

Exhibit No.:
Issue: Overview of Synergy Savings and
Operational Impacts of the Merger
Witness: John R. Marshall
Type of Exhibit: Direct Testimony
Sponsoring Party: Great Plains Energy Incorporated and
Kansas City Power & Light Company
Case No.: EM-2007-____
Date Testimony Prepared: April 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2007-____

DIRECT TESTIMONY

OF

JOHN R. MARSHALL

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
April 2007**

DIRECT TESTIMONY

OF

JOHN R. MARSHALL

Case No. EM-2007-_____

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

2 A: My name is John R. Marshall. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company (“KCPL”) as Senior Vice
6 President, Delivery Division. KCPL is a direct, wholly-owned subsidiary of Great Plains
7 Energy Incorporated (“Great Plains Energy”).

8 **Q: What are your responsibilities?**

9 A: My responsibilities include overseeing Customer Operations, Transmission Services,
10 Information Technology and Energy Solutions.

11 **Q: Please describe your education, experience and employment history.**

12 A: I graduated from the University of Arkansas at Fayetteville in 1976 with a Bachelor of
13 Science degree in Electrical Engineering. Further education from 1990 through 1997
14 includes management development at Columbia University, The Aspen Institute, The
15 Wharton School, and Harvard Business School Advanced Management Program. I
16 began employment at KCPL in May 2005. Prior to joining KCPL, I was a Senior
17 Executive Resource for GFI Energy Ventures LLC; Chairman of InfraSource Services

1 Inc.; Chairman of SPL World Group Inc.; and a Director of Power Measurement
2 Holdings, Inc. From 2001-2002, I was Senior Vice President of Customer Service at the
3 Tennessee Valley Authority, and from 1999-2001, I served as President of Duquesne
4 Light Company, Pittsburgh, Pennsylvania. Prior to joining Duquesne Light, I was Vice
5 President of Entergy Corporation and served in various nuclear and fossil generation,
6 transmission, distribution, customer service, information services and retail operations
7 positions from 1976 through 1999.

8 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
9 **Commission or before any other utility regulatory agency?**

10 A: I testified before the Missouri Public Service Commission (“Commission”) and the
11 Kansas Corporation Commission in KCPL’s 2006 rate cases. I have also testified in
12 proceedings before the Texas Public Utility Commission.

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

14 A: The purpose of my testimony is to provide an overview of the synergy savings Great
15 Plains Energy anticipates realizing as a result of its acquisition of Aquila, Inc. (“Aquila”)
16 (the “Merger”). I also provide an overview of the operational impacts of the Merger and
17 other post-Merger considerations.

18 **I. MERGER SYNERGY SAVINGS**

19 **Q: What amount of synergy savings does Great Plains Energy anticipate realizing as a**
20 **result of the Merger?**

21 A: As described more thoroughly in the direct testimony of Robert T. Zabors of Bridge
22 Strategy Group, LLC, Great Plains Energy anticipates realizing approximately \$500
23 million in pre-tax synergy savings over the next five years (2008-2012). That figure can

1 be broken down into four general categories, *i.e.*, savings attributable to: (i) a lower cost
2 of debt for Aquila following the Merger; (ii) shared services between KCPL and Aquila;
3 (iii) more efficient operations; and (iv) economies of scale, better bargaining leverage,
4 and other efficiencies associated with procurement for a larger entity. Although Great
5 Plains Energy anticipates only minor changes in projected synergies as the transition
6 work progresses, we will provide the Commission an update in August of 2007.

7 **Q: What is Great Plains Energy's estimated cost to achieve the Merger savings?**

8 A: Great Plains Energy estimates that it will cost approximately \$181 million to achieve the
9 anticipated synergy savings. This includes both the transition-related costs associated
10 with integrating Aquila operations into Great Plains Energy's operations and the
11 transaction costs associated with completing the Merger. Although Great Plains Energy
12 anticipates only minor changes in projected costs to achieve as the transition work
13 progresses, we will include updated costs-to-achieve data in our August 2007 update.

14 **Q: You mentioned that there are four general categories of synergy savings, could you**
15 **please elaborate on those?**

16 A: Yes, as I noted, Great Plains Energy anticipates realizing significant synergy savings as a
17 result of reduced debt costs, shared services, operational efficiencies, and a more
18 favorable procurement position. Mr. Zabors elaborates on the nature of these savings,
19 however, the following is a general description of the estimated synergies:

20 **Debt Interest Savings:**

21 As explained in the direct testimony of Terry Bassham, Great Plains Energy estimates
22 that Aquila will achieve approximately \$188 million in debt interest savings over the
23 five-year period as a result of the Merger. Great Plains Energy will retire or refinance all

1 of Aquila's currently outstanding debt with the exception of two debt issuances that
2 contain "make-whole" provisions that make their retirement uneconomic. Great Plains
3 Energy estimates that the debt tender costs associated with refinancing and retiring
4 Aquila's debt will equal approximately \$35 million.

5 **Shared Services:**

6 Great Plains Energy estimates that KCPL and Aquila will achieve approximately \$143
7 million in synergy savings over the five-year period as a result of KCPL and Aquila
8 sharing certain services. The components of shared services synergies are labor costs
9 associated with shared services functions, and associated benefit costs, third-party spend,
10 executive compensation, and other overhead. Great Plains Energy anticipates eliminating
11 approximately 110 duplicative support or administrative positions. Great Plains Energy
12 anticipates spending less money enterprise-wide on third-party services such as audit
13 services and legal counsel, than KCPL and Aquila currently spend in aggregate.
14 Overhead and other costs associated with the top Aquila officers will be eliminated
15 following their departure upon consummation of the Merger. Great Plains Energy also
16 anticipates achieving other general overhead savings.

17 **Operations:**

18 Great Plains Energy estimates that KCPL and Aquila will achieve approximately \$119
19 million in synergy savings over the five-year period as a result of operational efficiencies
20 gained as a result of the Merger. The components of operating synergies are labor costs
21 associated with operating functions, emission credits and associated benefit costs, and
22 other operating synergies. Great Plains Energy anticipates eliminating approximately
23 188 Aquila positions over time due to changes in process or technology and economies of

1 scale efficiencies. Great Plains Energy also anticipates realizing a number of operations
2 and maintenance synergy savings, as Mr. Zabors discusses in his direct testimony.

3 **Procurement:**

4 Great Plains Energy estimates that KCPL and Aquila will achieve approximately \$50
5 million in synergy savings over the five-year period as a result of more efficient
6 procurement practices, a superior bargaining position and other efficiencies gained as a
7 result of the Merger. As Mr. Zabors explains in his direct testimony, this amount was
8 estimated based on a reduction of 2.5% of total spent.

9 **II. POST-MERGER OPERATIONS**

10 **Q: Please provide a general overview of the impact of the Merger on KCPL's and**
11 **Aquila's operations.**

12 **A:** Representatives from the Joint Applicants have been and will continue to coordinate
13 efforts to ensure that the Merger has no adverse impacts on operations or the day-to-day
14 services presently received by KCPL's and Aquila's retail customers. Great Plains
15 Energy anticipates retaining nearly all of Aquila's operational employees.

16 **Generation Fleets**

17 **Q: Please describe the generation fleet operational efficiencies that you anticipate as a**
18 **result of the Merger?**

19 **A:** As discussed more fully in the direct testimony of F. Dana Crawford, representatives
20 from both companies, through the Plant Operations Integration team process, will be
21 tasked with identifying operational efficiencies and implementation strategies. Team
22 goals and objectives include: (i) defining and delivering key best practice operations and
23 maintenance strategies with emphasis on safety and training to support top-tier

1 performance; (ii) developing an organizational structure that supports the Great Plains
2 Energy “winning culture” initiative; (iii) identifying optimum on-going staffing
3 requirements and necessary skill levels; and (iv) integrating key data information streams.

4 Through this team process we will take a collaborative look at KCPL’s previously
5 identified performance improvement projects and evaluate the implementation strategy
6 for the current Aquila generation fleet. Great Plains Energy will also evaluate additional
7 performance improvement projects that are identified through the integration process and
8 look for opportunities to implement these projects where appropriate throughout the
9 KCPL/Aquila generation fleet.

10 **Transmission Operations**

11 **Q: Please summarize the impact of the Merger on the transmission operations of KCPL**
12 **and Aquila and their Regional Transmission Organization (“RTO”) participation.**

13 A: As discussed more fully in the direct testimony of Richard A. Spring, KCPL employees
14 will operate the transmission systems of KCPL and Aquila following the Merger. KCPL
15 proposes to take the following actions in order to build a reliable and efficient
16 organization: (i) consolidate transmission control center operations; (ii) integrate
17 Aquila’s planning functions with KCPL’s planning functions; (iii) incorporate Aquila’s
18 transmission and substation field operations into KCPL’s operations; (iv) combine the
19 transmission and substation engineering processes; and (v) include the Aquila facilities in
20 the KCPL comprehensive transmission asset management plan in order to achieve Tier I
21 reliability levels for all customers.

22 Aquila currently is a conditional member of the Midwest Independent
23 Transmission System Operator RTO, with long-term participation contingent on

1 regulatory approval. KCPL is a member of the Southwest Power Pool RTO. KCPL will
2 evaluate the strategy of RTO membership when the acquisition is completed, taking into
3 consideration multiple factors including the advantages of operating both transmission
4 systems within a single RTO structure and the results of the pending cost-benefit study
5 evaluating the relative benefits of Aquila's RTO options. Please refer to the testimony of
6 Richard A. Spring for further detail regarding transmission and RTO issues.

7 **Distribution Operations**

8 **Q: Please discuss combining the distribution operations of KCPL and Aquila.**

9 A: By acquiring Aquila's Aquila Networks-MPS and Aquila Networks-L&P electric
10 utilities, the number of retail customers served by Great Plains Energy's electric utility
11 subsidiaries will increase to approximately 800,000 in western Missouri and eastern
12 Kansas. It will create a footprint that spans the majority of the Kansas City metropolitan
13 area and links KCPL's metropolitan areas with its East District. This will enable
14 efficiencies in terms of improved service, design and maintenance of infrastructure. The
15 combined service territory will be comprised of 21,770 distribution primary circuit miles
16 over approximately 18,000 square miles.

17 **Q. What areas of distribution operations do you anticipate resulting in synergy savings**
18 **and efficiencies?**

19 A. As discussed more fully in the direct testimony of William P. Herdeggen, III, synergy
20 savings and efficiencies are anticipated in the following departments: (i) Safety and
21 Training; (ii) Engineering; (iii) Resource Management; (iv) Vegetation Management;
22 (v) Emergency Preparedness; and (vi) Field Operations.

1 **Customer Service**

2 **Q: Please briefly describe KCPL’s customer service operations.**

3 A: KCPL’s customer service operations consist of the following departments: (i) Call
4 Center; (ii) Billing Services; (iii) Credit and Collection; and (iv) Customer Relations.

5 **Q. Will customer service operations be impacted by the Merger?**

6 A. As discussed more fully in the direct testimony of William P. Herdegen, III, Great Plains
7 Energy believes the Merger will improve customer service operations for both KCPL and
8 Aquila. Synergies are being evaluated and integration will focus on the best practices of
9 both companies.

10 **III. OTHER POST-MERGER CONSIDERATIONS**

11 **Q: What other Merger-related issues would you like to bring to the Commission’s**
12 **attention while it considers the overall impact of the Merger on the operations and**
13 **retail customers of KCPL and Aquila?**

14 A: I would also like to provide a brief overview of the impact of the Merger on energy
15 efficiency and conservation issues, the potential for transition services temporarily being
16 provided either by Great Plains Energy and/or its subsidiaries to Black Hills Corporation
17 (“Black Hills”) or *vice versa*, and KCPL’s and Aquila’s community involvement
18 activities.

19 **Energy Efficiency and Conservation Issues**

20 **Q: How will the Merger affect KCPL’s and Aquila’s current energy efficiency and**
21 **conservation initiatives?**

22 A: As discussed more fully in the direct testimony of Kevin Bryant, Great Plains Energy
23 plans to evaluate Aquila’s energy efficiency, conservation and other related programs.

1 KCPL will continue its current programs, and Great Plains Energy will evaluate
2 extending those programs to Aquila's customers. Great Plains Energy will also explore
3 expanding any successful Aquila programs to KCPL's customers.

4 **Transition Services**

5 **Q: How do Great Plains Energy and Aquila propose to address the need to provide or**
6 **receive transition services following the Merger?**

7 A: It is contemplated that following the Merger and Black Hills' acquisition of Aquila's
8 non-Missouri assets, Great Plains Energy, or one of its subsidiaries, might need to provide
9 services to Black Hills, or *vice versa*, on a temporary basis. Such services might include,
10 among other things, customer support, information technology, and accounting services.
11 Consequently, the parties entered into a Transition Service Agreement ("TSA"). Under
12 the TSA, the parties have composed a transition service committee to examine these
13 transition service issues, and the parties have agreed to finalize a transition service plan
14 setting forth the steps to be taken by each party in order to resolve the transition service
15 issues by July 30, 2007. The parties will provide the Commission with the transition plan
16 after the parties finalize the services to be provided under the TSA.

17 **Communities**

18 **Q: How, if at all, will the Merger impact the work Great Plains Energy, KCPL and**
19 **Aquila presently do in support of communities in which the companies currently**
20 **serve and operate?**

21 A: Currently Great Plains Energy and KCPL support initiatives targeted toward: (i)
22 improving the lives of vulnerable youth; (ii) environmental programs that build on our
23 current business practices, including energy efficiency/weatherization, tree care and

1 plantings and conservation; and (iii) agencies and initiatives focused on retaining and
2 stimulating economic and community development, as well as utility-related workforce
3 development. This community strategy is supported by financial contributions, as well as
4 an aggressive volunteerism program allowing employees to participate with partner
5 agencies through a combination of personal and company time. Great Plains Energy and
6 KCPL plan to review Aquila's current community support activities and will assess the
7 effectiveness of those activities. Great Plains Energy and KCPL will continue those
8 programs that align with its focus areas and philosophy of community improvement and
9 offer the best value and effectiveness for the communities served.

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


11 **A:** Yes, it does.

In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy Incorporated and for Other Requester Relief)
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) **Case No. EM-2007-_____**
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STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

1. My name is John R. Marshall. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Vice President, Delivery Division.

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.


John R. Marshall

Subscribed and sworn before me this 2nd day of April 2007.

Nicol A. Weng
Notary Public

My commission expires: Feb. 4 2011

