for 2004.  
<http://www.eia.doe.gov/oiaf/archive/aeo04/assumption/tb138.html>

<sup>2</sup> GNPD (Use 4th quarter values)

2002	105.7	Average inflation rate	2.46%
2004	110.9		

<sup>3</sup> Rate of return ROR) allowed by the Commission for Aquila in Docket No.04-AQLE-1065-RTS

<sup>4</sup> See page 1.