Exhibit No.: 029
Issues: Acquisition Accounting; Costs to Achieve; Synergy Savings; Post-merger Accounting; Tax Issues
Witness: Lori A. Wright
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

LORI A. WRIGHT

ON BEHALF OF

GREAT PLAINS ENERGY INCORPORATED

AND

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2007

DIRECT TESTIMONY

OF

LORI A. WRIGHT

Case No. EM-2007-____

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

A: My name is Lori A. Wright. My business address is 1201 Walnut, Kansas City, Missouri 64106-2124.

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

A: I am employed as Controller of Great Plains Energy Incorporated ("Great Plains Energy"), the parent company of Kansas City Power & Light Company ("KCPL"). I am also the Controller of KCPL.

Q: **What are your responsibilities?**

A: As Controller, I have primary responsibility for management of KCPL's and Great Plains Energy's accounting functions, including all accounting records, the design of internal controls and the preparation of financial reports for management and shareholders.

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

A: I graduated from The University of Iowa in 1985 with a Bachelor of Business Administration degree in Accounting. I received my Master of Business Administration degree from The University of Iowa in 1989. I am a Certified Public Accountant. I was first employed at KCPL in 2001 as Assistant Controller and became Controller in 2002. From 1990 to 2001, I held various accounting positions at Central and South West and American Electric Power (Central and South West was acquired by American Electric

Power in 2000). From 1986 to 1990, I held various accounting positions at Iowa Electric Light and Power Company.

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

A: Yes, I have testified in proceedings at the MPSC and the Kansas Corporation Commission.

Q: **On whose behalf are you testifying?**

A: I am testifying on behalf of Great Plains Energy and KCPL in this proceeding.

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

A: I will discuss various accounting issues surrounding the proposed acquisition of Aquila, Inc. ("Aquila") by Great Plains Energy (the "Merger"), including: (i) acquisition accounting; (ii) costs to achieve; (iii) synergy savings; (iv) post-Merger accounting, including allocations and affiliate transaction issues; and (v) tax issues.

<u>Acquisition Accounting</u>

Q: **What accounting pronouncements provide guidance with respect to acquisition accounting?**

A: Under Generally Accepted Accounting Principles ("GAAP"), the accounting rules for a business combination are prescribed in Financial Accounting Standards Board ("FASB") Statement No. 141, *Business Combinations.* FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is also relevant to the Merger, among others.

Q: **How will Great Plains Energy account for the Merger?**

A: Great Plains Energy will use the purchase accounting method to record the Merger. Under the purchase method, Great Plains Energy will record the net assets acquired at fair market value. The excess of the purchase price, including transaction costs, over the fair market value of the net identifiable assets is recorded as goodwill. In the case of regulated assets and liabilities, fair value is generally considered to be book value.

Q: Subsequent to the Merger, will Great Plains Energy amortize this goodwill into expense?

A: FASB No. 142 does not allow amortization of goodwill. Rather, the statement requires annual impairment testing to determine whether the value of the underlying asset has been impaired. If an impairment is indicated, a write-down would be required. Impairment testing, between annual testing, is required if events or circumstances indicate an impairment is more likely than not.

Q: How do Great Plains Energy, KCPL and Aquila (the "Joint Applicants") propose that goodwill be treated for regulatory purposes?

A: The Joint Applicants do not request authorization to recover the acquisition premium component of goodwill associated with the Merger. The Joint Applicants are requesting recovery of the transaction cost component of goodwill over a five (5) year period, as I discuss later in this testimony.

<u>**Costs to Achieve**</u>

Q: What is meant by the term "costs to achieve"?

A: Costs to achieve refers to those costs necessary to ensure the Merger is completed, synergy savings are achieved and the Merger process is effective. As discussed more fully in the testimony of Robert Zabors, costs to achieve can be categorized into two types: (i) costs to consummate the merger, also known as transaction costs, and

(ii) transition-related costs attributable to integrating Aquila into Great Plains Energy's operations.

Q: What are some examples of transaction costs?

A: Examples include investment banker fees and legal fees. Terry Bassham discusses these costs in more detail in his direct testimony ("Terry Bassham's testimony").

Q: What are some examples of transition-related costs?

A: Transition-related costs refer to those costs necessary to ensure that the synergy savings are achieved and that the Merger process is effective. These costs include severance and retention costs and costs associated with process integration.

Q: What treatment do the Joint Applicants propose for costs to achieve?

A: As set out in the Joint Application, the Joint Applicants request costs to achieve be allocated to Great Plains Energy's various regulatory units (Kansas City Power & Light Company, Aquila Networks-MPS, Aquila Networks-L&P and St. Joseph Industrial Steam), booked as a regulatory asset and amortized into cost of service over five (5) years, beginning on January 1, 2008, or the month immediately following consummation of the Merger, whichever occurs later.

<u>Synergy savings</u>

Q: What is meant by the term "synergy savings"?

A: This term refers to reductions in costs as a result of combining Great Plains Energy and Aquila as compared to the combined costs of the entities standing alone.

Q: What are some examples of synergy savings?

A: Examples include benefits of scale and improved efficiency in support functions, economies of scale in purchasing, savings in customer service and field operations enabled by serving the same geographic area, etc. Greater detail is provided in the direct testimonies of John Marshall and Robert Zabors.

Q: **What regulatory treatment do the Joint Applicants propose for synergy savings?**

A: As discussed in Terry Bassham's testimony, the Joint Applicants propose that KCPL and Aquila be permitted, collectively, to retain fifty percent (50%) of Merger-related synergy savings for five (5) years, beginning on January 1, 2008, or the month immediately following the consummation of the merger, whichever occurs last. These synergy savings would be based on the synergy savings identified and quantified in the direct testimony of Robert Zabors.

Q: **How does Great Plains Energy propose to track synergy savings?**

A: Great Plains Energy does not recommend that synergy savings be tracked. Instead, Great Plains Energy recommends using the synergy savings identified in the Joint Application and the pre-filed testimony in support thereof. Tracking synergy savings with any degree of accuracy is problematic at best as business operations are not conducted in a static environment, but rather under constant change, including customer growth, technological improvements, etc. Tracking will become more difficult each successive year after the Merger.

Q: **If the Commission should decide that synergy tracking is necessary, how would you suggest it be implemented?**

A: I would suggest a simple, very basic approach, given that accuracy is not likely to improve appreciably no matter the level of complexity. I suggest establishing base period costs and then each year subsequent to the Merger comparing that year's actual costs to the base year costs, as adjusted for inflation. The net decrease in expense would be considered synergy savings.

Q: Would you adjust for changes in circumstances subsequent to the base year, such as customer growth or improved technology?

A: Consideration for known and measurable changes should be reflected in the computation, including cost escalations, such as wage increases and the effects of inflation among others.

Q: What base period would you recommend for Aquila's and KCPL's operations should tracking be considered necessary?

A: I would recommend 2006 as the base year because that year represents the last full year of operations unaffected by the Merger. It is also the test period for Aquila's current rate case, Case No. ER-2007-0004, and reflects a test period in which the Commission, its staff and other parties of the case are familiar. 2006 is also the test period of the current KCPL rate case, Case No. ER-2007-0291. 2006 provides a good test period for both Aquila and KCPL to evaluate synergy savings to be accomplished as a result of the Merger.

Q: Is your proposal to use 2006 as a test period for measuring synergy savings consistent with any past recommendations presented before this Commission?

A: Yes. During the merger of St. Joseph Light & Power Company with UtiliCorp United, Inc. ("UCU"), MPSC Staff witnesses Mark Oligschlaeger and Steve Traxler both addressed the issues of sharing and tracking synergy savings and methodologies for tracking. While Staff opposed using the recommendation by UCU, both witnesses supported the use of a historical test period as a basis for tracking synergy savings.

Additionally, in the rebuttal testimony of Mr. Oligschlaeger, his position is consistent with the Joint Applicants' recommendation to share the synergy savings achieved through this Merger equally between KCPL's and Aquila's retail customers and Great Plains Energy's shareholders.

Post-Merger Accounting

Q: **Subsequent to the consummation of the Merger, how do the Joint Applicants intend to account for Aquila's operations in Great Plains Energy's accounting and reporting systems?**

A: As a wholly-owned subsidiary of Great Plains Energy, Aquila will have a separate general ledger similar to Aquila's general ledger today, with reporting entities within its accounting and reporting systems for Aquila's regulatory business units (currently named Aquila Networks-MPS, Aquila Networks-L&P, and St. Joseph Industrial Steam) and for those business units' parent company (currently named Aquila, Inc.,). For clarity, I will continue to refer to the entity Great Plains Energy is acquiring as Aquila. Aquila's employees will become KCPL employees and services will be provided to Aquila from KCPL, Great Plains Energy Services Incorporated ("GPES") and Great Plains Energy.

Q: **How will the Aquila business units be charged for costs incurred by KCPL, GPES or Great Plains Energy that benefit multiple subsidiaries, commonly referred to as shared or common costs.**

A: Certain of these shared costs will be incurred by KCPL, such as accounting, payroll, regulatory, and accounts payable, whereas other shared costs will be incurred by GPES, such as human resources. In either event, the current allocation methodology used by GPES to allocate shared costs to KCPL and other Great Plains Energy business units, as documented in the Great Plains Energy Cost Accounting Manual filed annually with the MPSC, will be utilized. That is, GPES's allocation of its shared costs will be expanded to include Aquila in the allocation, and similar KCPL allocations will be established for KCPL's allocation of its shared costs.

Q: Can you please provide an example?

A: Yes. If it is determined that a particular KCPL shared cost should be allocated based on each business unit's utility plant, then Aquila will receive a portion of that cost based on its utility plant.

Q: How will the individual Aquila business units be allocated shared costs that have been allocated to Aquila?

A: At this time we anticipate utilizing Aquila's existing allocation methodologies to allocate costs among the various Aquila business units.

Q: The allocation methods you described above involve the billing of costs to an affiliate company. Do the affiliate transaction regulations as documented in 4 CSR § 240-20.015 apply to these transactions?

A: The Joint Applicants request that the Commission waive its affiliate transaction rule as it pertains to transactions between Aquila and KCPL to the extent the Commission deems necessary.

Tax Issues

Q: What are the income tax consequences of the Merger to Aquila's customers?

A. The income tax consequences to Aquila's customers should be minimal, if any. The Merger will be treated for federal income tax purposes as a taxable stock purchase. The shareholders of Aquila will recognize a gain or a loss on their shares of stock. However, Aquila will not recognize any gain or loss on the sale of its stock and therefore Aquila's tax basis in Aquila's remaining assets after the Merger will be the same as Aquila's tax basis prior to the Merger. Also, Aquila's existing unamortized investment tax credits and deferred income tax reserves will carry over to Aquila post-Merger.

Q. **Why will these income tax components not change?**

A. There will be no changes to these components because the Merger is a stock transaction and not a sale of assets.

Q: **What do you expect the impact of the Merger to be on the property taxes of Great Plains Energy consolidated?**

A: I expect no material difference in the property taxes paid by Great Plains Energy consolidated after the Merger as compared to the combined property taxes paid by the separate companies prior to the Merger.

Q: **Can you elaborate?**

A: Yes. Utility property taxes are based upon the fair market value of the utility. The fair market value of Aquila and Great Plains Energy combined should not be significantly different than the combined values of the companies standing alone, and therefore the assessed valuation should not change appreciably.

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

A: Yes it does.

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 Requester Relief	)	**Case No. EM-2007-____**

AFFIDAVIT OF LORI A. WRIGHT

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Lori A. Wright, being first duly sworn on her oath, states:

1. My name is Lori A. Wright. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as Controller.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of nine (9) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

LORI A. WRIGHT

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

Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200