Exhibit No.:	
Issue:	Merger Detriments
Witness:	Michael P. Gorman
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Midwest Energy Consumers' Group
Case No.:	EE-2017-0113
Date Testimony Prepared:	February 14, 2017

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 KCP&L Greater Missouri Operations Company for a Variance from the Commission's Affiliate Transactions Rule, 4 CSR 240-20.015	)	**Case No. EE-2017-0113**

Rebuttal Testimony and Schedules of

Michael P. Gorman

On behalf of

Midwest Energy Consumers' Group

February 14, 2017

BRUBAKER & ASSOCIATES, INC.

Project 10354

BEFORE THE PUBLIC SERVICE COMMISSION
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STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Midwest Energy Consumers' Group in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EE-2017-0113.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Michael P. Gorman

Michael P. Gorman

Subscribed and sworn to before me this 13th day of February, 2017.

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2017
Commission # 13706793

Maria E. Decker

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
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In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for a Variance from the Commission's Affiliate Transactions Rule, 4 CSR 240-20.015	)	**Case No. EE-2017-0113**

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Rebuttal Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Midwest Energy Consumers' Group ("MECG"). MECG is an incorporated association representing the interests of large commercial and industrial users of electricity in the Kansas City Power and Light

Company ("KCPL") and KCP&L Greater Missouri Operations ("GMO") service territory.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A I will comment on the request by Great Plains Energy Incorporated ("GPE"), KCPL, and GMO (collectively the "Joint Applicants") for a limited variance or waiver from the Missouri Public Service Commission ("MPSC") Rule 4 CSR 240-20.015 on affiliate transactions ("Application for Variance"). In the direct testimony of Joint Applicants witness Terry Bassham, he states that he will describe the Transaction's impact on the following:

1. Strategic rationale for GPE having entered an agreement to purchase Westar (the "Transaction"),
2. How the Transaction will affect customers in communities served by KCPL, GMO and Westar, and
3. Should the Application for Variance be approved based on the current structure of the proposed Transaction?

Q ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR TESTIMONY?

A I am sponsoring Schedule MPG-1 and Schedule MPG-2.

Q PLEASE SUMMARIZE YOUR PROPOSED ADDITIONAL CONDITIONS FOR THE MPSC TO APPROVE THE TRANSACTION AND THE PROPOSED VARIANCE.

A I proposed the Joint Applicants agree to the following:

1. Modify the proposed Transaction to include the ring-fence separation of the operating utilities from that of GPE. These ring-fence separations should include independent utility Boards with the ability to manage utility cash flows for the best interests of the utility and ratepayers.

2. The Joint Applicants approve additional ratepayer protection measures. First, agree that if the utilities' stand-alone capital structure is used for ratemaking purposes, the common equity ratio of total capital would not exceed 50% unless the utilities prove a different common equity ratio is needed to preserve the credit standing of the utility. Second, the Joint Applicants agree that the tax elections at the utilities will be made to produce the best results for cost of service for the utility.

3. No extraordinary regulatory treatment would be afforded to integration costs. The utilities would be allowed to seek recovery of costs in rate cases to the extent they can prove economic benefit to ratepayers.

Q WHAT STANDARD DID YOU APPLY TO YOUR REVIEW OF THE GPE / WESTAR MERGER?

A It is my understanding that the MPSC's determination of whether an acquisition should be approved is based upon a standard of whether the acquisition is "not detrimental to the public interest." That said, the MPSC's rule regarding variances from the affiliate transaction rule states that the variance should be judged based upon whether the utility's "compliance with the standards would not be in the best interests of its regulated customers." (See, 4 CSR 240-20.015(10)(A)(2)).

Based upon its testimony filed in this case, as well as the provisions contained in the settlements already executed with Staff and the Office of the Public Counsel, it is apparent that this docket concerns issues that parties may have with the GPE / Westar Transaction. As such, the "not detrimental" standard should be applied. Moreover, applying that standard is more stringent than the "best interests" standard in the MPSC's affiliate transaction rule. Therefore, I am being conservative by applying the "not detrimental" standard.

I. Summary of Conclusions and Recommendations

Q PLEASE SUMMARIZE ALL OF YOUR CONCLUSIONS AND RECOMMENDATIONS CONCERNING THE PROPOSED TRANSACTION.

A I find that the GPE / Westar Transaction is detrimental to its Missouri ratepayers. Therefore, I recommend that the Joint Applicants' proposal for a Variance be denied unless the Joint Applicants agree to modify the proposed Transaction and commit to additional ratemaking customer protections. I recommend the Variance be denied for the following reasons:

1. The proposed Transaction will create significant leverage at the parent company, and will limit credit rating improvement, or potentially cause credit rating downgrades at the operating utility subsidiaries. This will occur because there is inadequate financial separation between GPE and the operating utility subsidiaries. As a condition of approval of the Transaction, I recommend additional concessions be made by the Joint Applicants to alter the proposed Transaction and implement more effective ring-fence separations of the operating utility subsidiaries from the highly leveraged parent company, GPE. This adjustment to the Transaction structure is needed to "hold customers harmless" from the significant leverage proposed in this Transaction.

2. If the Joint Applicants agree to the proposed modification to the Transaction structure and implement more effective ring-fence separation provisions, I also recommend that the Joint Applicants agree to ratemaking customer protections as a condition of approval by the MPSC of the proposed Variance.

3. GPE's estimate of Transaction synergy savings may be achievable absent the Transaction. Therefore, the estimated Transaction savings are not justification to conclude that the public will not be harmed by the Transaction.

Q DO YOU HAVE ANY COMMENTS ON THE STIPULATION AND AGREEMENT BETWEEN THE JOINT APPLICANTS AND THE MPSC STAFF?

A I am generally supportive of the Stipulation and Agreement, however I believe there are certain modifications to the terms of the Stipulation and Agreement that are necessary in order to create adequate ratepayer protections under the proposed Transaction. I will get into more details of why I believe these adjustments are necessary later in this testimony. However, the specific provisions of the Stipulation and Agreement between the Joint Applicants and Staff that I do not support are as follows:

1. In paragraph 1 under "Section A. Financing Conditions" the Stipulation states that the utilities will maintain separate capital structures, separate credit ratings, and separate debt. It also states that the utilities will not guarantee the debt of each other nor will they pledge their assets or stock as collateral for the obligations of affiliate entities unless otherwise authorized by the MPSC. While these commitments are important and material, they are not by themselves adequate. For the reasons outlined below, I believe the MPSC should require an immediate legal separation of the Missouri operating utility affiliates from GPE. These legal separations are generally referred to as ring-fence separation. These ring-fence separations will ensure that the credit standing of the utilities are predominantly based on the investment risk of the Missouri utility operations. Without the ring-fence separations, the credit standing of the utilities will be impacted by their affiliation with the highly leveraged parent company, GPE. Further, the ring-fence separations can ensure that an independent board for the Missouri utilities can prioritize dividend payments, capital investments, and operations of the utilities in a means of ensuring that Missouri customers receive high quality, reliable service at the lowest possible cost. Under the current structure, the GPE board will make these decisions, and this board will be conflicted by the need to retire acquisition-related debt, which could be in conflict, at times, with the need to invest in utility infrastructure to preserve service reliability or retire utility debt to support utility credit.

2. Paragraph 2 of this same section outlines that the Joint Applicants intend to use utility-specific capital structures for setting rates. A needed provision of this is that the common equity ratios of the capital structures used for setting rates should be no higher than 50% of total capital. That is, the common equity ratio used for ratemaking purposes, should be no more than 50% of the total capitalization, unless the utility proves a higher equity ratio is needed to support its credit rating.

3. Paragraph 5 under this same section states that in the event the Missouri utilities' credit ratings are downgraded to minimum investment grade (BBB-) because of their affiliation with a highly leveraged parent company, the Missouri utilities will pursue additional legal and structural separation, if necessary, from other affiliates causing the downgrade. I believe that this legal and structural separation should be made as part of the initial approval for the merger Transaction. Indeed, as stated in paragraph 1, the Missouri utilities will have separate capital structures, separate debt, separate credit ratings, and will not pledge their cash flows or assets for the benefit of other entities without MPSC approval. The next appropriate step to complete this isolation or separation of the Missouri utilities from that of affiliates and the parent company, would be to implement legal separation as a condition of the proposed merger. Waiting until after the utilities are downgraded to a minimum investment grade rating (BBB-) may be too late to protect customers from the effects of a highly leveraged parent company that will

be created under the proposed Transaction. Support for this conclusion is discussed later in this testimony.

4. Under paragraph 7 of this same section, the Missouri utilities pledge that they will not seek an increase to their cost of capital as a result of the Transaction or the Missouri utilities' ongoing affiliation with GPE. I believe an important aspect of not increasing the cost of capital to retail customers is a pledge to elect tax strategies at the Missouri utilities, which maximizes the amount of tax benefits to retail customers. The primary issue here deals with elections for deferred taxes based on current industry options – a bonus depreciation issue. However, tax elections should be made to result in the lowest cost of capital included in the utilities' rates, and this should include both rate of return, and tax elections, both of which impact the cost of capital that will be included in the utilities' cost of service.

5. In "Section B. Ratemaking/Accounting Conditions," a paragraph should be added to make a commitment that if the stand-alone capital structures of the utilities are used for ratemaking purposes, the Joint Applicants agree that the common equity ratio will be no more than 50% unless they can demonstrate to the MPSC that a higher common equity ratio is needed to preserve their bond ratings. Also, "Ratemaking/Accounting Conditions" should include a demonstration that tax elections by the Missouri utilities are done in a way that produces the greatest benefit to retail customers. Again, this deals with such tax elections as bonus depreciation.

Q DO YOU BELIEVE THAT STAFF'S STIPULATION AND AGREEMENT CREATES ADEQUATE CUSTOMER PROTECTIONS WITHOUT THESE CHANGES?

A No. I believe these changes to Staff's Stipulation and Agreement with the Joint Applicants are necessary in order to create adequate customer protections under the proposed Transaction.

Q PLEASE DESCRIBE THE PROPOSED RATEMAKING CUSTOMER PROTECTIONS YOU PROPOSE AS A CONDITION OF APPROVAL OF THE PROPOSED VARIANCE.

A In his supplemental direct testimony in Kansas, GPE witness Ives proposed a large number of conditions that GPE is willing to implement as part of this transaction. These voluntary commitments are provided in the joint Applicant's Verified

Application[1] in Appendix B, Exhibit B "Regulatory Commitments" and in Mr. Ives' supplemental testimony. I do not find that these conditions are adequate to protect ratepayers from the detrimental impacts of the Transaction. Therefore, in addition to these voluntary commitments, I recommend that the Joint Applicants agree to the following ratemaking standards in order to protect customers from the highly leveraged Transaction structure under this proposed Transaction. These additional conditions include the following:

a. A ratemaking capital structure commitment for KCPL and GMO that will ensure that the utilities' cost of service is not increased in order to allow the utilities to pay higher cash flows up to GPE to service acquisition-related debt. The Joint Applicants should agree that KCPL's and GMO's capital structure used for ratemaking purposes will be based on a capital mix of no greater than 50% equity and 50% debt following the Transaction, unless, or if, the utilities can demonstrate that a different capital structure is needed to maintain the existing investment grade bond ratings for these utilities

b. In electing income tax options, the Joint Applicants will commit that GPE will not prioritize non-regulated net operating losses, or the amortization of the goodwill asset for income tax purposes to take precedent over the utilities selecting IRS-approved tax options that allow the deferral of income tax at the utilities. To the extent the operating utilities are prevented from taking advantage of IRS-approved elections that allow for deferment of utility current income tax payments, such as bonus depreciation, the utilities' buildup of accumulated depreciation reserves will be lower than it otherwise would be, which will increase the utilities' cost of service and cause harm to retail customers.

Both of these conditions are intended to protect against an increase in cost of service at KCPL and GMO that could be caused by decisions at the parent company which in turn will increase retail rates and harm customers.

[1]Joint Application, File No. EE-2017-0113, Appendix B at 99-100.

Q PLEASE COMMENT ON YOUR ASSESSMENT OF THE JOINT APPLICANTS' CLAIMED SAVINGS ATTRIBUTABLE TO THE TRANSACTION.

A The Joint Applicants' estimated operating savings to the utility companies created by the proposed Transaction are at very best highly uncertain. More specifically, the savings projections are not shown to be achievable only under the terms of the Transaction. Rather, these savings estimates may be achievable without the Transaction. A comparison of the cost structure for all the operating utilities makes clear that the opportunity for cost reductions at Westar, KCPL and GMO without the Transaction appear achievable because the rates of Westar, KCPL and GMO are among the highest in the region.

Q WILL THESE ADDITIONAL CONDITIONS PROTECT THE PUBLIC INTEREST FROM THE SIGNIFICANT FINANCIAL RISK CREATED BY THE PROPOSED TRANSACTION?

A In part, yes. As with any transaction, we can only assess the Transaction based upon the information known as of this date. There is always the possibility of additional detriments becoming known as the integration of the two companies takes place. That said, my conditions only address the known detriments. These proposed conditions are designed to prevent harm to retail customers from Transaction costs, service reliability and quality impairment caused by the Transaction leverage, or other negative aspects that could be caused by the structure of the proposed Transaction.

II. Proposed Transaction

Q PLEASE DESCRIBE THE PROPOSED TRANSACTION, THE IMPACT ON KCPL AND GMO, AND WHAT WILL BECOME OF THEIR PARENT COMPANY, GPE.

A The Transaction is described by Joint Applicants witness Kevin Bryant. Mr. Bryant describes at pages 6-10 of his direct testimony that GPE will acquire Westar's common equity for $8.6 billion, and assume $3.6 billion of Westar's net debt. GPE plans to fund the $8.6 billion common stock acquisition using approximately 50% equity securities and 50% debt. The equity securities include $1.3 billion to Westar's shareholders as common stock, $750 million of mandatory convertible preferred equity, and $2.5 billion of equity comprised of GPE common and mandatory convertible preferred stock issued to the public.

The acquisition price will result in an acquisition premium recorded on GPE's balance sheet of approximately $2.3 billion, based on the assumed Westar stock price of $44.08 on March 9, 2016.[2] The amount of this acquisition premium could vary depending on the cash price of Westar stock at the Transaction closing.[3]

In terms of Transaction costs, Mr. Bryant states that GPE expects to incur approximately $32 million in advisory costs in consummating the Transaction, approximately $126 million of traditional issuance fees associated with equity and debt financing costs, approximately $70 million in bridge financing facility costs, and around $16 million of change-in-control costs.[4] In total, the Transaction is expected to incur about $288 million of Transaction costs.

[2] Bryant Direct at 11.
[3] *Id*.
[4] *Id*. at 10.

Q HOW DOES THE INVESTMENT RISK OF WESTAR COMPARE TO THAT OF GPE AND ITS UTILITY SUBSIDIARIES?

A A comparison is properly considered by reviewing the credit rating of Westar to that of GPE and its operating utility subsidiaries. As shown in Table 1 below, Westar currently has a stronger credit rating than GPE Holdings, and GMO operations, but the same rating as KCPL.

TABLE 1

Current Credit Ratings

Description	**Standard & Poor's**	**Moody's**
Westar	BBB+	Baa1
KGE	BBB+	Baa1
GPE Holdings	BBB+	Baa2
KCPL	BBB+	Baa1
KCP&L GMO	BBB+	Baa2

Source: SNL.

III. Capital Market Reaction to Proposed Transaction

Q PLEASE DESCRIBE CREDIT ANALYST COMMENTS AND OUTLOOKS BASED ON THE PROPOSED TRANSACTION AND FINANCIAL PLAN.

A The comments from both Moody's and Standard & Poor's ("S&P") about the surviving parent company, GPE, are comparable. Both rating agencies are concerned about the highly leveraged financing structure of the proposed Transaction, and the impact of that leverage on GPE's credit rating. Rating agencies note concern for the amount of acquisition-related debt. GPE's parent debt increases from approximately 2% of consolidated debt before the acquisition, to up to 35% of consolidated debt after the acquisition. Because of this amount of acquisition debt, Moody's and S&P have both placed GPE's credit rating on "Watch with Negative Outlook." Indeed, Moody's has stated that if the proposed Transaction is completed, GPE's credit rating is expected to be downgraded from its current rating of Baa2, to a minimum investment grade credit rating of Baa3.[5] Thus, GPE's credit rating would be only one step away from junk bond status.

The rating agencies' comments on the utility operating subsidiaries' credit ratings are mixed. Moody's maintains a "Stable" outlook for the existing bond ratings of the utility operating companies. However, Moody's notes that, while the credit rating outlooks are stable, the acquisition will "constrain upgrades" to the credit ratings of the operating utility subsidiaries if the Transaction is approved. This is a significant finding, because both the credit rating agencies and Joint Applicant witness Bryant recognize that the utilities' cash flows are expected to improve with the budgeted decrease in capital expenditures, which may have caused an increase in the credit ratings for the operating utilities absent the Transaction.[6]

S&P, on the other hand, is rating the operating utility subsidiaries' credit outlook as "negative" based on the financing structure of the proposed Transaction. These comments from Moody's and S&P are described below.

Moody's states:

> Great Plains Energy Inc.'s (Baa2 ratings under review down) proposed $12.2 billion acquisition of Westar Energy Inc. (Baa1 stable) <u>will triple Great Plains' debt</u>. We think the use of

[5]*Moody's Investors Service*: "Great Plains Energy Incorporated," June 1, 2016.
[6]*Id*. and Bryant Direct at 17.

> leverage is indicative of management's higher tolerance for financial risk. For these reasons, among others, we placed Great Plains' rating on review for downgrade. In this report, we answer questions about the impact of the announced deal on Great Plains' credit profile.
>
> * * *
>
> **How is the creditworthiness of the operating companies affected?** At this time, the transaction does not affect the credit of Kansas City Power & Light Co. (KCPL, Baa1 stable), KCP&L Greater Missouri Operations Co. (GMO, Baa2 stable), or Westar. However, the <u>deal constrains their chances for a rating upgrade</u> because the holding company leverage affects the consolidated corporate family.[7]

S&P states as follows:

> **Westar Energy Inc. And Sub Rtgs Affirmed And Outlook Revised To Negative On Proposed Acquisition By Great Plains Energy**
>
> **Overview**
>
> - Westar Energy Inc. has agreed to be acquired by Great Plains Energy Inc. (GPE) for $8.6 billion plus the assumption of Westar's debt. The transaction is expected to close by mid-2017.
> - We are affirming our ratings on Westar and subsidiary Kansas Gas & Electric Co. (KGE), including the 'BBB+' issuer credit ratings, and <u>revising the outlook to negative</u> from stable.
> - The negative outlook reflects the potential for lower ratings on Westar, after the merger closes, if the combined entity's financial performance weakens such that funds from operations to total debt is consistently less than 13% after 2018.[8]
>
> * * *

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[7] *Moody's Investors Service*: "Great Plains Energy Incorporated," July 7, 2016 at 1, emphasis added.

[8] *Standard & Poor's RatingsDirect*: "Research Update: Westar Energy Inc. And Sub Rtgs Affirmed And Outlook Revised To Negative On Proposed Acquisition by Great Plains Energy," May 31, 2016 at 2, emphasis added.

> **Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy**
>
> **Overview**
>
> - Great Plains Energy Inc. (GPE) announced it will acquire Westar Energy Inc. for about $8.6 billion, plus the assumption of Westar's debt. The parties expect the transaction to close by mid-2017.
> - We are affirming our 'BBB+' issuer credit ratings on GPE and subsidiaries Kansas City Power & Light Co. and KCP&L Greater Missouri Operations Co. and for all three entities revising the outlook to negative from stable.
> - The negative outlook reflects the potential for lower ratings if GPE's financial risk profile, which will deteriorate due to financing used in the acquisition, does not improve after the transaction closes such that funds from operations to total debt is well over 13% after 2018.[9]

Q DID MOODY'S EXPLAIN ITS RATIONALE FOR PLACING GPE'S CREDIT OUTLOOK TO NEGATIVE AND EXPRESSING AN OPINION OF CONSTRAINT TO AN UPGRADE OF THE CREDIT RATINGS OF THE OPERATING UTILITY SUBSIDIARIES IF THE PROPOSED TRANSACTION IS COMPLETED?

A Yes. In a report dated July 7, 2016, describing the facts around the GPE acquisition of Westar, Moody's goes into significant detail describing the leveraged Transaction's impacts on GPE's cash flows, and resulting financial constraints on the utility subsidiaries because they are the primary source of cash flow available to GPE to service the significant acquisition-related debt if the Transaction is approved.

Moody's estimates that GPE's change in cash flow to debt (CFO/Debt) ratios before and after the Transaction is impacted significantly. As shown below in Table 2, Moody's estimates that GPE's cash flow to debt ratio before the Transaction

[9] *Standard & Poor's RatingsDirect*: "Research Update: Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy," May 31, 2016 at 2, emphasis added.

would be approximately 18%. However, because of the significant increase in parent company debt used to finance the Transaction, the cash flow to pro forma debt ratio would decline to 12%.

TABLE 2

Cash Flow From Operations ("CFO")/Debt

Description	**Amount**
I. Cash Flow From Operations	
Great Plains CFO	$824
Westar CFO	$770
Total CFO	$1,594
II. Before Acquisition – Total Debt	
Great Plains Debt	$4,778
Westar Debt	$4,071
Total Debt	$8,849
Total CFO/Total Debt	18%
III. After Acquisition – Total Debt	
Acquisition Debt	$4,400
Great Plains + Westar Debt	$8,849
Pro Forma Debt	$13,249
Total CFO/Pro Forma Debt	12%

Source: *Moody's Investors Service*: "Great Plains Energy Incorporated," July 7, 2016 at 2, Exhibit 1.

Moody's goes on to state that the cash flow to debt ratio of 12% is not adequate to maintain an investment grade bond rating at GPE. Moody's states that if GPE's CFO/debt ratio is not approved following the completion of the Transaction, GPE's credit rating could be downgraded to below investment grade. Moody's states the following:

> What is the main risk to Great Plains investment-grade credit profile?
>
> The biggest risk to Great Plains' investment grade profile is regulatory contentiousness. Great Plains needs healthy relationships with its regulators in order to achieve the cash flow improvements necessary to keep its investment-grade rating.
>
> On a combined basis, Great Plains and Westar's CFO-to-debt ratio was about 18% for the 12 months ended March (see table). Following the proposed merger, the ratio would fall to just under 12%. Great Plains could fall into the speculative-grade rating category if consolidated cash flow from operations (CFO) to debt remains between 10% and 13% in the years following the closing of the deal.[10]

Q WHY WOULD MOODY'S EQUATE THE NEED FOR HEALTHY RELATIONSHIPS WITH REGULATORS AND IMPROVEMENT OF CASH FLOWS AT THE UTILITIES, WITH GPE'S ABILITY TO SERVICE ITS ACQUISITION-RELATED DEBT?

A Moody's observed that GPE's primary access to cash to service its acquisition debt is derived from its utility subsidiaries. Indeed, as noted by Joint Applicant witness Mr. Bryant in his testimony, the primary source of cash flow available to GPE to service its acquisition-related debt is dividend payments from the operating utility subsidiaries, and the ability of the parent company to use non-utility net operating loss ("NOL") against utility current taxable income to enhance GPE's cash flow.[11]

However, Moody's is quite clear in the concern about the utility subsidiaries' ability to dividend up adequate cash flow to service GPE's acquisition-related debt. As noted in Table 3 below, GPE's cash flows from subsidiaries in relationship to parent company debt levels is substantially changed under the proposed Transaction. Before the Transaction, dividend payments from subsidiary companies are adequate to fund GPE's public dividend payments and to pay debt interest on its outstanding

[10]*Moody's Investors Service*: "Great Plains Energy Incorporated," July 7, 2016 at 2, emphasis added.

[11]Bryant Direct at 14-15 and 17-18.

debt. However, after the proposed Transaction, the expected dividend payments from the GPE utility subsidiaries is only expected to pay approximately 68% of the cash GPE needs to pay its public dividend payments, and the interest expense on its acquisition debt following the proposed Transaction. Moody's projections are summarized in Table 3 below. Thus, because of the heavy debt burden of GPE, there will be continuing pressure to increase rates to yet higher levels in order to generate sufficient cash flow to service debt and retire principal. This pressure creates obvious risk for Missouri ratepayers.

TABLE 3

Projected GPE Cash Receipts and Payments

Description	2018E	2019E	2020E
I. BEFORE ACQUISITION			
I.A. Cash Received			
KCPL Dividends	$124	$131	$139
KCP&L GMO Dividends	$62	$66	$70
KCPL + KCP&L GMO Dividends (Utility Dividends)	$186	$197	$209
I.B. Cash Payments			
Great Plains HoldCo – Public Dividends	($186)	($197)	($209)
Great Plains HoldCo Debt Interest Expense	($5)	($5)	($5)
HoldCo Cash Demands (Dividends + Interest)	($190)	($201)	($213)
I.C. Utility Dividends as a % of HoldCo Cash Demands	98%	98%	98%
II. AFTER ACQUISITION			
II.A. Cash Received			
KCPL Dividends	$124	$131	$139
KCP&L GMO Dividends	$62	$66	$70
Westar Dividends	$223	$236	$250
KCPL + KCP&L GMO + Westar Dividends (Utility Dividends)	$409	$433	$459
II.B. Cash Payments			
Great Plains Pro-Forma HoldCo Dividends	($400)	($424)	($449)
Great Plains HoldCo Debt Interest Expense	($198)	($198)	($198)
HoldCo Cash Demands (Dividends + Interest)	($598)	($622)	($647)
II.C. Utility Dividends as a % of HoldCo Cash Demands	68%	70%	71%

Source: *Moody's Investors Service*: "Great Plains Energy Incorporated," July 7, 2016 at 5.

Q DO THE JOINT APPLICANTS' PROJECTIONS FOR CASH RECEIVED BY GPE AFTER THE TRANSACTION LARGELY ALIGN WITH THOSE MOODY'S USED IN ITS PROJECTIONS ABOVE?

A Yes. In the Joint Applicants' direct testimony, Joint Applicant witness Mr. Kevin Bryant states that "GPE's primary source of funds are cash flows from its operating utility subsidiaries and the tax benefits of net operating losses." (Bryant Direct at 14, lines 22-23). Mr. Bryant again acknowledged that GPE's primary source of cash flow to service its debt will be from its operating utility dividends receipts and income tax payments offset at the parent by non-regulated net operating losses.

As recognized by Moody's, GPE's cash flow from utility operating subsidiaries will come in the form of dividend payments from its utility subsidiaries, and also payment of current income tax from the utilities up to GPE, that are offset by non-regulated NOLs. What this means is that the GPE operating utility subsidiaries will make current tax payments to GPE based on the utility's taxable income, and the parent company will use non-regulated NOLs to offset this taxable income in consolidating income tax reports to government taxing authorities. As such, the operating utilities will have paid taxes to the parent company that GPE never actually pays to the government taxing authority. The use of NOLs allows GPE to retain current tax payments received from utility subsidiaries as retained cash available to service parent company debt. Hence, GPE receives cash from utilities in both dividend payments and current tax payments.[12]

Mr. Bryant also acknowledges that it is expected that the operating utilities will have improving cash flows related to savings from the Transaction (pages 15-16). These savings will be retained by the utilities in between rate case filings. Although it

[12]Bryant Direct at 14-17.

is not clear to me how temporary savings to the utilities will result in improved parent company cash flow.

Q DID MR. BRYANT MAKE ANY OBSERVATIONS RELATED TO THE AMOUNT OF DIVIDENDS AVAILABLE FROM THE OPERATING UTILITIES TO FUND UP TO THE PARENT COMPANY?

A At a high level, yes. At page 18 of his testimony, Mr. Bryant states that it is the intent for the utility operating companies to maintain a capital structure that is approximately 50% equity and 50% debt with a target common equity ratio for the operating utilities in the range of 49% to 54%.[13] For reasons discussed later in this testimony, this intent should be a requirement as a condition of the MPSC approval of the proposed Variance. A capital structure commitment is needed to protect utility customers from paying higher utility rates to support GPE's ability to service its acquisition related debt from utility cash flows.

IV. KCPL/ GMO'S Financial Integrity Under Proposed Transaction

Q DOES THE PROPOSED TRANSACTION HAVE A NEGATIVE IMPACT ON THE FINANCIAL CONDITION OF KCPL/ GMO, AND THE NEWLY CREATED PARENT COMPANY, GPE?

A Yes. As described below, the proposed Transaction will create a highly leveraged parent company, GPE, which will restrict expected credit rating improvement to KCPL/GMO, or possibly cause credit rating erosion in the event GPE is unable to reduce acquisition-related debt shortly after the Transaction. Further, GPE's only source of cash flow available to support its acquisition-related debt will be cash flows

[13] *Id*. at 18, lines 6-19.

received from operating utility subsidiaries including KCPL and GMO. For these reasons, I am proposing additional conditions for approval of the Variance including:

1. Limit KCPL and GMO's ability to manipulate their cost of service, and increase prices to Missouri customers, at KCPL and GMO for the purpose of increasing the cash flows that KCPL and GMO are able to pay up to GPE (dividend payments and current income tax expense).

2. Implement ring-fence separation procedures which will isolate KCPL and GMO's credit ratings from that of their new parent company GPE, and allow KCPL and GMO's management to have more control, without interference from GPE executive management and Board of Directors, so that they can make management decisions that are in the best interest of maintaining KCPL and GMO's ability to meet their utility service obligations including maintaining high quality reliable electric service at KCPL and KCP&L GMO.

Q WILL KCPL'S AND GMO'S FINANCIAL INTEGRITY AND ABILITY TO MAKE NECESSARY CAPITAL INVESTMENTS TO MAINTAIN HIGH QUALITY, RELIABLE SERVICE UNDER REASONABLE TERMS AND PRICES BE IMPACTED BY THE PROPOSED TRANSACTION?

A Yes. Without additional commitments and protections for the cost of service for regulated utility subsidiaries, the proposed Transaction results in significant additional risks to retail customers. The general risks include: (1) an increase in the utilities' cost of capital relative to what it would have been absent the Transaction; and (2) uncertainty about whether or not infrastructure investments needed for high quality reliable service will be made in line with the needs of the utility, and not deferred or reduced in order to enhance the operating utility subsidiaries' ability to pay larger amounts of cash up to the parent company to service the acquisition-related debt. As outlined above, due to the highly leveraged nature of the Transaction and the Joint Applicants' decision to not implement additional separations of the cash flows from the utilities from the parent company, the following are specific risks to retail customers:

1. Bond ratings of the utilities will either not be increased, or could be decreased due to the acquisition-related debt.

2. Cash flows of the utilities may be prioritized for debt reduction at GPE rather than for necessary infrastructure improvements needed at KCPL/GMO to maintain service reliability and quality.

3. Failure to produce the debt reduction at the parent company could further erode the parent company's credit rating, which in turn could negatively impact the credit ratings of the utility subsidiaries. A credit downgrade could increase the cost of capital to the utilities and possibly restrict access to capital needed for infrastructure improvements.

4. The parent company may have an incentive to increase cost of service at the utilities in order to permit the utilities to pay larger dividends and income tax payments to the parent company, which will enhance GPE's cash flow available for serving acquisition debt.

As outlined above, the proposed highly leveraged Transaction will significantly impact the financial standing of the publicly traded parent company, GPE, and may limit the improvements to, or erode the, credit ratings of the utility subsidiaries, including KCPL/GMO.

Q BUT DIDN'T THE JOINT APPLICANTS AGREE NOT TO SEEK RECOGNITION OF THE COST OF THE ACQUISITION OR TRANSACTION COST IN RATES FOR RETAIL CUSTOMERS?

A Yes, but the Joint Applicants' existing commitments are incomplete. Specifically, the Joint Applicants agreed: (1) to record the Transaction goodwill at GPE; and (2) to not seek recovery of the acquisition premium, or the Transaction costs in cost of service for its utility subsidiaries.[14]

However, this is not a complete assessment of all potential acquisition-related costs that could increase the cost of service of Missouri utilities and result in higher rates to retail utility customers to pay for acquisition-related Transaction costs.

[14] Joint Application, File No. EE-2017-0113, Appendix B at 99-100, and Appendix C at 4.

Q PLEASE EXPLAIN.

A GPE will have to service its acquisition-related debt after the acquisition takes place. This acquisition-related debt is its cost of funding the acquisition premium and Transaction costs. GPE will fund this acquisition premium and Transaction costs through dividend receipts and income tax payments from its operating utility subsidiaries. To the extent GPE seeks increased cost of service to enhance the utilities' ability to pay larger dividends and larger income tax payments to GPE, then customers' cost of service and retail rates will be increased to allow GPE to pay for the Transaction premium debt service and/or other Transaction costs.

Q HOW CAN CUSTOMERS BE PROTECTED FROM THIS POSSIBILITY?

A There needs to be several additional regulatory commitments included in Appendix B to protect customers against acquisition-related costs. Those include the following:

1. There needs to be clear commitments for KCPL/GMO's ratemaking capital structure from the Joint Applicants. Mr. Bryant states the Company has a target of maintaining approximately 50% debt and equity capital structure at the operating utility subsidiaries. (Bryant Direct at 17-18). This target needs to be made to a commitment for conditions of the Transaction that should be in effect for at least as long as acquisition-related debt is outstanding at GPE.

2. Tax elections should be made to benefit customers. The Joint Applicants must make a commitment that they will exercise all discretionary options for income tax purposes that will effectively reduce utility cost of service. The Joint Applicants should commit that income tax minimization at the parent company will not take precedence over managing income tax at the operating utilities that could result in lower cost of service to retail customers.

   For example, despite the parent company's needs, the utilities would be obligated to elect to take bonus depreciation. The election to take this bonus depreciation would increase the amount of accumulated deferred income taxes at the utilities. This increase in accumulated deferred income taxes would result in a reduction to the utilities' cost of service by reducing their rate base.

   The use of bonus depreciation at the utilities is not always in the best interests of the parent company. Specifically, in the event the parent company would have significant amounts of non-regulated net operating loss ("NOL") carry-forwards, it may otherwise elect not to take bonus depreciation at the utilities because these

NOLs could not be used at the parent company level to offset current income tax expense. If the parent company elected this decision, the utilities' cost of service would be negatively impacted due to the reduced level of deferred income tax offsets to rate base created by the proposed Transaction.

It is also my understanding that the goodwill asset can be deducted for income tax purposes. Therefore, the Transaction should create significant amounts of non-regulated additional income tax deductions at the parent company level that will be separate from tax options available to the utilities. Customers should be held harmless from GPE's election of income tax reduction strategies.

3. GPE should implement ring-fence separation of its operating utility companies from that of the new parent company – GPE. This will provide further protection of the utility subsidiaries' bond ratings in the event GPE is not successful in reducing the amount of acquisition-related debt resulting in credit rating downgrades at the parent company level. Commitments that provide additional assurance of strong investment grade credit ratings at the operating utility subsidiaries are important for customer protection under the proposed Transaction.

4. In its Stipulation and Agreement with Staff, the Joint Applicants agree that if rate recovery of transition costs is sought, KCPL and GMO will have the burden of proving that recoveries of any transition costs are just and reasonable and that the costs provide benefits to Missouri customers. I do not oppose the Joint Applicants seeking recovery of these in rate cases to the extent they have the burden of proving that savings achieved exceed costs incurred. However, their request for accounting authority to defer costs for periods prior to the test year should be denied. The MPSC should use normal ratemaking principles and test year rules in order to protect customers from unjustified deferral of costs incurred prior to the test year, for increasing rates within the test year.

Q PLEASE DESCRIBE YOUR PROPOSED ADDITIONAL REGULATORY COMMITMENT RELATED TO RATEMAKING CAPITAL STRUCTURE.

A Utilities have the ability to manage their capital structure. Included is the potential to utilize a greater amount of high-cost equity instead of low-cost debt. The concern is that the utility, in order to increase cash flow to the parent company, may elect to use an equity rich capital structure. An additional commitment on ratemaking capital structure will prevent the Company from adjusting the utility capital structure in order to enhance the utility's ability to pay larger dividends and related current income tax expense to GPE. As noted by the credit rating agencies above, these payments from utility subsidiaries to GPE will be the source of cash flow available to GPE to service its acquisition-related debt.

A capital structure commitment will prevent the utility subsidiaries from increasing the common equity ratio in its capital structure. An increase in common equity ratio that is unnecessary for preserving the utility's bond rating, absent the negative credit rating impacts from the parent company, will result in higher rates for customers, and higher earnings for the utility, thus increasing the utility's dividend-paying ability to its parent company. An increase in the common equity ratio will also increase the related income tax expense due to the increase in the taxable common equity return.

An increased common equity ratio is not needed at this time to preserve KCPL/KCP&L GMO's current investment grade bond rating, and therefore this additional commitment will protect customers from an unjustified change in the ratemaking capital structure that could be designed by GPE to enhance KCPL/KCP&L GMO's ability to pay larger dividends and income tax payments to GPE.

Q WHY DO YOU ASSERT THAT THE EXISTING COMMON EQUITY RATIO OF THE UTILITY SUBSIDIARIES IS ADEQUATE TO MAINTAIN THEIR CURRENT INVESTMENT RATE BOND RATING?

A S&P's current rating for KCPL/GMO was revised to negative on the proposed acquisition by GPE. However, absent the concern by S&P of increased cash flow constraints based on acquisition-related debt, KCPL/GMO's current credit ratings were "Stable" based on supportive regulatory treatment, adequate liquidity, and existing level of business risk. S&P notes that on a stand-alone basis, the existing bond rating of "BBB+" from S&P is supported by its credit rating review of KCPL/GMO, which previously had been consistent with the group credit rating of the full group of affiliates.[15]

Q WHAT CAPITAL STRUCTURE COMMITMENT DO YOU RECOMMEND THAT THE MPSC REQUIRE THE JOINT APPLICANTS TO MAKE AS A CONDITION OF THE MERGER?

A Mr. Bryant states that the Joint Applicants' target for the utility subsidiaries is roughly a 50% equity, 50% debt capital structure. I recommend the MPSC require this 50 / 50 capital structure as a condition of the Transaction unless or until, on a stand-alone basis, the Joint Applicants can demonstrate that an increase in common equity ratio is necessary to maintain KCPL/GMO's stand-alone current investment grade bond ratings of "BBB+" from S&P.

Q PLEASE DESCRIBE YOUR PROPOSED ADDITIONAL REGULATORY COMMITMENT RELATED TO TAX ELECTIONS AT UTILITY OPERATING SUBSIDIARIES.

A A significant component of the funding for paying down acquisition debt by GPE will be receiving both dividend payments, and current tax payments from operating utility subsidiaries. As such, GPE will have a conflict in its need to maximize current tax payments up to the parent company and use non-regulated net operating losses ("NOL") to offset these in reducing payments to government taxing authorities.

[15] *Standard & Poor's RatingsDirect*: "Research Update: Westar Energy Inc. And Sub Rtgs Affirmed And Outlook Revised To Negative On Proposed Acquisition by Great Plains Energy," May 31, 2016.

Current tax payments from utilities offset by NOLs will improve cash flow at GPE available for debt service coverage.

However, maximizing current tax payments up to GPE may cause utilities to forego tax deferments at the operating utility companies that can result in savings to retail customers. Specifically, items such as bonus depreciation could be foregone because doing so would reduce the amount of current income tax the operating utilities would pay up to the parent company. Again, this would reduce available cash flow at the parent company to pay acquisition-related debt. Foregoing deferred tax payment at the operating utilities would result in reductions in deferred taxes which will cause rate base to be larger than it otherwise would. A larger rate base would mean the utilities' cost of service would increase, and rates to retail customers would be increased due to the preference GPE may have of implementing tax strategies to enhance parent company cash flows, as opposed to reducing utilities' cost of service. For this reason, the regulatory commitment should include a pledge that tax elections at the operating utility subsidiaries should be made in a manner that reduces retail cost of service, and not cause harm to retail customers in the form of unjustified increases to utilities' cost of service.

Q ARE YOU PROPOSING ADJUSTMENTS TO THE PROPOSED TRANSACTION TO FURTHER PROTECT THE OPERATING UTILITY SUBSIDIARIES FROM THE ACQUISITION-RELATED DEBT?

A Yes. As noted above, the utilities' credit rating can be negatively impacted by the precarious condition of the credit rating of the highly leveraged parent company, GPE, that will be created by the proposed Transaction. Under the proposed Transaction, GPE is not proposing any additional credit rating separation or protection of its operating utility companies' credit ratings from the significant use of leverage used by GPE to complete the proposed Transaction.

As a condition of Transaction approval, the MPSC should require greater ring-fence separation of GPE from its Missouri operating utilities.

Q PLEASE DESCRIBE HOW RING-FENCE SEPARATIONS ARE ACCOMPLISHED.

A Ring-fence separations are designed to make the utility more of an autonomous entity for credit rating purposes from that of its parent and other affiliates.

Also, a ring-fence separation will provide greater protection to the utilities' Board and management's ability to manage the utility to meet its public service obligations while maintaining its cost of service at a reasonable and prudent level. This separation of the utilities' Board and management from that of the parent company will be positively recognized by credit rating agencies and allow for a larger separation of the utilities' credit standing from that of the parent company – GPE. Thus, currently expected credit rating increases should be allowed to occur.

Q PLEASE DESCRIBE HOW YOUR PROPOSED RING-FENCE SEPARATION OF THE OPERATING UTILITY SUBSIDIARIES FROM GPE WILL BE ACCOMPLISHED.

A Ring-fence structures which I am aware of generally include the following parameters:

1. There should be an Independent Board at all operating utility subsidiaries from GPE's Board. At least one KCPL/GMO Board member should have a golden share in the event KCPL/GMO are considering filing for bankruptcy.

2. An independent KCPL/GMO Board would make dividend payment decisions and interact with other affiliates and GPE in a manner that is consistent with Best Utility Practices in operating their regulated utility operations in Missouri. In this instance, the Board should only make dividend payments in the event the cash flow is not needed at the utility level to fund necessary infrastructure investment, fund debt retirements in a manner that is consistent with managing KCPL/GMO's

cost of service and maintaining their financial integrity. The independent Board should also hire management at KCPL/GMO that are most capable of effective and efficient operation of utility management. The independent Board at KCPL/GMO should isolate the utility operations from Board and senior management at GPE in a manner that may create conflicts of interest for the best interests of GPE and its public shareholders, and the best interests of operating KCPL/GMO to meet its public service utility obligations.

3. A further restriction should be a clear prohibition on GPE using utility assets, cash flows or guarantees or assurances for the financial obligations of GPE or other non-regulated affiliates.

Q PLEASE EXPLAIN THE CONCEPT OF A GOLDEN SHARE.

A A golden share effectively allows a designated Board member to veto bankruptcy decisions that may otherwise be adverse to the utility operations but may benefit the parent holding company. As described below, the golden share concept has been used by state utility commissions to protect ratepayers from potential detrimental effects of a parent company acquisition.

Q DO YOU AGREE WITH THE JOINT APPLICANTS THAT CREDIT RATING AGENCIES HAVE NOT EXPRESSED A CONCERN ABOUT GREATER RING-FENCE SEPARATION OF THE UTILITY SUBSIDIARIES FROM THAT OF THE MORE HIGHLY LEVERAGED GPE HOLDING COMPANY?

A No. Credit rating agencies have expressed concern about the limited financial separation of GPE and its utility subsidiaries. For example, as noted, credit rating agencies currently conclude that there are “no meaningful insulation measures in place” that protect KCP&L’s current utility subsidiaries from that of its parent company.

Further, Moody's has recognized potential for increased demand of KCPL's cash flows, and potential erosion to its credit rating caused by GPE's need for utility cash flows to service its acquisition-related debt. Moody's states as follows:

> **GREAT PLAINS' PROPOSED ACQUISITION OF WESTAR CONSTRAINS KCPL'S RATING**
>
> If GPE's acquisition of Westar closes, we estimate that the holding company cash demands (i.e., corporate dividends and holding company interest payments) will be at least $450 million annually (excluding the additional hybrids to be issued), assuming a 4.5% coupon on the $4.4 billion of debt, 7.25% on privately placed committed hybrids, and a 6% dividend growth rate from GPE's 2015 dividend. KCPL paid no dividends to GPE in 2015, but has averaged around $90 million, on average, 2011 - 2014. Pro-forma with affiliate Westar, we would expect KCPL to constitute roughly 35% of Great Plains' consolidated business. This would translate into at least $160 million of dividends from KCPL to cover its share of the full amount of parent interest and dividend expense, or <u>100% payout of its LTM 1Q16 Net Income</u>.
>
> Therefore, <u>the limited parent financial flexibility at GPE, weak consolidated financial metrics and demand for increased utility dividends will constrain the rating of KCPL at Baa1</u>, despite the expected standalone financial improvement over the next several years.
>
> We do not see any downward pressure for KCPL's rating, at this time, given the regulatory oversight of the utility operating company and GPE's conservative utility dividend policy over the past several years, during KCPL's heavy capex cycle (e.g., 48% 5-year average payout). Should the upstream dividend demands become excessive (e.g., something approaching the 100% payout scenario mentioned above), there would likely be negative ratings pressure at KCPL. <u>We also note the potential for the MPSC to implement some type of ring-fencing provisions at the utility, like we've seen in other jurisdictions</u>.[16]

Importantly, credit rating agencies expect the Kansas Corporation Commission and the MPSC to consider ring-fence provisions to protect the credit rating of GPE's operating utility subsidiaries as noted above.

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[16] *Moody's Investors Service*: "Kansas City Power & Light Company," June 2, 2016 at 3, emphasis added.

Q ARE YOU AWARE OF ANY MERGERS AND TRANSACTIONS THAT INVOLVE UTILITY COMPANIES THAT INCLUDED RING-FENCE PROVISIONS SUCH AS THOSE YOU ARE PROPOSING HERE?

A Yes. In the acquisition of Potomac Electric Power Company by Exelon Corporation, the District of Columbia included certain ring-fence conditions as a prerequisite to merger approval. Specifically, the DC Commission required, and Exelon Corporation approved a Board of Directors at Pepco Holding Inc. ("PHI") that would include at least four directors out of a total seven that would be independent as defined by the New York Stock Exchange rules.[17] Exelon would own PHI for use of a special purpose entity ("SPE") which would be owned by Exelon and in turn the SPE would own all the shares of PHI. The SPE would have a golden share which would require consent of the golden share director to vote for a voluntary petition for bankruptcy,[18] and that Pepco would maintain capital structure targets as a condition of making dividend payments to its upstream parent company.[19]

In another recent case, although the transaction was not completed, as a condition of allowing a Hunt affiliate to acquire Oncor Electric Company in a transaction approved with conditions by the Texas Public Utility Commission, the Texas Commission required an independent Oncor Board, dividend restrictions, and a golden share restriction on voting for voluntary bankruptcy filings.[20]

Provisions I am suggesting here would be similar to provisions that were conditions of acquisitions of utility companies in other jurisdictions.

[17]Public Service Commission of the District of Columbia, Formal Case 1119, Non-Unanimous Settlement at paragraph 55.
[18]*Id*. at paragraph 71-73.
[19]*Id*. at paragraph 95.
[20]Texas Public Utility Commission, PUC Docket 45188, Order (Redacted), December 7, 2015, pp. 214, 221 and 226.

Q ARE YOU AWARE OF ANY EXAMPLES OF NEGATIVE IMPACT ON UTILITY COMPANIES CAUSED BY INADEQUATE RING-FENCE SEPARATIONS OF THE UTILITY'S CREDIT STANDING FROM THAT OF ITS PARENT COMPANY?

A Yes. There are numerous examples. One example concerns Dayton Power and Light ("DP&L") and its parent company, DPL Inc. In 2011, DPL Inc. was acquired by AES Corp. At the time of acquisition, DPL Inc. and its utility subsidiary, DP&L, had bond ratings from S&P of A-. AES Corp. acquired DPL Inc. in a highly leveraged transaction. The acquisition leverage and goodwill asset were recorded on the balance sheet of DPL Inc. AES Corp. established ring-fence separation between itself and DPL Inc. in order to isolate DPL's bond rating from that of AES Corp.

After the transaction was completed, DPL Inc. and DP&L's credit ratings were downgraded from A- down to BBB-.[21] It was expected at the time of the acquisition that DPL Inc. would modify its leverage position and strengthen its balance sheet over time. However, that leverage reduction strengthening did not occur.

More recently, DPL Inc. has been downgraded to below investment grade by Moody's (credit rating) while DP&L continues to have a minimum investment grade bond rating from Moody's, Baa3. From S&P, both DPL Inc. and DP&L have been downgraded to below investment grade (bond rating).

Despite continuing to have an investment grade bond rating from Moody's, DP&L informed the Public Utilities Commission of Ohio recently that it was unable to access investment grade debt markets in order to refinance a maturing utility debt series. Because of constrained access to debt markets, DP&L needed to rely on a

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[21] *Standard & Poor's Global Credit Portal RatingsDirect*: "Research Update: DPL Inc., Subsidiary Dayton Power & Light Downgraded to 'BBB-' From 'A-'; Outlooks Stable; November 22, 2011.

far more expensive private placement debt source to refund a retiring utility debt series.[22]

V. Estimated Synergies Created by the Proposed Transaction

Q DID THE JOINT APPLICANTS PROJECT THAT SAVINGS COULD BE CREATED BY THE PROPOSED TRANSACTION?

A Yes. In the Direct Testimony of Joint Applicant witness William Kemp, the Joint Applicants estimated approximately $426 million of non-fuel savings over the next 3.5-year period. (Page 19). In producing these estimates, Mr. Kemp stated:

> [T]he reflected savings are directly attributable to the Transaction as guided by the goals and operating philosophies described above. In addition, both parties had previously undergone significant cost reduction and efficiency efforts and had reflected resulting savings in their respective "stand-alone" company projections. (Page 22, lines 5-8).

He goes on to state that projections were used to produce the final bid and that GPE does not expect major changes in the Transaction savings estimates. However, he acknowledges that as the Transaction process continues, refinement of savings estimates could take place (Kemp Direct Testimony at 22, lines 10-13).

Q PLEASE COMMENT ON MR. KEMP'S STATEMENT THAT BOTH PARTIES HAD UNDERGONE SIGNIFICANT COST REDUCTION EFFICIENCY EFFORTS PRIOR TO THE JOINT APPLICANTS PRODUCING SAVINGS ESTIMATES.

A A key to the Joint Applicants' claimed "Transaction" savings opportunities requires an assessment of whether or not the savings and efficiency gains can be produced at

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[22] Public Utilities Commission of Ohio, Case Nos. 16-0395-EL-SSO, 16-0397-EL-AAM and 16-0396-EL-ATA, The Dayton Power and Light Company, Direct Testimony of Craig L. Jackson at 9-10.

the operating utility companies "absent the proposed Transaction." (Kemp Direct at 23, lines 1-10).

In estimating these Transactions, I note Mr. Kemp's expectation that GPE can bring significant efficiencies to KCPL/GMO and all of its utility affiliates. He states that GPE can create a larger fleet that "enables a more efficient deployment of capital," (*Id.*) and "GPE's formal integrated resource planning ("IRP") process and capabilities represent additional value that GPE can bring to Westar." (*Id.*, lines 4-5).

Q HAVE THE MERGER-SPECIFIC COST SAVINGS ESTIMATES PROVIDED BY GPE BEEN CHALLENGED IN ANOTHER PROCEEDING?

A Yes. GPE's cost savings estimates specifically related to the merger, as sponsored by GPE witness Mr. Kemp, have been challenged by several intervening witnesses in the Kansas Docket No. 16-KCPE-593-ACQ: BPU witness Mr. Boris Steffen and Staff witness Ms. Ann Diggs.

Q WHAT CONCLUSIONS DID BPU WITNESS STEFFEN MAKE WITH REGARD TO THE APPLICANTS' MERGER-SPECIFIC SAVINGS ESTIMATES?

A In that Docket, BPU witness Steffen challenged the applicants' savings estimates as a direct result of the merger. Mr. Steffen determined that "[n]one of Mr. Kemp's net merger costs savings targets are merger specific in the sense that they could not be achieved but-for the merger as required under [Kansas's] Merger Standard (a)(ii)." (Kansas Docket No. 16-KCPE-593-ACQ, Steffen Direct at page 22). Hence, there are no savings as a direct result of the merger. Instead, Mr. Steffen determined that all of the identified savings estimates proposed by the applicants fall into three other categories: standalone, generic, industry specific.

Q DID GPE WITNESS MR. KEMP RESPOND TO BPU WITNESS MR. STEFFEN ON THIS POINT?

A Yes. Mr. Kemp did respond to Mr. Steffen's testimony by stating that it is impractical to implement such a standard because "it invites parties to deny the reality of benefits from the merger by creating unrealistic and unproven hypotheticals of how similar benefits could be achieved without the merger." (Kansas Docket No. 16-KCPE-593-ACQ, Kemp Rebuttal at page 11). Clearly, Mr. Kemp's response to the allegation that the savings could be created absent the merger demonstrates that it is at very best uncertain whether or not the savings are caused only due to the merger or rather the savings could be achieved without the proposed Transaction.

Q WHAT CONCLUSIONS DID KCC STAFF MAKE WITH REGARD TO THE APPLICANTS' MERGER-SPECIFIC SAVINGS ESTIMATES?

A As presented in the public version of Staff witness Ms. Ann Diggs' direct testimony, KCC Staff concluded that "Joint Applicants have failed to meet their burden of demonstrating sufficient and credible transaction-related savings, instead leaving the Kansas Commission to rely solely on a preliminary, flawed, and uncertain presentation of savings to determine the effects of the Transaction on consumers and whether the Transaction promotes the public interest." (Kansas Docket No. 16-KCPE-593-ACQ, Diggs Direct, page 8). Ms. Diggs opines that the comparable mergers analysis and review of the GPE/Aquila transaction "cast further doubt on the reliability of the preliminary transaction savings process and results in this case." (Kansas Docket No. 16-KCPE-593-ACQ, Diggs Direct at 19) Ms. Diggs also takes issue with the fact that "Minimum annual targets for aggregate net savings in the 2017-2020 period were communicated to the savings estimation team to use in performing their analysis. It would be reasonable to expect the savings estimation team was motivated to find sufficient savings to meet the minimum annual targets." (Kansas Docket No. 16-KCPE-593-ACQ, Diggs Direct at 14).

Q DID GPE WITNESS MR. KEMP RESPOND TO THE CONCLUSIONS REACHED BY STAFF WITNESS MS. DIGGS?

A Yes. In Rebuttal, GPE witness Mr. Kemp responded by stating that "They state that many factors influence utility costs after a merger, and it is difficult to track those that are specifically merger-related. So their insistence now on a strict 'but for' test for pre-transaction estimates of savings seems to be logically inconsistent. It implies that we can predict with much more certainty than we can analyze ex post. That is not the way uncertainty typically resolves itself." (Kansas Docket No. 16-KCPE-593-ACQ, Kemp Rebuttal at 12-13).

In response to Ms. Diggs' concern over the communicated annual targets, Mr. Kemp responds by stating that "the team was not trying to come up with a definitive estimate. We were analyzing whether the reasonably achievable savings (singles and doubles, not home runs) were sufficient to make the deal work for the benefit of both customers and shareholders." (Kansas Docket No. 16-KCPE-593-ACQ, Kemp Rebuttal at 9).

In response to Ms. Diggs' concern with Mr. Kemp's comparable mergers analysis, Mr. Kemp provides five points in rebuttal: 1) The methodology used to calculate the savings has been accepted by the KCC and MPSC; 2) the data set relies on FERC-reported cost data; 3) the data set was constructed to capture the range of relevant industry experience and the transactions were not cherry picked; 4) the data set was used to compare inflation adjusted percentage cost changes across the set of other relevant industry transactions; and 5) involvement in a merger is clearly associated with greater cost reductions or lower cost increases. (Kansas Docket No. 16-KCPE-593-ACQ, Kemp Rebuttal at 50-51).

In response to Ms. Diggs' concern with Mr. Kemp's review of the estimated versus actual savings from the GPE/Aquila transaction can largely be explained by "GPE's willingness to step up and replenish the depleted ranks of Aquila's customer service function, at a higher than expected cost," and "the initial savings estimates did not include interest savings on Aquila's debt or CapEx savings in the Supply Chain area." (Kansas Docket No. 16-KCPE-593-ACQ, Kemp Rebuttal at 51-52).

Q PLEASE RESPOND TO THE JOINT APPLICANTS' ESTIMATED TRANSACTION SAVINGS.

A As described by Mr. Kemp, the estimated Transaction savings are largely based on the expectation that GPE has the ability to produce extensive cost reductions at KCPL and GMO that could not be produced absent the Transaction. Hence, a way to confirm this basic assumption underlying Mr. Kemp's study is to assess GPE's results of producing low costs at its existing operating utility subsidiaries, compared to other utilities generally. If Mr. Kemp's representation that GPE is able to achieve superior cost management results is accurate, GPE's existing subsidiaries can be shown to be low cost providers.

Q DID YOU MAKE A COMPARISON OF GPE'S EXISTING OPERATING UTILITY COMPANY COSTS TO THOSE OF OTHER ELECTRIC UTILITY COMPANIES?

A Yes. This comparison shows that GPE's existing utility subsidiaries are relatively high cost utility providers rather than the low cost providers that Mr. Kemp's studies appear to assume.

Q PLEASE EXPLAIN YOUR COST COMPARISON.

A This is shown on my Schedule MPG-1. As shown on this schedule, I compare GPE's existing utility subsidiaries – Kansas City Power & Light, and Greater Missouri Operations – KCPL operating costs to those of other electric utilities around the country, and in the Midwest region generally. As shown on my Schedule MPG-1, KCPL and KCP&L GMO are relatively high cost providers as it relates to utility operation and maintenance expenses. This is demonstrated by comparing the operation and maintenance expense reported for the electric utility's FERC Form 1, relative to the number of customers served by the utility. For all utilities that file FERC Form 1 followed by SNL, KCPL and KCP&L GMO fall in the most expensive quartile of electric utility costs nationally.

On a regional basis based on Midwest utilities only, again, when comparing KCPL's and KCP&L GMO's O&M costs per customer to regional electric utilities, it is found that these utilities are amongst the highest cost utilities in the Midwest region. These comparisons hold over the four-year period 2015-2011.

Q DOES KCPL AND GMO'S STATUS AS HIGH COST PROVIDERS ALSO EXTEND TO ADMINISTRATIVE AND GENERAL ("A&G") COSTS?

A Yes. In recent cases, the MPSC Staff has presented an A&G analysis that shows that KCPL and GMO A&G costs are among the highest in the nation by virtually any metric (per customer served; per MWh generated; and % of revenues). Moreover, these costs have increased since GPE purchased Aquila. Specifically, Staff found "that KCPL has some of the highest A&G expenses of its national peers as well as Missouri electric utilities." See, Staff Cost of Service Report, Majors Surrebuttal and Motion for Leave to Correct Testimony of Keith Majors, Case No. ER-2014-0370.

Q DID YOU PRODUCE ANY OTHER COMPARISON OF THE RELATIVE COMPETITIVE POSITION OF GPE'S EXISTING UTILITY SUBSIDIARIES AND THOSE OF WESTAR, TO OTHER ELECTRIC UTILITIES?

A Yes. I also compared electric utility prices for GPE utilities and Westar, to those of regional electric utilities. This comparison is shown on my Schedule MPG-2. As shown on this exhibit, GPE's current subsidiary, Greater Missouri Operations, has prices that are consistent with averages for the industry. However, GPE's largest utility subsidiary, KCPL, has prices for industrial, commercial and residential services that are amongst the highest in the Midwest region.

This pricing comparison was based on published information by the Edison Electric Institute for typical electric bills for various types of retail customers. My specific price comparison was based on an industrial customer of 10 MW at a 68% load factor, a commercial customer of 500 kW at a 41% load factor, and a residential customer that uses approximately 1,000 kWh per month. This comparison again shows that GPE has not achieved significant efficiencies relative to other utilities as indicated by its relatively poor price competitive position.

Q DOES THIS COMPARISON SUPPORT MR. KEMP'S BELIEF THAT GPE CAN CREATE STRATEGIC SYNERGY SAVINGS TO THE PROPOSED COMBINED COMPANY THAT WESTAR, KCPL, AND KCP&L GMO MAY NOT BE ABLE TO ACHIEVE ON THEIR OWN?

A No. This comparison of costs does not support the notion that GPE will be able to bring cost efficiency to KCPL and GMO in a manner that is inconsistent with what these two utilities may be able to accomplish absent the Transaction.

Q ARE YOU AWARE OF ANY OTHER FACTS THAT LEAD YOU TO QUESTION GPE'S ABILITY TO BRING COST EFFICIENCY TO ITS MISSOURI OPERATING UTILITIES?

A Yes. As mentioned, in KCPL's last rate case, Staff presented evidence of KCPL's high A&G costs. In response to these high A&G costs, the MPSC ordered its Staff to conduct a management audit of KCPL. Specifically, the MPSC made the following findings:

> KCPL's Administrative & General ("A&G") costs from 2011 through 2013 were higher than three other utilities operating in this region. While the reasons for this are unknown, it may be due to a structural problem.
>
> Staff's analysis of KCPL's A&G expenses, which examined the peer group utilities that KCPL used to determine executive compensation, credibly demonstrated that KCPL has some of the highest A&G expenses of its national peers and Missouri utilities. Of the group examined, KCPL has the highest A&G costs per customer, per dollar of revenue, and compared to its operations and maintenance expense, and the third highest A&G expense per megawatt hour of electricity sold.

> A management audit focused on identifying and achieving efficiencies and cost reductions should benefit both KCPL's customers and shareholders. (Report and Order, Case No. ER-2014-0370, issued September 2, 2015, at page 73).

In addition, as part of its settlement with Public Counsel in this matter, KCPL and GMO have agreed to undertake and fund a third party management audit of GPE, KCPL and GMO affiliate transactions and corporate cost allocations.

Certainly, the need for such third-party audits of GPE, KCPL and GMO are not indicative of a company that should be expected to independently derive the merger synergies that are relied upon to sell this transaction.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes.

<u>**Qualifications of Michael P. Gorman**</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the Staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating to industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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Great Plains Energy / Westar

U.S. Electric Utilities
Form 1 Data
(Total Non-Fuel O&M per Customer)

		2012			2013			2014			2015		
Line		**($000)**	**Rank**	**Quartile**	**($000)**	**Rank**	**Quartile**	**($000)**	**Rank**	**Quartile**	**($000)**	**Rank**	**Quartile**
1	KCP&L Greater Missouri Operations Compar	595	41	2	628	40	2	705	45	2	783	57	3
2	Kansas City Power & Light Company	902	78	4	960	79	4	994	76	4	1019	73	4
3	Westar Energy (KPL)	946	83	4	880	73	4	1077	83	4	1106	77	4
4	Kansas Gas and Electric Company	1269	88	4	1410	89	4	1359	88	4	1273	85	4
5	Group Mean (excluding above utilities)	645			662			712			730		
6	Total ranked	91			92			92			92		

Line	**Electric Utility**	**2012**	**rank**	**Electric Utility**	**2013**	**rank**	**Electric Utility**	**2014**	**rank**	**Electric Utility**	**2015**	**rank**
7	Emera Maine	75	1	Emera Maine	28	1	Emera Maine	132	1	Emera Maine	150	1
8	Kingsport Power Company	212	2	Kingsport Power Company	195	2	Kingsport Power Company	164	2	Kingsport Power Company	192	2
9	West Penn Power Company	250	3	West Penn Power Company	209	3	Wheeling Power Company	250	3	Entergy Louisiana, LLC	241	3
10	North Central Power Co., Inc.	254	4	Cleveland Electric Illuminating Company	212	4	North Central Power Co., Inc.	276	4	North Central Power Co., Inc.	247	4
11	Cleveland Electric Illuminating Company	289	5	Pennsylvania Electric Company	215	5	Cleveland Electric Illuminating Company	310	5	Pennsylvania Power Company	286	5
12	Wheeling Power Company	302	6	Pennsylvania Power Company	218	6	West Penn Power Company	311	6	West Penn Power Company	297	6
13	Duquesne Light Company	316	7	Metropolitan Edison Company	224	7	Northwestern Wisconsin Electric Company	335	7	Metropolitan Edison Company	318	7
14	Northwestern Wisconsin Electric Company	325	8	North Central Power Co., Inc.	268	8	Pennsylvania Power Company	339	8	Northwestern Wisconsin Electric Company	318	8
15	Pennsylvania Electric Company	332	9	Wheeling Power Company	270	9	Florida Power & Light Company	346	9	Florida Power & Light Company	335	9
16	Pennsylvania Power Company	339	10	Jersey Central Power & Light Company	280	10	Duquesne Light Company	348	10	Pennsylvania Electric Company	342	10
17	Metropolitan Edison Company	362	11	Duquesne Light Company	339	11	Pennsylvania Electric Company	364	11	Cleveland Electric Illuminating Company	364	11
18	Oncor Electric Delivery Company LLC	363	12	Northwestern Wisconsin Electric Company	360	12	Metropolitan Edison Company	383	12	Jersey Central Power & Light Company	372	12
19	Florida Power & Light Company	388	13	Florida Power & Light Company	366	13	Jersey Central Power & Light Company	402	13	Pioneer Power and Light Company	390	13
20	UNS Electric, Inc.	414	14	Pioneer Power and Light Company	386	14	UNS Electric, Inc.	407	14	Nevada Power Company	399	14
21	Atlantic City Electric Company	415	15	Oncor Electric Delivery Company LLC	389	15	Pioneer Power and Light Company	418	15	Duquesne Light Company	413	15
22	CenterPoint Energy Houston Electric, LLC	423	16	Ohio Edison Company	408	16	Commonwealth Edison Company	423	16	Commonwealth Edison Company	441	16
23	Commonwealth Edison Company	428	17	Commonwealth Edison Company	415	17	Oncor Electric Delivery Company LLC	439	17	Oncor Electric Delivery Company LLC	455	17
24	Golden State Water Company	436	18	Atlantic City Electric Company	417	18	PPL Electric Utilities Corporation	440	18	Duke Energy Florida, LLC	467	18
25	Black Hills Colorado Electric Utility Company, LP	442	19	PPL Electric Utilities Corporation	423	19	Atlantic City Electric Company	442	19	PPL Electric Utilities Corporation	486	19
26	PPL Electric Utilities Corporation	448	20	UNS Electric, Inc.	447	20	Potomac Electric Power Company	469	20	UNS Electric, Inc.	490	20
27	Jersey Central Power & Light Company	451	21	Toledo Edison Company	448	21	Nevada Power Company	470	21	Atlantic City Electric Company	495	21
28	Pioneer Power and Light Company	461	22	CenterPoint Energy Houston Electric, LLC	460	22	Duke Energy Florida, LLC	483	22	Black Hills Colorado Electric Utility Company, LP	509	22
29	Central Maine Power Company	476	23	Potomac Electric Power Company	476	23	Golden State Water Company	492	23	Ohio Power Company	509	23
30	Texas-New Mexico Power Company	481	24	Duke Energy Florida, LLC	478	24	Black Hills Colorado Electric Utility Company, LP	499	24	Potomac Electric Power Company	517	24
31	Ohio Edison Company	482	25	Nevada Power Company	508	25	Ohio Power Company	509	25	Golden State Water Company	530	25
32	Potomac Electric Power Company	483	26	Black Hills Colorado Electric Utility Company, LP	513	26	Ohio Edison Company	534	26	CenterPoint Energy Houston Electric, LLC	549	26
33	Nevada Power Company	502	27	Texas-New Mexico Power Company	538	27	CenterPoint Energy Houston Electric, LLC	538	27	Ohio Edison Company	553	27
34	Nantucket Electric Co.	507	28	Central Maine Power Company	540	28	Texas-New Mexico Power Company	539	28	Texas-New Mexico Power Company	562	28
35	Toledo Edison Company	533	29	Golden State Water Company	559	29	Entergy Texas, Inc.	544	29	Southern California Edison Company	566	29
36	Unitil Energy Systems, Inc.	541	30	Connecticut Light and Power Company	564	30	Central Maine Power Company	562	30	Connecticut Light and Power Company	571	30
37	Entergy Mississippi, Inc.	555	31	Virginia Electric and Power Company	565	31	Connecticut Light and Power Company	575	31	Tampa Electric Company	576	31
38	Entergy Texas, Inc.	560	32	Tampa Electric Company	586	32	Entergy Mississippi, Inc.	578	32	Entergy Mississippi, Inc.	582	32
39	Appalachian Power Company	563	33	Entergy Mississippi, Inc.	590	33	Tampa Electric Company	584	33	Entergy Texas, Inc.	586	33
40	Tampa Electric Company	564	34	Portland General Electric Company	593	34	Toledo Edison Company	598	34	Central Maine Power Company	598	34
41	Duke Energy Florida, LLC	566	35	Public Service Company of Oklahoma	596	35	Unitil Energy Systems, Inc.	604	35	Public Service Company of New Hampshire	599	35
42	Connecticut Light and Power Company	566	36	Monongahela Power Company	597	36	Public Service Company of New Hampshire	607	36	Western Massachusetts Electric Company	622	36
43	Portland General Electric Company	568	37	Entergy Texas, Inc.	599	37	Southern California Edison Company	607	37	Toledo Edison Company	634	37
44	Public Service Company of Oklahoma	572	38	Public Service Company of New Hampshire	605	38	Portland General Electric Company	642	38	PacifiCorp	634	38
45	Western Massachusetts Electric Company	579	39	Appalachian Power Company	618	39	PacifiCorp	648	39	Virginia Electric and Power Company	635	39
46	Virginia Electric and Power Company	580	40	**KCP&L Greater Missouri Operations Company**	628	**40**	Public Service Company of Oklahoma	661	40	Unitil Energy Systems, Inc.	639	40
47	**KCP&L Greater Missouri Operations Company**	**595**	**41**	Unitil Energy Systems, Inc.	629	41	Nantucket Electric Co.	680	41	Public Service Company of Oklahoma	661	41
48	Public Service Company of New Hampshire	602	42	Potomac Edison Company	651	42	Alaska Electric Light and Power Company	688	42	Portland General Electric Company	665	42
49	Southwestern Electric Power Company	644	43	Kentucky Power Company	651	43	Indianapolis Power & Light Company	695	43	Alaska Electric Light and Power Company	677	43
50	Kentucky Power Company	653	44	Western Massachusetts Electric Company	659	44	Western Massachusetts Electric Company	695	44	Appalachian Power Company	702	44
51	Indianapolis Power & Light Company	673	45	PacifiCorp	675	45	**KCP&L Greater Missouri Operations Company**	**705**	**45**	Rockland Electric Company	722	45
52	Alaska Electric Light and Power Company	673	46	Southern California Edison Company	678	46	Appalachian Power Company	716	46	Idaho Power Co.	722	46

Great Plains Energy / Westar

U.S. Electric Utilities

Form 1 Data

(Total Non-Fuel O&M per Customer)

Line	Electric Utility	2012	rank	Electric Utility	2013	rank	Electric Utility	2014	rank	Electric Utility	2015	rank
53	Cleco Power LLC	674	47	Ohio Power Company	685	47	Rockland Electric Company	717	47	Potomac Edison Company	733	47
54	Georgia Power Company	689	48	Kentucky Utilities Company	687	48	Oklahoma Gas and Electric Company	726	48	Indianapolis Power & Light Company	737	48
55	PacifiCorp	689	49	Georgia Power Company	688	49	NSTAR Electric Company	729	49	Oklahoma Gas and Electric Company	740	49
56	Kentucky Utilities Company	694	50	Nantucket Electric Co.	689	50	Kentucky Utilities Company	732	50	NSTAR Electric Company	742	50
57	Entergy Louisiana, LLC	702	51	Alaska Electric Light and Power Company	692	51	Duke Energy Carolinas, LLC	733	51	El Paso Electric Company	748	51
58	Southern California Edison Company	704	52	Oklahoma Gas and Electric Company	705	52	El Paso Electric Company	751	52	Hawaii Electric Light Company, Inc.	755	52
59	Ohio Power Company	705	53	Gulf Power Company	706	53	Idaho Power Co.	752	53	Arizona Public Service Company	764	53
60	Upper Peninsula Power Company	712	54	Southwestern Electric Power Company	709	54	DTE Electric Company	761	54	Duke Energy Carolinas, LLC	770	54
61	Potomac Edison Company	719	55	Cleco Power LLC	717	55	Virginia Electric and Power Company	766	55	DTE Electric Company	770	55
62	Oklahoma Gas and Electric Company	720	56	Duke Energy Carolinas, LLC	719	56	Gulf Power Company	770	56	Kentucky Utilities Company	779	56
63	Gulf Power Company	721	57	Rockland Electric Company	723	57	Hawaii Electric Light Company, Inc.	778	57	**KCP&L Greater Missouri Operations Company**	**783**	**57**
64	Rockland Electric Company	723	58	Hawaii Electric Light Company, Inc.	729	58	Southwestern Electric Power Company	778	58	Gulf Power Company	785	58
65	Hawaii Electric Light Company, Inc.	730	59	Indianapolis Power & Light Company	734	59	Georgia Power Company	788	59	Green Mountain Power Corp	789	59
66	Duke Energy Carolinas, LLC	738	60	El Paso Electric Company	744	60	Entergy Louisiana, LLC	788	60	Public Service Company of New Mexico	790	60
67	Empire District Electric Company	744	61	Entergy Louisiana, LLC	758	61	Green Mountain Power Corp	792	61	Georgia Power Company	829	61
68	Green Mountain Power Corp	756	62	Idaho Power Co.	761	62	Arizona Public Service Company	793	62	Southwestern Electric Power Company	833	62
69	Duke Energy Indiana, LLC	758	63	Upper Peninsula Power Company	773	63	Public Service Company of New Mexico	794	63	Cleco Power LLC	844	63
70	Idaho Power Co.	759	64	DTE Electric Company	777	64	Duke Energy Indiana, LLC	801	64	Liberty Utilities (Granite State Electric) Corp.	864	64
71	El Paso Electric Company	764	65	Duke Energy Indiana, LLC	780	65	Cleco Power LLC	825	65	Tucson Electric Power Company	884	65
72	NSTAR Electric Company	770	66	Green Mountain Power Corp	786	66	Upper Peninsula Power Company	854	66	Duke Energy Indiana, LLC	887	66
73	Arizona Public Service Company	802	67	NSTAR Electric Company	793	67	Potomac Edison Company	863	67	Empire District Electric Company	899	67
74	DTE Electric Company	811	68	Public Service Company of New Mexico	793	68	Maui Electric Company, Limited	873	68	Maui Electric Company, Limited	908	68
75	Monongahela Power Company	828	69	Empire District Electric Company	800	69	Empire District Electric Company	876	69	Hawaiian Electric Company, Inc.	909	69
76	Massachusetts Electric Company	829	70	Arizona Public Service Company	815	70	Liberty Utilities (Granite State Electric) Corp.	918	70	Duke Energy Progress, LLC	915	70
77	Liberty Utilities (Granite State Electric) Corp.	838	71	Maui Electric Company, Limited	832	71	Hawaiian Electric Company, Inc.	919	71	Kentucky Power Company	954	71
78	Public Service Company of New Mexico	839	72	Liberty Utilities (Granite State Electric) Corp.	839	72	Duke Energy Progress, LLC	920	72	Monongahela Power Company	968	72
79	Entergy Arkansas, Inc.	847	73	**Westar Energy (KPL)**	880	**73**	Tucson Electric Power Company	948	73	**Kansas City Power & Light Company**	**1019**	**73**
80	Hawaiian Electric Company, Inc.	878	74	Alabama Power Company	888	74	Kentucky Power Company	974	74	Alabama Power Company	1023	74
81	Lockhart Power Company	881	75	Entergy Arkansas, Inc.	899	75	Entergy Arkansas, Inc.	979	75	Otter Tail Power Company	1060	75
82	Otter Tail Power Company	882	76	Tucson Electric Power Company	918	76	**Kansas City Power & Light Company**	**994**	**76**	Nantucket Electric Co.	1089	76
83	Alabama Power Company	885	77	Hawaiian Electric Company, Inc.	923	77	Alabama Power Company	1007	77	**Westar Energy (KPL)**	**1106**	**77**
84	**Kansas City Power & Light Company**	**902**	**78**	Duke Energy Progress, LLC	923	78	Southwestern Public Service Company	1040	78	Entergy Arkansas, Inc.	1110	78
85	Sharyland Utilities, L.P.	904	79	**Kansas City Power & Light Company**	960	**79**	United Illuminating Company	1061	79	Lockhart Power Company	1123	79
86	Tucson Electric Power Company	907	80	Massachusetts Electric Company	967	80	Otter Tail Power Company	1062	80	Upper Peninsula Power Company	1128	80
87	United Illuminating Company	923	81	Otter Tail Power Company	976	81	Lockhart Power Company	1062	81	Southwestern Public Service Company	1133	81
88	Southwestern Public Service Company	928	82	United Illuminating Company	995	82	Massachusetts Electric Company	1075	82	Indiana Michigan Power Company	1181	82
89	**Westar Energy (KPL)**	**946**	**83**	Southwestern Public Service Company	997	83	**Westar Energy (KPL)**	**1077**	**83**	Black Hills Power, Inc.	1188	83
90	Duke Energy Progress, LLC	1001	84	Lockhart Power Company	1018	84	Indiana Michigan Power Company	1225	84	United Illuminating Company	1196	84
91	Dayton Power and Light Company	1092	85	Indiana Michigan Power Company	1116	85	Black Hills Power, Inc.	1266	85	**Kansas Gas and Electric Company**	**1273**	**85**
92	Indiana Michigan Power Company	1097	86	Black Hills Power, Inc.	1257	86	Sharyland Utilities, L.P.	1282	86	Massachusetts Electric Company	1286	86
93	Black Hills Power, Inc.	1226	87	Sharyland Utilities, L.P.	1267	87	Monongahela Power Company	1341	87	Mississippi Power Company	1463	87
94	**Kansas Gas and Electric Company**	**1269**	**88**	Dayton Power and Light Company	1354	88	**Kansas Gas and Electric Company**	**1359**	**88**	Sharyland Utilities, L.P.	1469	88
95	Mississippi Power Company	1306	89	**Kansas Gas and Electric Company**	1410	**89**	Mississippi Power Company	1567	89	Wheeling Power Company	1472	89
96	ALLETE (Minnesota Power)	1640	90	Mississippi Power Company	1518	90	Dayton Power and Light Company	1610	90	Dayton Power and Light Company	1519	90
97	Maui Electric Company, Limited	N/A		ALLETE (Minnesota Power)	1696	91	ALLETE (Minnesota Power)	1857	91	ALLETE (Minnesota Power)	1824	91

Great Plains Energy / Westar

Midwest. Electric Utilities

Form 1 Data

(Total Non-Fuel O&M per Customer)

Line		2012			2013			2014			2015		
		($000)	Rank	Quartile	($000)	Rank	Quartile	($000)	Rank	Quartile	($000)	Rank	Quartile
1	KCP&L Greater Missouri Operations Compar	595	9	2	628	10	2	705	10	2	783	13	3
2	Kansas City Power & Light Company	902	19	4	960	19	4	994	17	3	1019	17	3
3	Westar Energy (KPL)	946	20	4	880	18	3	1077	19	4	1106	19	4
4	Kansas Gas and Electric Company	1269	24	4	1410	24	4	1359	23	4	1273	23	4
5	Group Mean (excluding above utilities)	724			731			819			814		
6	Total ranked	25			25			25			25		

Line	Electric Utility	2012	rank	Electric Utility	2013	rank	Electric Utility	2014	rank	Electric Utility	2015	rank
7	North Central Power Co., Inc.	254	1	Cleveland Electric Illuminating Company	212	1	North Central Power Co., Inc.	276	1	North Central Power Co., Inc.	247	1
8	Cleveland Electric Illuminating Company	289	2	North Central Power Co., Inc.	268	2	Cleveland Electric Illuminating Company	310	2	Northwestern Wisconsin Electric Company	318	2
9	Northwestern Wisconsin Electric Company	325	3	Northwestern Wisconsin Electric Company	360	3	Northwestern Wisconsin Electric Company	335	3	Cleveland Electric Illuminating Company	364	3
10	Commonwealth Edison Company	428	4	Pioneer Power and Light Company	386	4	Pioneer Power and Light Company	418	4	Pioneer Power and Light Company	390	4
11	Pioneer Power and Light Company	461	5	Ohio Edison Company	408	5	Commonwealth Edison Company	423	5	Commonwealth Edison Company	441	5
12	Ohio Edison Company	482	6	Commonwealth Edison Company	415	6	Ohio Power Company	509	6	Ohio Power Company	509	6
13	Toledo Edison Company	533	7	Toledo Edison Company	448	7	Ohio Edison Company	534	7	Ohio Edison Company	553	7
14	Appalachian Power Company	563	8	Monongahela Power Company	597	8	Toledo Edison Company	598	8	Toledo Edison Company	634	8
15	**KCP&L Greater Missouri Operations Company**	**595**	**9**	Appalachian Power Company	618	9	Indianapolis Power & Light Company	695	9	Appalachian Power Company	702	9
16	Indianapolis Power & Light Company	673	10	**KCP&L Greater Missouri Operations Company**	**628**	**10**	**KCP&L Greater Missouri Operations Company**	**705**	**10**	Indianapolis Power & Light Company	737	10
17	Kentucky Utilities Company	694	11	Ohio Power Company	685	11	Appalachian Power Company	716	11	DTE Electric Company	770	11
18	Ohio Power Company	705	12	Kentucky Utilities Company	687	12	Kentucky Utilities Company	732	12	Kentucky Utilities Company	779	12
19	Upper Peninsula Power Company	712	13	Indianapolis Power & Light Company	734	13	DTE Electric Company	761	13	**KCP&L Greater Missouri Operations Company**	**783**	**13**
20	Empire District Electric Company	744	14	Upper Peninsula Power Company	773	14	Duke Energy Indiana, LLC	801	14	Duke Energy Indiana, LLC	887	14
21	Duke Energy Indiana, LLC	758	15	DTE Electric Company	777	15	Upper Peninsula Power Company	854	15	Empire District Electric Company	899	15
22	DTE Electric Company	811	16	Duke Energy Indiana, LLC	780	16	Empire District Electric Company	876	16	Monongahela Power Company	968	16
23	Monongahela Power Company	828	17	Empire District Electric Company	800	17	**Kansas City Power & Light Company**	**994**	**17**	**Kansas City Power & Light Company**	**1019**	**17**
24	Otter Tail Power Company	882	18	**Westar Energy (KPL)**	**880**	**18**	Otter Tail Power Company	1062	18	Otter Tail Power Company	1060	18
25	**Kansas City Power & Light Company**	**902**	**19**	**Kansas City Power & Light Company**	**960**	**19**	**Westar Energy (KPL)**	**1077**	**19**	**Westar Energy (KPL)**	**1106**	**19**
26	**Westar Energy (KPL)**	**946**	**20**	Otter Tail Power Company	976	20	Indiana Michigan Power Company	1225	20	Upper Peninsula Power Company	1128	20
27	Dayton Power and Light Company	1092	21	Indiana Michigan Power Company	1116	21	Black Hills Power, Inc.	1266	21	Indiana Michigan Power Company	1181	21
28	Indiana Michigan Power Company	1097	22	Black Hills Power, Inc.	1257	22	Monongahela Power Company	1341	22	Black Hills Power, Inc.	1188	22
29	Black Hills Power, Inc.	1226	23	Dayton Power and Light Company	1354	23	**Kansas Gas and Electric Company**	**1359**	**23**	**Kansas Gas and Electric Company**	**1273**	**23**
30	**Kansas Gas and Electric Company**	**1269**	**24**	**Kansas Gas and Electric Company**	**1410**	**24**	Dayton Power and Light Company	1610	24	Dayton Power and Light Company	1519	24
31	ALLETE (Minnesota Power)	1640	25	ALLETE (Minnesota Power)	1696	25	ALLETE (Minnesota Power)	1857	25	ALLETE (Minnesota Power)	1824	25

Great Plains Energy / Westar Energy

Industrial Rate Comparison

2016 Firm Power Rates
for a Customer using
50,000 kW Demand and 68% LF

Quartile	Line	Utility	State	Cost ¢/kWh
	1	Public Service Company of Oklahoma	OK	3.66
	2	MidAmerican Energy	SD	3.74
	3	OG&E Electric Services	OK	3.81
	4	MidAmerican Energy	IA	4.63
1st	5	Entergy Louisiana, LLC (formerly Entergy Gulf States, Inc.)	LA	5.18
	6	Southwestern Electric Power Company	AR	5.38
	7	OG&E Electric Services	AR	5.66
	8	Black Hills Power, Inc. d/b/a Black Hills Energy	SD	5.67
	9	Southwestern Electric Power Company	LA	5.68
	10	Interstate Power & Light	IA	6.12
	11	Entergy Louisiana, Inc.	LA	6.19
	12	Entergy Arkansas, Inc.	AR	6.25
	13	Otter Tail Power Company	SD	6.30
2nd	14	Superior Water, Light & Power Company	WI	6.33
	15	Ameren Missouri	MO	6.39
	16	**KCPL Greater Missouri Operations - MPS**	**MO**	**6.53**
	17	Northwestern Energy	SD	6.64
	18	Otter Tail Power Company	ND	6.70
	19	Wisconsin Public Service Corporation	WI	6.87
	20	Montana-Dakota Utilities Company	SD	6.99
	21	Entergy New Orleans, Inc.	LA	7.17
	22	Montana-Dakota Utilities Company	ND	7.20
	23	Northern States Power Company	WI	7.24
3rd	24	**KCPL Greater Missouri Operations - L&P**	**MO**	**7.27**
	25	Otter Tail Power Company	MN	7.33
	26	**Westar Energy-KGE**	**KS**	**7.36**
	27	**Westar Energy-KPL**	**KS**	**7.36**
	28	Northern States Power Company	ND	7.40
	29	Minnesota Power Company	MN	7.57
	30	CLECO Power LLC	LA	7.65
	31	**Kansas City Power & Light Company**	**MO**	**7.69**
4th	32	Northern States Power Company	SD	8.28
	33	Northern States Power Company	MN	8.32
	34	Northwestern Wisconsin Electric Company	WI	8.35
	35	**Kansas City Power & Light Company**	**KS**	**8.37**
	36	We Energies (formerly Wisconsin Electric)	WI	9.04
	37	Madison Gas & Electric Company	WI	9.44
	38	U.S. Average		6.47

Source: Prepared by Brubaker & Associates, Inc. using Edison Electric Institute Typical Bills and Average Rates Report

Great Plains Energy / Westar Energy

Commercial Rate Comparison

2016 Firm Power Rates
for a Customer using
500 kW Demand and 41% LF

Quartile	Line	Utility	State	Cost ¢/kWh
1st	1	MidAmerican Energy	SD	4.76
	2	Public Service Company of Oklahoma	OK	5.47
	3	Southwestern Electric Power Company	AR	5.50
	4	MidAmerican Energy	IA	6.40
	5	OG&E Electric Services	OK	6.88
	6	Entergy Louisiana, LLC (formerly Entergy Gulf States, Inc.)	LA	7.32
	7	OG&E Electric Services	AR	7.36
	8	Entergy Louisiana, Inc.	LA	7.79
	9	Montana-Dakota Utilities Company	SD	7.86
2nd	10	Southwestern Electric Power Company	LA	8.15
	11	Otter Tail Power Company	SD	8.28
	12	**KCPL Greater Missouri Operations - MPS**	**MO**	**8.34**
	13	Superior Water, Light & Power Company	WI	8.40
	14	Ameren Missouri	MO	8.48
	15	Entergy Arkansas, Inc.	AR	8.48
	16	Entergy New Orleans, Inc.	LA	8.50
	17	Montana-Dakota Utilities Company	ND	8.60
	18	Minnesota Power Company	MN	8.89
	19	Wisconsin Public Service Corporation	WI	9.04
3rd	20	Otter Tail Power Company	ND	9.06
	21	Northwestern Energy	SD	9.14
	22	Otter Tail Power Company	MN	9.22
	23	Northern States Power Company	ND	9.37
	24	Northwestern Wisconsin Electric Company	WI	9.39
	25	**KCPL Greater Missouri Operations - L&P**	**MO**	**9.44**
	26	WP&L	WI	10.10
	27	**Westar Energy-KGE**	**KS**	**10.19**
4th	28	**Westar Energy-KPL**	**KS**	**10.19**
	29	Northern States Power Company	SD	10.23
	30	Interstate Power & Light	IA	10.24
	31	CLECO Power LLC	LA	10.24
	32	Northern States Power Company	WI	10.54
	33	Northern States Power Company	MN	10.68
	34	**Kansas City Power & Light Company**	**KS**	**10.75**
	35	**Kansas City Power & Light Company**	**MO**	**10.87**
	36	Black Hills Power, Inc. d/b/a Black Hills Energy	SD	11.49
	37	We Energies (formerly Wisconsin Electric)	WI	11.78
	38	Madison Gas & Electric Company	WI	12.20
	39	U.S. Average		10.51

Source: Prepared by Brubaker & Associates, Inc. using Edison Electric Institute Typical Bills and Average Rates Report

Great Plains Energy / Westar Energy

Residential Rate Comparison

2016 Firm Power Rates
for a Customer using
1,000 kWh

Quartile	Line	Utility	State	Cost ¢/kWh
	1	OG&E Electric Services	AR	7.99
	2	Entergy Louisiana, LLC (formerly Entergy Gulf States, Inc.)	LA	8.75
	3	Southwestern Electric Power Company	AR	8.77
	4	MidAmerican Energy	SD	9.05
1st	5	Montana-Dakota Utilities Company	ND	9.11
	6	Public Service Company of Oklahoma	OK	9.27
	7	Southwestern Electric Power Company	LA	9.28
	8	Entergy Louisiana, Inc.	LA	9.34
	9	OG&E Electric Services	OK	9.68
	10	Entergy New Orleans, Inc.	LA	9.71
	11	Otter Tail Power Company	SD	9.72
	12	Northern States Power Company	ND	10.11
	13	Otter Tail Power Company	ND	10.13
	14	Entergy Arkansas, Inc.	AR	10.19
2nd	15	MidAmerican Energy	IA	10.28
	16	Superior Water, Light & Power Company	WI	10.46
	17	Minnesota Power Company	MN	10.47
	18	Otter Tail Power Company	MN	10.58
	19	Ameren Missouri	MO	10.88
	20	Montana-Dakota Utilities Company	SD	11.53
	21	CLECO Power LLC	LA	11.86
	22	**KCPL Greater Missouri Operations - L&P**	**MO**	**11.94**
3rd	23	**KCPL Greater Missouri Operations - MPS**	**MO**	**11.97**
	24	Northwestern Energy	SD	12.00
	25	Black Hills Power, Inc. d/b/a Black Hills Energy	SD	12.00
	26	Wisconsin Public Service Corporation	WI	12.05
	27	Northern States Power Company	SD	12.22
	28	**Kansas City Power & Light Company**	**MO**	**12.57**
	29	**Westar Energy-KPL**	**KS**	**12.57**
	30	**Westar Energy-KGE**	**KS**	**12.57**
	31	Northwestern Wisconsin Electric Company	WI	12.74
	32	Northern States Power Company	WI	12.87
4th	33	**Kansas City Power & Light Company**	**KS**	**12.88**
	34	WP&L	WI	12.89
	35	Northern States Power Company	MN	13.29
	36	Interstate Power & Light	IA	13.40
	37	We Energies (formerly Wisconsin Electric)	WI	14.64
	38	Madison Gas & Electric Company	WI	15.02
	39	U.S. Average		12.65

Source: Prepared by Brubaker & Associates, Inc. using Edison Electric Institute Typical Bills and Average Rates Report