BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

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 Related Relief.	))))))	**Case No. EM-2007-0374**
In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in Its Charges for Electric Service to Implement Its Regulatory Plan	))))	**Case No. ER-2007-0291**

NOTICE REGARDING EXTERNAL COMMUNICATIONS

Issue Date: April 10, 2008

On April 10, 2008, I received the attached letter and newspaper articles on the Assessment of Iatan 2 and Iatan 1 retro-fit from Bill Taylor, Board President of West Platte R-2 School District.

Dated at Jefferson City, Missouri,
on this 10th day of April, 2008.
Davis, Chairman

West Platte R-2 School Dist.
1103 WASHINGTON
WESTON, MISSOURI 64098

MR. KYLE B. STEPHENSON, *Superintendent* 640-2236
MR. STAN COULSON, *High School Principal* 640-2292
MR. DAVE WADDELL, *Elementary Principal* 640-2811

FAX # 816-386-2104

April 2, 2008

Lisa Pope
Platte County Assessor
415 Third Street, Suite 20
Platte City, Missouri 64079

RE: Assessment of Iatan 2 and Iatan 1 retro-fit

Dear Ms. Pope:

A number of recent news reports have alleged significant construction cost overruns associated with the Iatan 2 construction project and the Iatan 1 environmental retro-fit. These reports also state that, although it has acknowledged the mounting cost pressures, KCP&L may not disclose the actual amount and extent of those costs until a date after which the KCP&L tax assessment filing is due with your office. I am enclosing several copies of these news reports for your review and consideration.

Based on this information, the West Platte Board of Education would like to know whether KCP&L will report the additional construction costs for the Iatan 2 construction project and the Iatan 1 retro-fit in the upcoming assessment filing with your office. We expect the filing to include any "soft cost" overruns - which KCP&L previously agreed directly with you to report. If the additional costs are reported, please provide the total amount of the additional costs and the impact it will have on your assessment of both Iatan 2 and the Iatan 1 retro-fit.

Also, we ask that you reconsider our prior request to reduce the Construction Work In Progress (CWIP) discount rate for Iatan 2, and completely eliminate the CWIP discount for the Iatan 1 retro-fit. Both projects were granted a 50% assessment rate last year (i.e. KCP&L was granted a 50% discount from the assessed value) and the discount has caused a negative financial impact on the West Platte R-II School District.

During our discussions of this matter last year, you indicated that the decision to grant the 50% CWIP discount rate was based upon on a precedent established over twenty years ago when the last new coal fired plant was constructed in Missouri. During these same discussions, you also referred to reduced CWIP discount rates associated with recent utility projects within Missouri. One of the projects you cited received no discount from the county assessor.

However, there appears to be no recent precedent in Missouri for the construction of a new electric generating unit alongside an existing and profitable electric generating unit. We also believe a reasonable approach for the application of a CWIP discount to the <u>Iatan 2</u> project would be to reconsider and reduce the discount each year as the project nears completion and becomes more viable as an electric generating unit. We also advocate the removal of any discount in the year prior to the project's completion.

Also, because <u>Iatan 1</u> is currently on-line and already rate based, we believe the CWIP granted for the retro-fit of Iatan 1 is unwarranted because there has been no apparent additional risk incurred by KCP&L that we are aware of.

Thank you for considering our requests. I would be happy to meet with you to discuss this matter in greater detail. Please contact me at 816-804-0249 or Superintendent Kyle Stephenson at 816-640-2236 if you have any questions. The board would appreciate a written response to the issues raised herein at your earliest opportunity.

Sincerely,

Bill Taylor
Board President

C: Jeff Davis, Chairman, Missouri Public Service Commission
Lewis R. Mills, Jr., Public Counsel, Missouri Office of Public Counsel

Enclosure

FINANCES ATTRACT SCRUTIN

Amid Aquila merger case, Great Plains Energy may be asked about Iatan projects.

By STEVE EVERLY
The Kansas City Star

Great Plains Energy Inc. is facing questions about its financial wherewithal to acquire **Aquila Inc.** while its **Kansas City Power & Light** subsidiary is building a coal-fired power plant.

The **Missouri Public Service Commission**'s staff, the **Missouri Office of Public Counsel** and some industrial electric users are seeking, as part of the case considering regulatory approval of the Aquila acquisition, to depose top Great Plains and KCP&L executives.

They also want to question current and former managers of Iatan 2, the coal-fired plant being build near Weston, and employees involved in the environmental upgrades to Iatan 1, an existing coal-fired plant.

> "We're confident from the operational and the financial standpoint that we have the ability to do both."
>
> MIKE DEGGENDORF, GREAT PLAINS VICE PRESIDENT, SPEAKING ABOUT THE AQUILA DEAL AND THE ENERGY PLAN

A Great Plains spokesman on Thursday said the company was confident it could accomplish the Aquila merger and the Iatan projects at the same time, and would fight the move to have the depositions about the Iatan plants during the merger case.

The depositions are meant to get more information about the costs of Great Plains' energy plan, which includes the Iatan plants, and the possible adverse impact on KCP&L, a regulated utility. The filing said the information was needed beca

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MERGER: Effort comes shortly after credit-watch listing b

FROM C1

that KCP&L is not adequately insulated from Great Plains' business risks.

The coal-fired plant was originally supposed to cost $1.3 billion, but the company has acknowledged mounting cost pressures. KCP&L recently said it was working on revising the cost estimates and releasing them in the second quarter.

The Aquila merger case could be decided by late May.

Mike Deggendorf, a Great Plains vice president, said a separate regulatory process, meant to oversee the energy plan, would be a better venue for the Iatan depositions than taking them during the Aquila merger case.

Deggendorf also said Great Plains had the wherewithal to do the Aquila deal and complete the energy plan, including the coal-fired plant.

"We're confident from the operational and the financial standpoint that we have the ability to do both," he said.

The move to depose Great Plains and KCP&L executives and employees came just days after **Moody's**, a debt rating agency, put KCP&L on a "negative" credit watch, citing a revised Aquila merger plan that would weaken KCP&L's financial flexibility.

And it comes a day after state regulators received their third anonymous letter purportedly from a KCP&L worker citing problems at Iatan 2. The most recent letter said that construction costs were out of control and the revised estimates to be released in the second quarter would be a "disaster."

The letter also referred to the recent decision by Great Plains to defer plans to build a second wind farm because of financing problems. The letter asked how the company could afford Iatan 2 but not the wind farm.

The filing by the commission's staff and the other parties appears to want answers to that and other questions. The document referred to the agreement approving the energy plan and the obligation

Plant cost overruns are alleged

An anonymous letter says that KCP&L is intentionally not revealing the rising price of a facility near Weston.

By STEVE EVERLY
The Kansas City Star

Kansas City Power & Light's plant being built near Weston is beset by cost overruns that have intentionally not been disclosed, according to a letter received by Missouri regulators.

The staff of the **Missouri Public Service Commission**, which regulates utilities in the state, is expected to look into the allegations regarding Iatan 2, the 850-megawatt, coal-fired power plant that is a big part of the utility's plans to meet future electricity demand.

Mike Deggendorf, vice president of communications for KCP&L's parent company, **Great Plains Energy**, said Thursday that the company planned to issue a revised cost figure for the plant in the second quarter of this year. He said the only thing affecting the timing of the release is the work needed to complete the estimate.

The plant is scheduled to begin operation in 2010, but the project has been beset by problems, especially skyrocketing costs, according to the anonymous letter, purportedly from a Great Plains employee.

SEE KCP&L | C2

KCP&L: Deadline is near for report

FROM C1

"I have been in the utility industry for many years, and I don't recall ever being involved in a fiasco such as Iatan," said the letter, which the commission released.

The company had originally said its share of the plant's cost would be $733 million. A year ago, it revised that figure to a range of $837 million to $914 million. The Iatan plant is 56 percent owned by KCP&L. Other partners include **Aquila Inc.**, which owns 18 percent, and **Empire District Electric Co.**, which owns 12 percent.

At the time, KCP&L executives said they were confident that costs wouldn't exceed $914 million for their share.

But on Thursday, Deggendorf said the engineering of the plant had progressed to a point that the utility could issue a more accurate cost estimate.

The letter also alleged that Great Plains hadn't disclosed the overruns because it didn't want the issue to interfere with its bid to win Missouri regulatory approval of its acquisition of Aquila. Great Plains recently said it would like the matter to be settled by May 1, which would be well before the end of the second quarter.

The approval process for the Aquila acquisition has stalled over other issues, including whether customers should have to pay interest on debt that Aquila ran up on its unregulated businesses in the **Enron** era. A controversy over Iatan costs could further complicate the process.

The anonymous letter was sent this week to all five members of the commission. The letter also alleged that other aspects of the company's comprehensive energy plan, including environmental retrofits of Iatan 1, were costing more than expected. The extra costs could endanger an agreement that Great Plains has with the **Sierra Club**, which would require more power from sources such as wind, according to the letter.

The letter's allegations are expected to bring more scrutiny to Great Plains and its energy plan. If costs do increase, regulators will have to decide whether customers' rates should be raised to cover them.

Lewis Mills, head of the **Missouri Office of the Public Counsel**, which represents consumers in utility cases, said the allegations are serious enough that the commission should investigate.

"If there are cost overruns at Iatan, that is a big deal," he said.

Jeff Davis, chairman of the Public Service Commission, said that whenever "whistleblower" allegations are received by regulators, the commission's staff investigates.

"We take these types of allegations seriously," he said.

The letter also complained about the company's executive compensation and said Great Plains executives stood to make millions from the acquisition of Aquila. Separately, some KCP&L employees have been complaining about executive pay even without the merger.

It was recently disclosed in a filing with the **Securities and Exchange Commission** that Michael Chesser, the chief executive officer of Great Plains, received a $75,000 increase in salary for 2008, to $800,000. Next month, details on bonuses and other compensation paid in 2007 will be disclosed.

In 2006, Chesser received $3.1 million in annual compensation, including awards of stock and an annual bonus. That compares with $3.2 million paid to the head of another big Missouri utility, **Ameren Corp.**, for the same year. Ameren, which also has utilities in Illinois, had revenues that year of $6.9 billion, compared with $2.7 billion for Great Plains.

Deggendorf said Chesser's compensation was considered fair and was determined by consultants who considered executive pay at comparable companies.

Meanwhile, a Feb. 20 deadline is closing in for Great Plains and Aquila to deliver a status report to Missouri regulators over where things stand in efforts to negotiate a settlement with opponents of their merger. If they don't reach a settlement, the utilities could tell the commission how they plan to proceed — possibly seeking approval without a settlement, submitting a revised plan that doesn't have all the parties' blessing or abandoning the merger.

Hearings were suspended in December after several parties, including the commission's staff, the public counsel's office and several industrial users, objected to the merger terms the utilities proposed. If the utilities can reach a compromise with opponents, that will smooth the way to regulatory approval. Additional talks are to be held next week.

To reach Steve Everly, call 816-234-4455 or send e-mail to severly@kcstar.com.