

BEFORE THE STATE OF KANSAS
STATE CORPORATION COMMISSION

STATE CORPORATION COMMISSION

MAR 04 2008

 Docket Room

IN THE MATTER OF THE JOINT APPLICATION OF)
AQUILA, INC., D/B/A AQUILA NETWORKS - KGO,)
BLACK HILLS CORPORATION AND BLACK)
HILLS/KANSAS GAS UTILITY COMPANY, LLC)
("BH KANSAS GAS"), JOINT APPLICANTS, FOR)
AN ORDER APPROVING THE TRANSFER TO)
BH KANSAS GAS OF AQUILA'S CERTIFICATE OF)
CONVENIENCE AND NECESSITY AND)
FRANCHISES WITH RESPECT TO ALL OF)
AQUILA'S KANSAS NATURAL GAS BUSINESS,)
INCLUDING ITS TRANSMISSION AND)
DISTRIBUTION FACILITIES LOCATED IN THE)
STATE OF KANSAS, AND FOR OTHER RELATED)
RELIEF)

DOCKET NO. 07-BHCG-1063-ACQ

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

Testimony In Support Of Settlement

Filed in Docket No. 07-KCPE-1064-ACQ

Andrea C. Crane

On Behalf of

The Citizens' Utility Ratepayer Board

March 4, 2008

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

2 A. My name is Andrea C. Crane and my business address is 199 Ethan Allen Highway, 2nd
3 Floor, Ridgefield, Connecticut 06877. (Mailing address: PO Box 810, Georgetown,
4 Connecticut 06829)

5
6 **Q. Did you previously file testimony in this proceeding?**

7 A. Yes, on December 18, 2007, I filed Direct Testimony on behalf of the Citizens' Utility
8 Ratepayer Board ("CURB"). My Direct Testimony addressed two Joint Applications that
9 have been filed with the Kansas Corporation Commission ("KCC") and provided
10 recommendations for the KCC's consideration in evaluating those Joint Applications. The
11 first Joint Application, filed by Aquila, Inc. d/b/a Aquila Networks-KGO ("Aquila"), Black
12 Hills Corporation and Black Hills/Kansas Gas Utility Company, LLC (collectively "Black
13 Hills") sought authorization for Black Hills to purchase Aquila's gas assets, including those
14 gas assets located in Kansas, as well as Aquila's electric operations in Colorado (Docket No.
15 07-BHCG-1063-ACQ). The second Joint Application, filed by Aquila, Great Plains Energy,
16 Inc. ("GPE") and Kansas City Power and Light Company ("KCPL"), sought authorization
17 for GPE to purchase the stock of Aquila and its remaining electric operations in Missouri
18 (07-KCPE-1064-ACQ).

19
20 **Q. What is the purpose of your Testimony in Support of Settlement?**

21 A. On February 26, 2008, the Kansas Corporation Commission Staff ("Staff"), CURB, GPE,
22 and KCPL, along with Aquila and Black Hills executed a Settlement Agreement ("GPE

1 Settlement”) with the KCC that resolves the issues in Docket No. 07-KCPE-1064-ACQ
2 relating to the GPE/Aquila transaction. The purpose of my Settlement Testimony is to state
3 why the proposed GPE Settlement is in the public interest and to recommend that it be
4 approved by the KCC.

5
6 **Q. What is the status of the Black Hills/ Aquila transaction that is the subject of Docket**
7 **No. 07-BHCG-1063-ACQ?**

8 A. On January 31, 2008, a Settlement Agreement (“BH Settlement) was filed in that case by
9 Staff, CURB, and United School District 259 (“USD 259”), along with Aquila, Black Hills,
10 and GPE. I filed testimony in support of the BH Settlement on February 7, 2008. A
11 hearing on the BH Settlement was held on February 12, 2008. The BH Settlement is
12 dependent upon a successful resolution of the GPE/Aquila transaction.

13
14 **Q. With regard to the GPE/Aquila transaction, what were the conclusions and**
15 **recommendations contained in your Direct Testimony?**

16 A. In my Direct Testimony, I concluded that the GPE/Aquila acquisition, as originally
17 proposed, was not in the public interest and should be denied by the KCC. I expressed
18 concerns that the GPE/Aquila transaction would unfairly burden ratepayers with recovery of
19 costs relating to an acquisition premium, transaction costs, and transition costs over the next
20 twenty-five years. I opposed the Company’s request to retain 50% of estimated synergy
21 savings for shareholders over the next five years. In addition, I expressed concerns about the
22 level of future savings projected by GPE. Accordingly, I recommended that if the KCC

1 approved the GPE/Aquila acquisition, the KCC should prohibit GPE from passing through to
2 ratepayers any acquisition costs, including acquisition premiums, transaction costs and
3 transition costs. I also recommended that the KCC deny KCPL's request to retain 50% of
4 estimated synergy savings for a period of five years. I expressed concerns about certain
5 provisions of KCPL's current Regulatory Plan and recommended that if the proposed
6 transaction was approved, the provisions of the Regulatory Plan relating to the calculation of
7 additional cash flow (through a Contribution in Aid of Construction or "CIAC" adjustment)
8 should be suspended. Finally, I recommended that the KCC take no action on the
9 GPE/Aquila transaction until the parties had the opportunity to review and comment upon a
10 revised GPE/Aquila merger plan that was due to be filed in January with the Missouri Public
11 Service Commission.

12
13 **Q. Please outline the provisions of the proposed Settlement.**

14 **A.** The proposed Settlement contains the following provisions:

- 15 • The Settlement permits GPE to recover transition costs of \$10 million from Kansas
16 ratepayers over a five year period, beginning with the effective date of rates resulting
17 from KCPL's rate case scheduled to be filed in 2009. This will result in a cost to
18 Kansas ratepayers of \$2 million per year for five years. The GPE Settlement defines
19 transition costs as "costs incurred to integrate and centralize Aquila's and GPE's
20 and/or KCPL's operational functions, such as but not limited to information
21 technologies and customer service functions." The GPE Settlement prohibits KCPL
22 from including any deferred transition costs in rate base.

- 1 • Except for the transition costs referenced above, KCPL will not recover any other
2 costs of the acquisition, including the acquisition premium, transaction costs, or
3 unrecovered transition costs, from Kansas ratepayers.
- 4 • KCPL will not include an annual adder to its cost of service to reflect any sharing of
5 synergy savings. Thus, to the extent that savings are produced, ratepayers will
6 receive 100% of the resulting benefit.
- 7 • KCPL's 2008 rate case will not reflect any effects from the proposed transaction.
- 8 • The CIAC calculation as outlined in the Regulatory Plan will not include any costs
9 from this transaction except for the annual \$2 million of transition costs referenced
10 above.
- 11 • Aquila will be held in a separate subsidiary of GPE unless and until the KCC
12 approves a change to this corporate structure.
- 13 • KCPL will not include costs associated with any Aquila liabilities in its Kansas
14 revenue requirement.
- 15 • KCPL will comply with certain performance metrics as specified in the GPE
16 Settlement.
- 17 • Staff and CURB may request that the KCC amend its Order in this case to address
18 conditions that may be approved by the Missouri Public Service Commission in
19 Docket No. EM-2007-0374, or in a successor docket, that would be more favorable
20 to KCP&L's Missouri customers than the conditions contained in the GPE
21 Settlement for KCPL's Kansas customers.

- 1 • The Settlement requests that the KCC approve the proposed transaction, subject to
2 the conditions outlined in the Settlement, as summarized above.
3

4 **Q. In your opinion, is the Settlement in the public interest?**

5 A. Yes, it is. As stated earlier, my primary recommendations were that the KCC deny GPE's
6 request to retain 50% of any synergy savings for shareholders, and to prohibit GPE from
7 recovering any acquisition costs, including an acquisition premium, transaction costs, and
8 transition costs, from ratepayers.

9 The GPE Settlement requires KCPL to reflect 100% of synergy savings in its cost of
10 service when it files its 2009 rate case. Thus, ratepayers, not shareholders, will benefit if any
11 synergy savings result from the transaction. Moreover, subsequent rate cases that may be
12 filed after 2009 will also reflect 100% of synergy savings in the cost of service, so any
13 savings will continue to benefit ratepayers in future years. The GPE Settlement also
14 prohibits KCPL from recovering any acquisition premium or transaction costs from
15 ratepayers.

16 As stated in my Direct Testimony, GPE's initial proposal would have cost ratepayers
17 approximately \$225 million. Assuming an allocation of approximately 22%, the Kansas
18 share would have amounted to almost \$50 million. The GPE Settlement permits KCPL to
19 recover about 20% of this amount, or \$10 million, relating to transition costs that will be
20 incurred as a result of this transaction. While I would have preferred that no transition costs
21 be recovered from ratepayers, I recognize that there is always litigation risk in any case.
22 Accordingly, I believe that permitting KCPL to recover \$10 million of transition costs is

1 reasonable in view of the possible risk to ratepayers if the KCC were to approve GPE's
2 original proposal.

3
4 **Q. Does the GPE Settlement include any provision to quantify actual synergy savings?**

5 A. No, it does not. As I have previously stated in testimony, it is very difficult to accurately
6 measure synergy savings resulting from any transaction. Moreover, it becomes even more
7 difficult to measure synergy savings the further in time one is from the transaction. For this
8 reason, I have generally opposed attempts by utilities to tie recovery of certain costs to
9 perceived synergy savings. The GPE Settlement does not include any requirement for the
10 parties to attempt to measure synergy savings, an attempt that I believe is generally futile in
11 any case.

12
13 **Q. Are there other factors to consider in evaluating the proposed GPE Settlement?**

14 A. Yes, there are. In addition to litigation risk, there was also the risk that the GPE/Aquila
15 transaction might not proceed in the absence of a successful regulatory resolution. As stated
16 in my Settlement Testimony filed on February 7, 2008, the proposed BH/Aquila transaction
17 is dependent upon a successful resolution of the GPE/Aquila transaction. Therefore, if the
18 GPE/Aquila transaction does not go forward, the BH/Aquila transaction would also be at
19 risk. That fact was also considered in evaluating the merits of the proposed GPE Settlement.
20 In addition, I am familiar with the financial difficulties experienced over the past several
21 years by Aquila. I am also aware that Staff has recommended in other proceedings that the
22 Aquila assets be sold. The proposed transactions will accomplish this goal and should

1 ultimately result in improved credit ratings for Aquila.

2

3 **Q. What do you recommend?**

4 A. I recommend that the KCC approve the GPE Settlement. The GPE Settlement adopts
5 CURB's recommendation with regard to synergy savings, the acquisition premium and
6 transaction costs. While the GPE Settlement does permit KCPL to recover some transition
7 costs from ratepayers, the costs to ratepayers resulting from the GPE Settlement are
8 significantly less than those originally proposed to be recovered by KCPL. The GPE
9 Settlement also provides Kansas ratepayers with additional safeguards should the Missouri
10 PSC approve conditions that the KCC finds should also be adopted in Kansas. The GPE
11 Settlement also includes compliance with certain performance standards that will clearly
12 benefit ratepayers. Finally, the GPE Settlement will reduce regulatory costs for all parties
13 and eliminate the regulatory uncertainty that exists with a fully litigated case. For all these
14 reasons, I believe that the GPE Settlement is in the public interest and I recommend that the
15 KCC approve the proposed Settlement.

16

17 **Q. Does this complete your testimony?**

18 A. Yes, it does.

19

VERIFICATION

STATE OF CONNECTICUT)
COUNTY OF FAIRFIELD) ss:

Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief.

Andrea C. Crane
Andrea C. Crane

Subscribed and sworn before me this 29th day of February, 2008.

Notary Public Majorie M. Berlin

My Commission Expires: DECEMBER 31, 2008

CERTIFICATE OF SERVICE

07-KCPE-1064-ACQ

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, or hand-delivered this 4th day of March, 2008, to the following:

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